

ENERGY AND WATER UTILITIES REGULATORY AUTHORITY

(EWURA)

In the matter of an Inquiry
on
Allegations of Collusion and Windfall Gains by Oil Marketing Companies
During the Month of July 2007
and
Inefficiencies that Necessitate Economic Regulation Measures in the Petroleum
Downstream Sub-Sector¹

(INQ-P-07-001)

ORDER 07-010

In July 2007 there was what was considered to be unwarranted price increases in petroleum products in the country following tax increases announced in the Government budget for 2007/08. In August of 2007 the Parliament amended the Petroleum (Conservation) Act, Cap. 393 and the Energy and Water Utilities Regulatory Authority Act, Cap. 414 (EWURA Act) to give EWURA economic regulatory functions of the downstream petroleum (importation, marketing and distribution) sub-sector. The Authority has been given powers to intervene with a view to modifying, as and when deemed appropriate, the economic behaviour of a regulated supplier aimed at narrowing choice in certain areas including prices, rate of return and methods of procurement.

EWURA conducted an Inquiry into the cause of price hike in July 2007 and on the options available to EWURA in exercising the economic regulatory function in the petroleum downstream sub-sector. As part of the Inquiry, a call was made through mass media for submission of comments and information on the issues at hand. A public meeting was held at Karimjee Hall, Dar es Salaam on 31st August 2007 to receive and discuss stakeholders' views. At the public hearing, presentations were made by various stakeholders and other comments in writing were submitted after the meeting.

¹ A detailed Analysis of the Inquiry is available at EWURA website: www.ewura.com

As a result of the Inquiry, EWURA observed the following:

(i) Alleged Collusion by Oil Marketing Companies to Raise Prices

It was not possible to obtain proof of a coordinated effort on the part of Oil Marketing Companies to set prices. However, economic theories hold that in a competitive environment, where companies had different levels of product stocks, the tendency is for one company (price leader) to change price first followed by others. The unison petroleum price increase experienced from 1st July 2007 is, therefore, in contradiction with economic theories.

(ii) Windfall Gains by Oil Marketing Companies

A comparison between the tax increase and the increase in pump prices in July 2007 shows that while the tax increase was TZS 124/Litre, TZS 122/litre and TZS 0/litre for petrol, diesel and kerosene respectively, the **average** pump price increases were TZS 135.10/litre for petrol (higher than the amount of tax increase by TZS. 11.10/litre); TZS. 35.47/litre for diesel (less by TZS. 86.53/litre); and the price for kerosene dropped by an **average** of TZS 31.56/litre.

The higher increase in petrol pump prices caused the public to believe that Oil Marketing Companies had taken advantage of the increase in taxes in order to enjoy windfall gains.

(iii) Inefficiencies in the Petroleum Supply Chain

The Inquiry has revealed that the petroleum supply chain has the following major inefficiencies:

- (a) fragmentation of imports, whereby each company individually imports products, resulting in higher costs (lack of economies of scale); congestion of the unloading facilities adding to high demurrage costs; and transfer pricing;

- (b) the local fees and charges paid by importers for services to various institutions during importation have a bearing on the final pump price. The charges are based on different criteria such as the value of the imported products; the volume of the imported products; fixed rates; and on the basis of currency since some charges are denominated in foreign currencies while others are denominated in local currency. Taken together, all of these contribute to instability of pump prices overtime;
- (c) third party access arrangements for storage facilities need to be more transparent;
- (d) the sale of adulterated diesel and petrol is rampant in the retail business of petroleum products in the country. This results in health hazards, cheating, vehicle damage, un-even level playing field, losses to consumers and a loss of Government revenue;
- (e) most petrol stations were constructed without observing the respective standards thereby posing threat to health, safety and environment; and
- (f) some petrol stations do not post prices of petroleum products.

At the conclusion of the Inquiry, EWURA determined that the petroleum downstream sub-sector has some deficiencies and that the Government decision to give economic regulatory functions to EWURA is timely. The sector is characterized by multiple importation of small petroleum products quantities, tax evasion, lack of information and data, adulteration of products and general inefficiencies in the various segments of the petroleum supply chain.

The Board of Directors of EWURA, having met on 8 October 2007 to consider this matter, decided as follows:

- 1.0 All Oil Marketing Companies importing petroleum products in Tanzania shall use a bulk importation system where importation of petroleum products will be

done competitively and transparently using an open tender system through International Competitive Bidding.

- 2.0 In consultation with the relevant authorities, EWURA shall review the local fees and charges paid by importers for services provided by various institutions during importation.
- 3.0 Oil Marketing Companies that own storage facilities shall publish their hospitality terms and conditions including charges. EWURA shall review and approve all such terms and conditions for third party access.
- 4.0 All petrol stations shall publish on clearly visible boards prices charged for petroleum products on sale at their premises.
- 5.0 All retailers shall buy petroleum products only from petroleum products suppliers licensed by EWURA.
- 6.0 All existing operators in the petroleum wholesale and retail business are required to apply for respective licences by 31st December 2007. A late application fee of TZS. 1,000,000/= will apply to licence applications received after 31st December 2007.
- 7.0 Effective 1st November 2007, EWURA will be publishing Import Parity Prices and conduct market surveillance of prices to promote effective competition. This information is provided to assist consumers to make informed decisions on their purchases.



Simon F. Sayore

Chairman of the Board of Directors
EWURA



Haruna Masebu

Director General
EWURA

Dar es Salaam, 8 October 2007