



PRESS STATEMENT BY THE AFRICA CENTRE FOR ENERGY POLICY (ACEP) ON THE CURRENT GOVERNMENT POLICY ON FULL DEREGULATION OF THE DOWNSTREAM PETROLEUM INDUSTRY

PRESENTED BY BENJAMIN BOAKYE, THE DEPUTY EXECUTIVE DIRECTOR ON THE 9TH JULY 2015

Ladies and Gentlemen of the Media, the Africa Centre for Energy Policy (ACEP) is pleased to have invited you here to discuss the Centre's position on the deregulation of the petroleum downstream sector.

ACEP commends government for taking the decision to deregulate the downstream Petroleum sector. This is a positive step towards demystifying the downstream market, which could be beneficial to the consumer and reduce the impact of persistent shocks and anxiety introduced into the market whenever the National Petroleum Authority (NPA) announced hardly predictable prices of petroleum products.

Deregulation of the sector has been discussed for a long time, but public anxiety about a poorly managed deregulation which gives rise to formation of cartels and price manipulation contributed to the delay in its full implementation. Largely, this anxiety by consumers has been a function of information asymmetry and lack of public education on how the industry functions. Again Politicians were not interested in giving up the high value industry, which helped them entrench patronage and manipulation of entry into the market.

Ladies and gentlemen, even though there has been some reasonable competition among the Bulk Distribution Companies (BDCs), in importation and sale of petroleum products to Oil Marketing Companies (OMCs), the reality is that the consumer does not feel the effect of the competition because NPA sets the price ceiling which all OMCs did not see reason to sell below the ceiling. Therefore the OMCs were benefitting from the windfalls whenever they got favorable prices from BDCs.

Ladies and gentlemen, NPA developed an automatic adjustment formula to operate a regulated market. This was meant to ensure reasonable adjustments that responded to movements in the key variables that determined the most efficient price for petroleum products. However they could not fully implement the automatic adjustment formula because of political interference. We do know that, in most cases the formula worked when prices had to go up, but when prices

had to go down we saw laxity in the strict use of the formula or marginal downward adjustment based on the excuse of financing under-recoveries.

This was rather not a fair strategy to protect the interest of the consumer contrary to the mandate of NPA. The fact also is that the most efficient automatic adjustment formula operates in a free market where competition and entry to the market is regulated only to the extent of meeting the basic entry criteria.

Now under deregulation, we will not have under-recoveries. Therefore we expect that movements in the key trigger variables will reflect in pump prices bringing benefits to consumers.

Ladies and Gentlemen, we would like to state however that full deregulation does not negate government intervention when necessary. ACEP is of the view that when prices escalate in the market, such as will harshly affect consumers and other economic agents, Government must intervene, by providing tax subsidy to cushion consumers (this means government will have to reduce taxes on the products). This form of subsidy is better than the accumulation of debts to the BDCs and its attendant negative effect on their ability to import, a scenario, which affects supply and constantly overburdening government's fiscal position.

It is however important to state that, for deregulation to achieve its purpose and bring relief to consumers, there is the need for radical shift in policy and practice. ACEP therefore recommends the following;

1. Government should fast-track the amendment of NPA Act 691 to recognize full-price deregulation. The existing law does not recognize the role of market operators in fixing prices especially the maximum indicative prices.
2. Government should abolish the following taxes, levies and regulatory margins because they only distort the prices and increase the burden on consumers:
 1. The TOR debt recovery levy of 8 pesewas per liter because ACEP believes that Ghanaians have overpaid that debt; and we strongly believe that the money from this levy is not being used to pay the debt. Government must explain the status of the debt, the total mount collected from the levy to date and how much has been paid over the years since the introduction of the levy.
 2. The Exploration levy because GNPC exploration is significantly funded from its share of oil revenues;
 3. The Road Fund levy of 7.3 pesewas per liter. Government should collect the road fund levy through the road tolls.
 4. BOST margin should also be abolished because it is not meant for strategic reserve but for infrastructure. But as we know BOST charges commercial rates for the use of its infrastructure, which then affects the Premiums/margins of the BDCs, OMCs and dealers and which are already factored into the prices of products.
 5. Government should scrap the policy on fortnight revisions of pump prices for two main reasons:

1. It promotes cartelization because the companies can secretly cooperate over prices during the pricing windows leading to marginal or no differences between their maximum indicative prices, a situation frowned upon by the NPA Act 691 and the Protection against Unfair Competition Act of 2000.
2. It reduces changes in petroleum product prices arising from volatility in the average by-weekly exchange rate used in pricing of products, and therefore treats petroleum products as any other commodity affected by the exchange rate in the open market. It also ensures that daily revisions are minor, reducing the heavy impact on consumers.
3. NPA should build its capacity to detect, monitor and ensure prosecution of companies involved in cartelization and unfair competition. Also it should create a public portal for publishing real-time prices of major OMCs to give consumers the right of choice over where to buy their products. It should also disseminate these data through SMS or social media to ensure that the public is well informed about price options for products.
4. To ensure that OMCs calibrate their pumps in real-time as and when adjustments are made, they should invest in their infrastructure such as introducing modern pumps and calibration systems. This avoids chaos at pump stations when adjustments are made.

Finally, ACEP's analysis of countries that have fully deregulated has shown that with full deregulation prices will initially go up but eventually become competitive and lower. It is for this reason we call on the BDCs and OMCs to take advantage of the current appreciation in the value of the cedi relative to the US Dollar and other major currencies, to review their prices down for the purpose of building the confidence of the consumer in the deregulation policy.

Also since currency stabilization is the product of prudent macroeconomic management, we urge the government to continue on the path of increasing the domestic supply of foreign currency and also introduce supply improvement policies to enhance local production of commodities, particularly those in which Ghana has competitive advantage. This will reduce the over dependence on imports, the demand pressures on foreign currencies and the associated depreciation of the cedi which impacts negatively on petroleum product prices.

ACEP will collaborate with the media and other consumer groups to monitor the incidence of cartelization and unfair competitive practices.

THANK YOU.