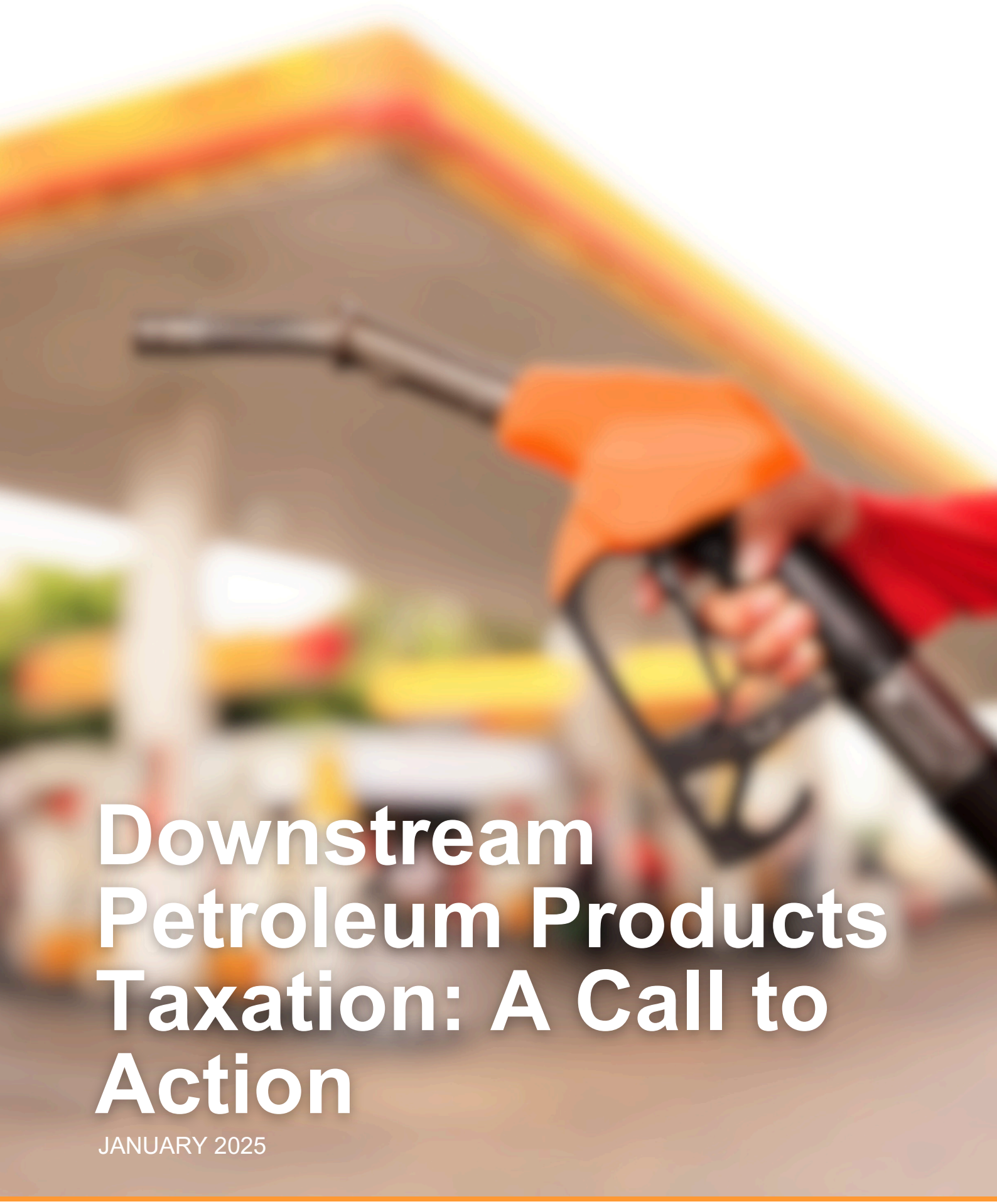

Downstream Petroleum Products Taxation: A Call to Action

JANUARY 2025

ACEP Africa Centre for Energy Policy

UK International Development
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Acknowledgement

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We believe that the recommendations outlined in this paper presents an opportunity for progressive reforms towards efficiency in downstream petroleum administration in Ghana.

While this report represents our best efforts, the findings, interpretations, and conclusions do not necessarily align with the perspectives of FCDO, its members, or the entities they represent.

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List of Abbreviations

Abbreviation	Meaning
ACEP	Africa Centre for Energy Policy
BOST	Bulk Oil Storage and Transportation
CBOD	Chamber of Bulk Oil Distributors
CRM	Cylinder Recirculation Model
DDEP	Domestic Debt Exchange Program
ECG	Electricity Company of Ghana
EDRL	Energy Debt Recovery Levy
ESLA	Energy Sector Levies Act
ESRL	Energy Sector Recovery Levy
FMM	Fuel Marking Margin
GDP	Gross Domestic Product
GH	Ghana
GHp	Ghana Pesewa
GHS	Ghanaian Cedi
IOT	International Oil Trader
IMF	International Monetary Fund
LPG	Liquefied Petroleum Gas
LPGMC	LPG Marketing Company
NPA	National Petroleum Authority
OECD	Organisation for Economic Co-operation and Development

Abbreviation	Meaning
OMC	Oil Marketing Company
OPEC	Organization of the Petroleum Exporting Countries
PDM	Primary Distribution Margin
PSRL	Price Stabilization and Recovery Levy
SHS	Senior High School
SPL	Sanitation and Pollution Levy
SPT	Special Petroleum Tax
TOR	Tema Oil Refinery
UK	United Kingdom
UPPF	Unified Petroleum Price Fund
UPPP	Unified Petroleum Pricing Program
USD	United States Dollar
VAT	Value Added Tax

Executive Summary

In best-practice jurisdictions, petroleum product taxation is streamlined into a few key categories for efficiency. In the United Kingdom, for instance, petroleum taxes are consolidated under fuel duties and Value Added Tax (VAT), which directly goes to fund development projects. In contrast, Ghana's downstream petroleum sector is characterised by inefficiencies and a proliferation of taxes and regulatory margins. Most of these taxes and margins are earmarked for funding inefficiencies in the energy sector and operational inefficiencies created to sustain political settlements.

The findings of the study are as follows:

Key Findings

- Out of the over GHS 9.7 billion of annual petroleum tax revenues, only the SPT (constituting about GHS 2.4 billion proportion of the petroleum tax revenues) provides unencumbered resources for development efforts; the rest are earmarked for energy sector and road sector debt servicing.
- Regulatory margins such as the BOST Margin, Primary Distribution Margin (PDM), Unified Petroleum Price Fund (UPPF), and the Cylinder Recirculation Model (CRM) margin cumulatively generate about GHS 7.6 billion annually, spent by BOST and the National Petroleum Authority (NPA) on downstream operations.
- Between 2019 and 2024, regulatory margins such as BOST margin, Primary Distribution Margin (PDM), Fuel Marking Margin (FMM) and the Unified Petroleum Price Fund (UPPF) increased by 300%, 247%, 350% and 429%, respectively.
- Consumers pay USD 0.07 (GHS 1.16) per litre for depot-to-retail distribution—significantly higher than the average freight and insurance cost of USD 0.05 for diesel from Europe to Ghana. These margins account for over 11% of the ex-refinery price of diesel or petrol.
- The PDM, intended to cover the cost of inter-depot transportation by BOST, is levied regardless of whether BOST facilities are utilized. This is particularly disingenuous given that over 50% of petroleum products bypass BOST altogether.
- Out of the over GHS 780 million annual revenues from the Price Stabilization and Recovery Levy (PSRL), a portion goes to subsidise premixed fuel, with the rest unaccounted for.
- Once tasked with strategic stockpiling, BOST now controls about 20% of the petroleum import market through the Gold for Oil Program, deviating from its core

mandate. This commercial shift questions BOST's continuous receipt of regulatory margins to compete with the private sector that builds and maintains its own infrastructure.

- Over GHS 400 million in annual revenues is generated through the Fuel Marking Margin intended to guarantee the authentication (quality and revenue assurance) of fuel. However, the proliferation of the proprietary marking chemical in the market undermines the purpose of charging the Fuel Marking Margin.
- The Cylinder Recirculation Model (CRM) receives an annual subsidy of nearly GHS 400 million through a USD 80 margin per tonne on all LPG consumed (irrespective of whether the consumption is made through the CRM or the conventional model) to subsidise the CRM to make it competitive against the over 600 local businesses in the existing model.

To address these inefficiencies in the downstream petroleum sector, this paper recommends the following:

- **Convert the UPPF, BOST Margin, Fuel Marking Margin, and CRM margin into tax revenues and redirect these revenues towards development projects.** By eliminating these burdensome margins and converting them into direct tax revenues, the government would be eliminating opportunities for corruption in the downstream petroleum sector while freeing up about GHS 6.3 billion in annual revenues to fund critical infrastructure and social programmes such as Free SHS or the development of highways to open the country.
- **Commercialize BOST and list it on the stock exchange.** This will ensure transparency and accountability in BOST's operations while reducing the burden on consumers.
- **End the premix subsidy.** Direct financial support should be provided to fisherfolk to purchase their fuel, rather than maintaining an outdated and corrupt subsidy program. Furthermore, progressive and sustainable means of transport should be encouraged for fisherfolks such as the use of solar-powered fishing boats to eliminate the need for premixed fuel altogether.
- **Government should prioritise addressing the energy sector debts in the short to medium terms to free up revenues for development purposes.** As much as GHS 9.7 billion worth of levies are earmarked largely for energy sector and road sector debt servicing. For nine years of collecting the ESLA, the energy sector debt has worsened without any pragmatic solution to deal with it. Government must devise strategies to end the inefficiencies in the energy sector and free up resources for development.

- **The NPA should build regulatory capacity to facilitate healthy competition in the downstream petroleum sector and detect anti-competitive behaviour.** This will revert the current trend of the NPA's wholesale intervention in product pricing, and control of downstream transactions and procurement of services in a deregulated market.
- **The NPA should focus on tracking the quality and quantity of fuel delivery into the country and at the pump.** This will eliminate the need for revenue assurance contracts and cumbersome fuel tracking systems by the NPA.

Introduction

The consumption of petroleum products has become a critical avenue for domestic revenue mobilization worldwide. In many countries, taxes on petroleum products can account for a significant portion of government revenue, with rates as high as 50% in certain cases. These taxes create fiscal space for governments to build much-needed infrastructure, improve public services, and cross-subsidize vital socioeconomic sectors. Some nations spend this revenue on sustainable initiatives such as mass transportation systems or healthcare infrastructure to address the harmful effects of fossil fuel emissions on public health.

In best practice scenarios, taxes on petroleum products are often streamlined into few handles. For example, UK has the fuels duties and Value Added Tax (VAT). Fuel duties alone generated approximately £25 billion in 2023, represent 2.2 per cent of all receipts and is equivalent to £850 per household and 0.9 per cent of national income[1]. According to OPEC, government taxes on fuel constituted about 51% of the cost of the products in UK, 53% in Italy and an average of 44% in the OECD countries (See Figure 1).

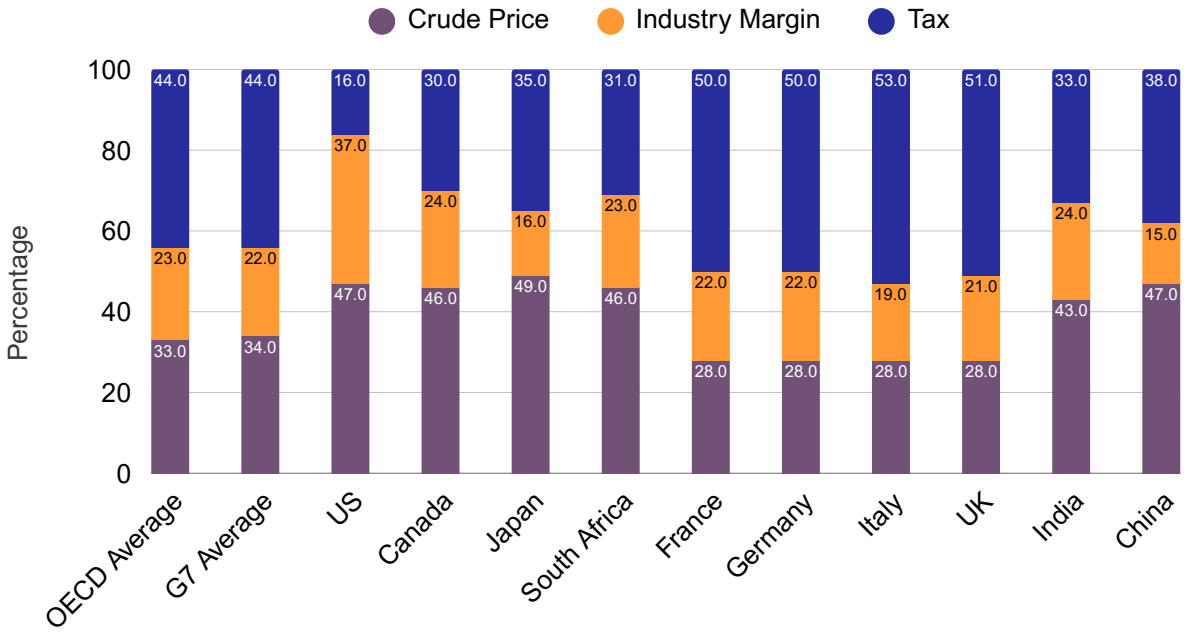

Figure 1. Tax Component of Petroleum Prices in Different Regimes (2023)

However, in Ghana, the downstream petroleum sector has become a symbol of entrenched crony capitalism and evidence of black tax on citizens. Whilst the taxes and levies on petroleum products may appear insignificant (about 13% of the cost of the product), the state imposes about 10% of the cost of petroleum products as additional

[1] https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/

charges in the form of regulatory margins, a consequence of government's failure to completely liberalise the petroleum market.

Since the partial liberalization of the market in 2015, consumers have been forced to bear the weight of the government's failure to properly regulate the sector. Instead of using petroleum consumption as a tool for generating revenue for development, it has become avenue for financing government inefficiencies and off budget expenditures through levies imposed by parliament and margins imposed by the NPA. Stakeholders in the sector have raised concerns regarding the opacity in how regulatory margins are spent, pointing to a disconnection between revenue collection and the intended public welfare maximisation[2]. Oil and LPG Marketing Companies (OMCs/LPGMCs) have also persistently bemoaned the duplicitous nature of margins in the downstream sector[3].

In this brief, the various taxes and margins are unpacked to show how inefficiently Ghana manages the downstream sector to the disadvantage of the tax-paying masses.

[2] Emmakd, & Emmakd. (2020, July 17). PIAC proposes amendment to the petroleum revenue management Act. Ghana Business News. https://www.ghanabusinessnews.com/2020/07/17/piac-proposes-amendment-to-the-petroleum-revenue-management-act/

[3] CBOD (2017). A Breakdown of Taxes, Levies and Margins Imposed on Ex-Pump Prices - CBOD Ghana

Performance of Petroleum Tax Revenues

There are currently 11 taxes and regulatory margins imposed on petroleum products, each seemingly with a designated purpose. However, the details of these allocations are often obscured from the average Ghanaian. Many of these taxes, levies and regulatory margins, while appearing straightforward, conceal additional uses that are not immediately apparent. For example, the Unified Petroleum Price Fund (UPPF), which is officially designated as a transportation margin to ensure uniform pricing of petroleum products across the country, also carries hidden allocations to finance fuel supply for security agencies, the presidency, and to support initiatives like the Petroleum Hub Development Corporation, along with other expenditures by the National Petroleum Authority (NPA).

The covert appropriation of downstream petroleum taxes, levies and regulatory margins incentivises arbitrary and often redundant taxation of petroleum products. As of October 2024, regulatory margins on petroleum products amounted to GHS 1.37 per litre of the product. These margins cumulatively generate about GHS 7.6 billion annually. Furthermore, ESLA levies on petroleum products alone amount to GHS 1.90/litre (see NPA prescribed petroleum pricing formula[4]). Out of the GHS 9.7 billion in annual petroleum taxes imposed on the consumer, only the Special Petroleum Tax (SPT) (i.e. GHS 2.4 billion out of GHS9.7 billion in annual petroleum tax revenues) directly contributes to general government expenditure. The remaining levies, such as the sanitation levy, are largely earmarked for addressing the political sins of the past such as paying for inefficiencies in the energy sector, repaying road sector debt, or funding sole-sourced contracts. In effect, an otherwise good source of revenue for development has been consigned to political settlements.

[4] National Petroleum Authority (Prescribed Petroleum Pricing Formula) Regulations, 2012 (L.I. 2186). Retrieved from; Petroleum-Pricing-Formula-Regulations-LI-2186-1.pdf (npa.gov.gh) or Ghana Business Regulatory Reforms Portal (brr.gov.gh)

No	Levy/Margin	Rate (GHp/Lt)	Annual Revenue (GHS)
Levies			
1	ENERGY DEBT RECOVERY LEVY	49	2,555,490,333.43
2	ROAD FUND LEVY	48	2,370,626,208.00
3	ENERGY FUND LEVY	1	49,410,096.00
4	PRICE STABILIZATION AND RECOVERY LEVY	16	788,005,621.86
5	SANITATION AND POLLUTION LEVY	10	493,880,460.00
6	ENERGY SECTOR RECOVERY LEVY	20	1,044,904,691.82
7	SPECIAL PETROLEUM TAX	46	2,425,093,457.52
	TOTAL	**190**	**9,727,410,868.63**
Regulatory Margins			
8	PRIMARY DISTRIBUTION MARGIN	26	1,284,662,496.00
9	BOST MARGIN	12	592,921,152.00
10	FUEL MARKING MARGIN	9	444,690,864.00
11	UPPF	90	4,912,809,678.90
12	*CRM Margin	USD 80/tonne	381,351,368.16
	TOTAL	**137**	**7,616,435,559.06**

Table 1. Prevailing Levy and Margin Rates on and Revenues from Petroleum Products (based on NPA 2024 consumption data)

Source: Authors' Computations

The Failure of ESLA: A Case of Mismanagement and Corruption

In 2015, as part of the 16th IMF program, the Ghanaian government made a commitment to reform the downstream petroleum sector to prevent further debt accumulation. At the time, the energy sector was burdened with about $2 billion in debt, primarily due to price under-recovery, mismanagement of state institutions such as the Tema Oil Refinery (TOR), the Bulk Oil Distribution and Transportation Company (BOST), and fuel supply debt in the power sector. The Energy Sector Levy Act (ESLA) was introduced as a solution, with the goal of generating the needed revenue to eliminate the debt of the energy sector and consolidate all levies and taxes on petroleum products into a single law.

The Energy Debt Recovery Levy (EDRL), which has become synonymous with ESLA, was to help amortise the energy sector debt within five years and eliminate subsidies on petroleum products. However, the reality is that ESLA has failed, to a large degree, in delivering on its objectives. Following the failure of the EDRL, the Energy Sector Recovery Levy (ESRL) was introduced (GHp 20/litre) to support the payment of capacity charges in the energy sector and pay energy sector bills, including fuel costs. This notwithstanding, an earlier ACEP analysis showed that the ESLA had failed in dealing with energy sector debt (Figure 2).

The number and rates of levies prescribed in the principal Energy Sector Levies Act, 2015 (ACT 899) have since been amended three times, in 2017 (Act 946), 2019 (Act 997), and 2021 (Act 1064). The latest amendment of the principal ESL Act was in 2021 (Act 1064), which saw the addition of two tax handles, namely the Energy Sector Recovery Levy and the Sanitation and Pollution Levy.

A summary of the evolution of the applicable ESLA levies and rates on petrol is summarised in Table 2.

Year	ESLA PLC Receipts	Coupon payments	Admin costs	Bond issue costs	Coupon pymt+ Admin+Bond issue costs	Outstanding Bond
2017	279.73	145.92	1.32	54.84	202.07	4783.97
2018	1353.71	1243.13	6.77	65.59	1315.49	5664.72
2019	1687.87	1086.26	6.20	11.07	1103.53	6000.00
2020	1711.30	1462.52	6.76	18.67	1487.95	7629.52
2021	2437.38	1812.52	9.47	27.54	1849.54	8700.59

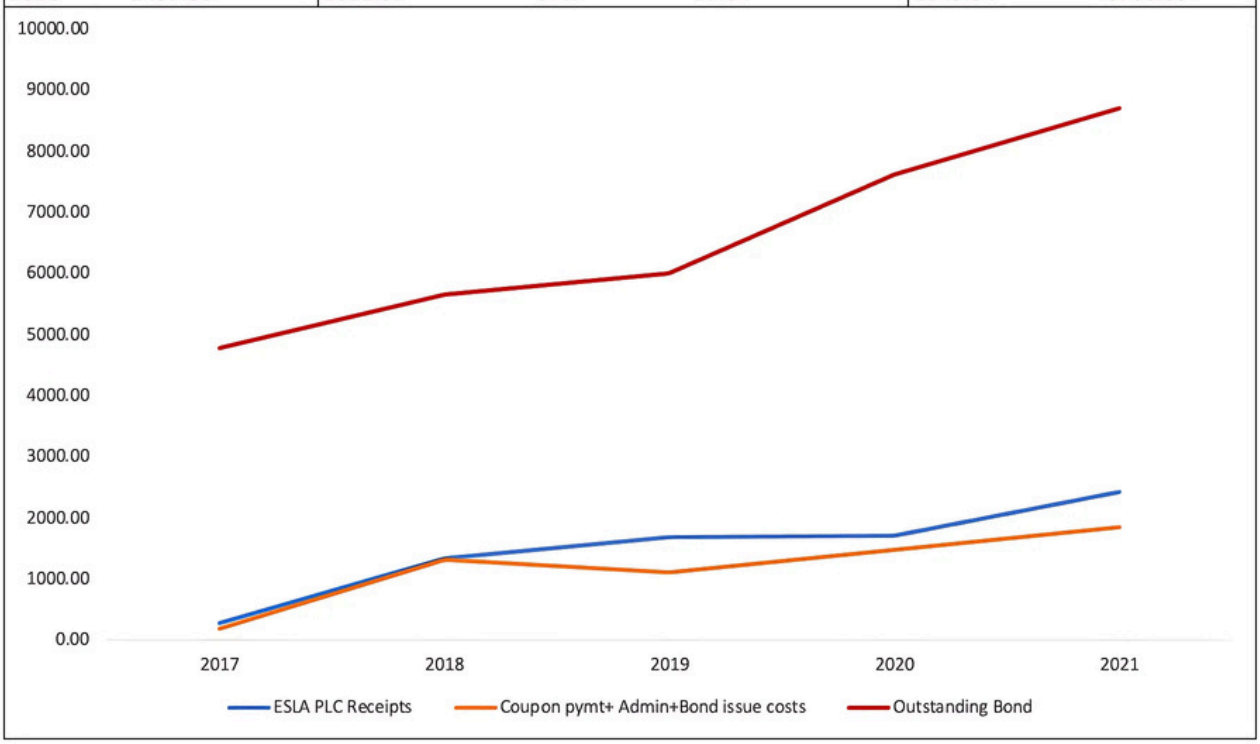

Figure 2. ESLA PLC receipts and outstanding bonds prior to Debt Exchange

	Levy	Purpose	Levy Component			
			2015 (Act 899)	2017 (Act 946)	2019 (Act 997)	2021 (Act 1064)
1	Energy Sector Recovery Levy (ESRL) or Delta Fund Levy.	To support the payment of capacity charges in the energy sector and energy sector bills, including support for feedstock.	NA	NA	NA	Ghp20/ltr
2	Energy Debt Recovery Levy (EDRL).	To facilitate debt recovery in the Tema Oil Refinery (TOR) and the downstream petroleum sector foreign exchange under-recoveries and infrastructure support.	Ghp41/ltr	Ghp41/ltr	Ghp49/ltr	Ghp49/ltr
3	Road Fund Levy	To support the maintenance of road networks in Ghana.	Ghp40/ltr	Ghp40/ltr	Ghp48/ltr	Ghp48/ltr
4	Energy Fund Levy	To support the activities of the Energy Commission.	Ghp1/ltr	Ghp1/ltr	Ghp1/ltr	Ghp1/ltr
5	Price Stabilisation and Recovery Levy (PSRL).	To serve as a buffer for under-recoveries in the petroleum sector to stabilise petroleum prices for consumers and subsidise premix and residual fuel.	Ghp12/ltr	Ghp12/ltr	Ghp16/ltr	Ghp16/ltr
6	Sanitation and Pollution Levy (SPL).	To mitigate the environmental effects of fossil fuel pollution.	NA	NA	NA	Ghp10/ltr

Table 2. Evolution of Levies on Petroleum Products

As demonstrated earlier, these levies have largely failed to salvage the energy sector debts. Instead of reducing the debt, the Ministry of Finance shifted the operational model of ESLA, moving the debt from the original holders to the bond market. This move led to the accumulation of even more debt, as the government was forced to pay exorbitant fees to intermediaries and service the debt on the bond market. Furthermore, as illustrated in Table 2, an additional layer of levy, namely the Energy Sector Recovery Levy, was introduced in 2021 through an amendment to the ESLA, which imposed an additional 20 pesewas on every litre of petroleum product consumed. This increased the energy sector debt management levies on the consumer to 69 pesewas per litre, yielding annual revenue in excess of GHS 900 million annually.

Despite billions of cedis collected through these levies, the debt had remained largely the same. By 2022, the government was forced to introduce the Domestic Debt Exchange Program (DDEP), which shifted the burden of insolvency onto the public. The energy sector debt has continued to grow beyond the capacity of the levy without commensurate commitment to address it. The Electricity Company of Ghana (ECG's) under-recovery, the major culprit of the debt accumulation, continues to grow with an imminent indication of increased tax imposition on the public.

The Price Stabilisation and Recovery Levy (PSRL)

The Price Stabilization and Recovery Levy (PSRL) was introduced in 2015 under the Energy Sector Levies Act, 2015 (Act 899) to create a financial buffer for the petroleum sector. The levy was meant to stabilize petroleum prices, provide subsidies for premix and residual fuel oil, and mitigate under-recoveries. According to Section 5 of Act 899, the Price Stabilization and Recovery Account was to receive funds from the PSRL and ensure these objectives were met.

Consumers in Ghana have paid over GHS3 billion into the fund since its inception. However, only a portion of these funds has been directed toward the intended purpose of subsidizing premix fuel, with a large part remaining unaccounted for – at no point has the price stabilisation levy been used to stabilise other fuels. The promised stabilization of petroleum prices for consumers has not materialized, nor have the buffers for under-recoveries been sufficiently established.

The systemic issues associated with the distribution and use of subsidized fuel expose broader governance challenges, rendering the fund ineffective in achieving its core objectives of stabilizing petroleum prices and subsidizing premixed fuel.

Challenges with Pre-mixed Fuel Subsidy

The subsidy for premix fuel, a key component of the PSRL's objectives, has been marred by corruption and mismanagement (diversion and mis-sale of premixed products at the pump). Investigative reports, such as those by investigative journalist Kwetey Nartey, have revealed that the premix fuel subsidy often feeds political interests at both national and local levels, with little oversight, complicity, and lack of accountability.

A regional breakdown of pre-mix fuel consumption between 2023 and the first quarter of 2024 indicates that the Northern and old Bono Regions, where there is limited utility for the fuel, recorded the highest increase in consumption (a 322% and 190% increment respectively) whereas the coastal regions, Western, Central and the Greater Accra, where Ghana's landing beaches are concentrated recorded premix fuel consumption growth of -4%, 21% and 13% respectively, an indication of possible smuggling of premix fuel which affects supply to fisherfolks in dire need of the fuel.

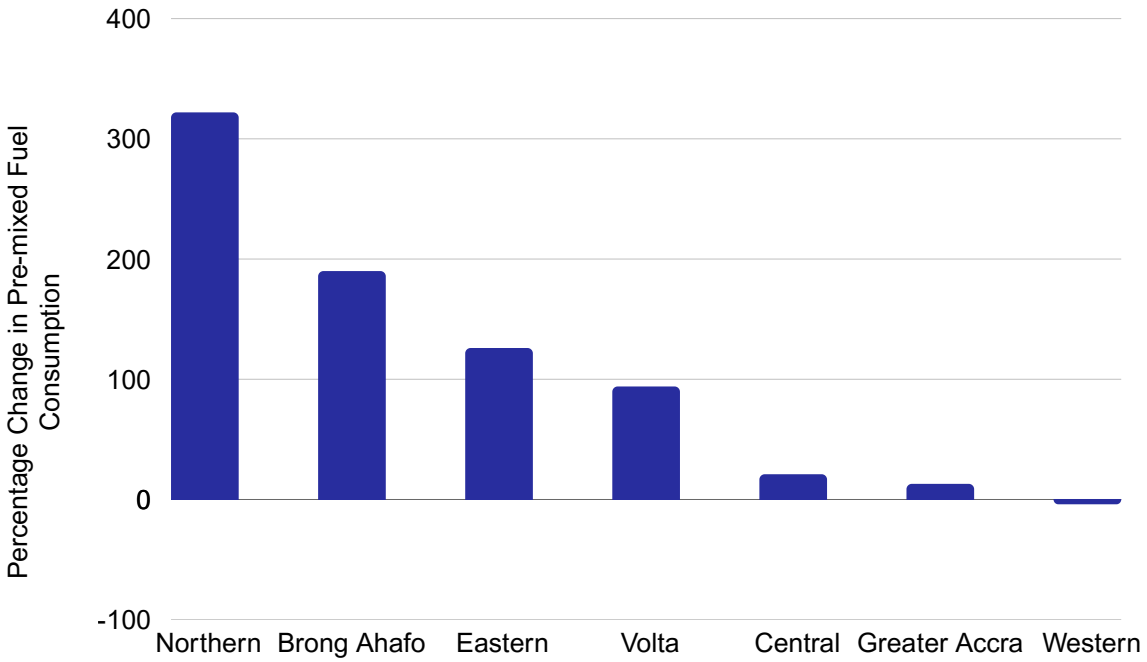

Figure 3. Percentage Change of Premixed Fuel Consumption (2023 Vs Q1 2024)

Thus, almost all the GHS 680 million in annual revenues accrued from the PSRL is siphoned through the premixed fuel subsidy by cronies without direct benefits to the fisher folks.

Challenges with the LPG Cylinder Recirculation Model (CRM)

The promotion of Liquefied Petroleum Gas (LPG) usage plays an anchor role in Ghana's energy transition goals, with the Energy Transition Framework targeting a 70% rural LPG adoption by 2070. However, the rising cost of LPG has discouraged LPG adoption among households. For instance, the NPA has reported a 12% drop in LPG consumption between 2021 and 2022[5]. A significant contributor to the rising cost of LPG is the imposition of regulatory margins and taxes, which account for approximately 12% of the cost per kilogram of fuel.

The Cylinder Recirculation Model (CRM) aims to improve access to and ensure the safety of LPG through a system where end-users exchange empty cylinders for pre-filled ones at designated bottling plants. This creates an assumption that the only hindrance to LPG consumption is the proximity of the commodity to end-users, downplaying other important factors such as the cost of the product and the heavily socialised model of consumers filling at the pump and guaranteed of getting the amount of gas they are paying for. Also, the safety promise of the CRM is questionable, considering that most LPG-related accidents happen at the household level rather than at refuelling stations. Some of the accidents recorded at the LPG refuelling stations are largely due to a departure from the safety protocols set up by the regulator, such as the use of defective valves. The fundamental question for the regulator is whether there are not enough regulatory instruments to avert some of the accidents being recorded in the existing model. If the answer is no, then the CRM is prone to similar regulatory failures at the refill plants and BRVs that are meant to transport LPG across the country.

Furthermore, it requires about four trucks to transport filled cylinders of gas equivalent to gas volumes that would have been transported by one bulk road vehicle, creating transportation costs that are not accounted for in the CRM. It is assumed that the UPPF would offset this extra cost, but this would require an increase in the UPPF, which would be borne directly by the end-users or a cross-subsidy on other petroleum products. The sustainability of the CRM is hinged on the USD 80.00 margin charged per tonne of LPG, irrespective of whether the LPG is purchased through the CRM or the conventional model. Based on 2024 consumption data, this generates about USD 27,239,383 million annually, translating to about GHS 381,351,368.16 million annually (based on an average Bank of Ghana interbank rate of 14%) to cater for the investment cost of implementing the program, such as purchasing the cylinders for the CRM. Despite this huge subsidy, the NPA seeks to implement other measures to curtail the importation of cylinders with a long-term goal of killing businesses in the existing model.

[5] Africa Oil and Gas Report (2023). Ghana's LPG Consumption in Sharp Decline. Retrieved from: https://obr.uk/forecasts-in-depth/tax-by-tax-spend-by-spend/fuel-duties/

The USD 80 margin raises accountability concerns as the consumer is not aware of how long this margin will be collected. It is material to note that without the CRM model, this annual subsidy of nearly GHS 400 million could be availed to the government as tax revenues for development purposes. With all these lingering questions, the World Bank continues to fund public education on a model that seeks to collapse over 600 local businesses in favour of a few anointed businesses by the NPA.

Sanitation and Pollution Levy (SPL)

The SPL is another levy aligned with sole-sourced contracts. In 2021, a GHp10 fee was imposed on every litre of petrol generally to improve urban air quality, manage municipal solid waste and cover disinfection costs for public spaces. This tax handle generates nearly GHS 500 million annually. Further work is ongoing on the utilisation and impact of the SPL on the state of sanitation in Ghana.

The Hidden Margins: An Unjust Tax on the People

In addition to the failure of ESLA, consumers are also burdened with regulatory margins imposed by the National Petroleum Authority (NPA). Since introducing price deregulation in 2015, these margins have acted as an unjust tax on the people without any sound economic justification for their existence. Between 2018 and 2024, government-imposed regulatory margins such as BOST margin, Primary Distribution Margin (PDM), Fuel Marking Margin (FMM) and the Unified Petroleum Price Fund (UPPF) increased by 300%, 247%, 350% and 429%, respectively.

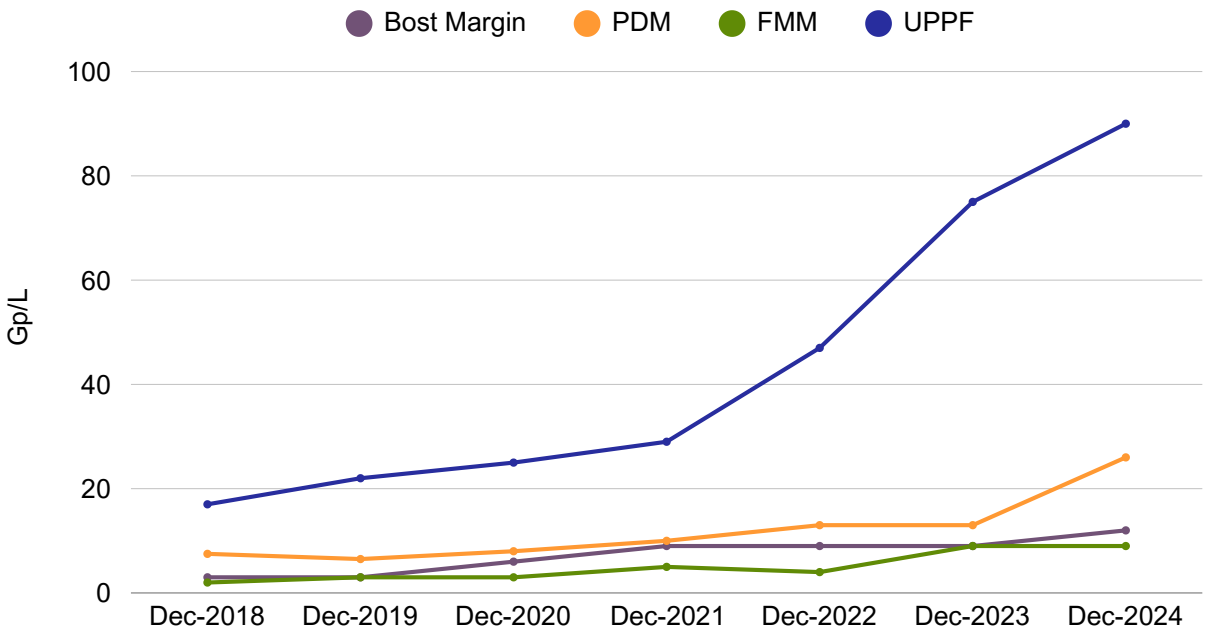

Figure 4. Trend of Regulatory Margins on Gasoil (2018 to 2024)

The original intent behind deregulation was to allow market players to handle the distribution of petroleum products, while the NPA focuses solely on quality control and compliance. However, this has not been the case. Instead, the NPA transformed itself into a bloated procurement powerhouse, imposing unnecessary costs on consumers while failing to guarantee product quality.

In a fully deregulated market, competition, anchored by an effective regulator, would drive efficiency, leading to better products at lower prices for consumers. However, the current system stifles competition, allowing politically connected businesses to thrive while ordinary Ghanaians bear the brunt of inflated prices.

Transportation Margins

One of the most glaring examples of the inefficiencies in Ghana's downstream petroleum sector is the cost of transporting products from depots to retail outlets. I**t costs, on average, GHS 1.16 (about USD 0.07) to transport a litre of petroleum product to the tank of a consumer (comprising the UPPF and PDM). Meanwhile, the average cost of freight and insurance per litre of diesel from Europe to Ghana is about USD 0.05.** The transportation margins account for over 11% of the ex-refinery price of diesel or petrol based on the Ghana Chamber of Bulk Oil Distributors (CBOD)'s Ex-ref prices effective 1st to 15th October, 2024[6]. This, on average, adds about GHS 100 to every tank filled, raising north of GHS 5 billion in annual revenues into deep state slush funds controlled by state institutions without proper accountability for it (Figure 5).

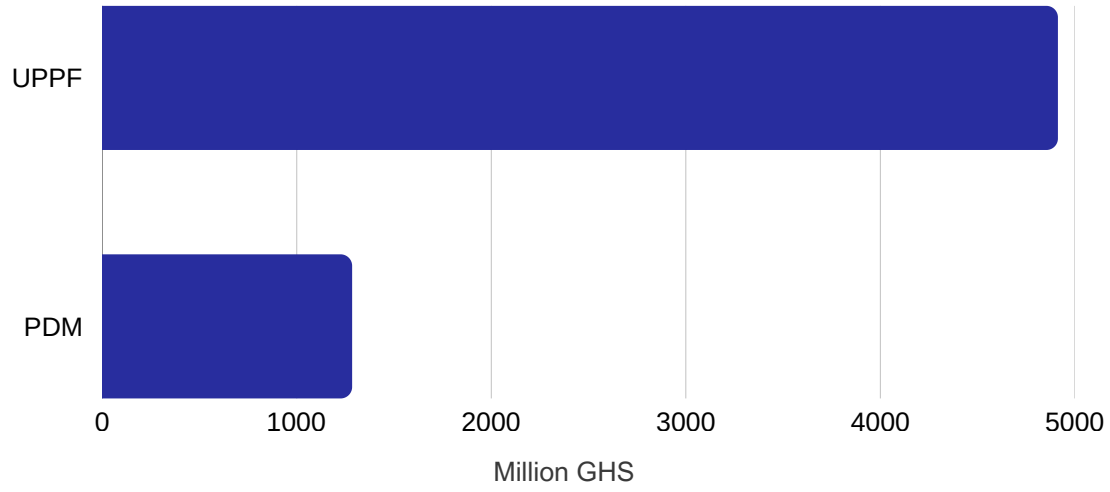

Figure 5. Annual Revenue Generation from the PDM and UPPF

A. The Primary Distribution Margin

Primary Distribution Margin (PDM) was imposed to cover the costs of inter-depot transportation by BOST. Consumers pay 26 pesewas on every litre of petrol for primary distribution. Shockingly, this fee is charged regardless of whether the product passes through BOST's facilities or not.

More than 50% of petroleum products distributed in Ghana are moved outside of BOST facilities, raising questions about the justification for this fee. This arbitrarily imposed margin generates over GHS 1.2 billion annually, which goes to fund political contracting for transportation services, allowing BOST to act as a lever for crony capitalism. Contracts for transporting products between depots are often awarded at inflated rates to politically connected individuals, many of whom own no trucks themselves but rely on truck owners to execute the contracts. Truck owners pay about GHS 7000 per truck to the contract owners to secure these deals. This system not only enriches a select few but

[6] CBOD (2024). Ex-ref Price Effective 1st to 15th October 2024. Retrieved from: https://cbodghana.com/1st-to-15th-october-2024-pricing-window/

also imposes unnecessary cost burdens on consumers, who end up paying more for petroleum products. The PDM could significantly lower and eliminate the need for the UPPF by building a robust pipeline network to ensure efficient fuel distribution. Interestingly, past investments in pipelines were sabotaged to sustain the tracking of products.

B. The UPPF

The Uniform Petroleum Pricing Fund (UPPP) was originally created to ensure that petroleum prices remained uniform across the country, preventing regions closer to ports from paying cheaper prices than those farther inland. In theory, this was meant to promote equity and ensure that all Ghanaians, regardless of their location, had access to affordable fuel.

However, the reality is that prices are often lower in remote regions than in major cities like Accra, highlighting the fact that other economic variables influence the price of petroleum products besides transportation costs.

Is Price Parity Justified?

ACEP has long questioned the necessity of maintaining price parity for fuel in today's market. Should residents of heavily congested urban areas like Accra be required to subsidize fuel costs for those in less populated regions? From an economic perspective, this seems unjust, as city dwellers already face higher costs of living and spend hours in traffic, literally burning a lot of fuel at short distances compared to less populated regions where a litre of fuel could cover more kilometres.

Furthermore, there is little evidence to suggest that the absence of the UPPPF would significantly raise fuel prices in remote areas. Lower prices in the farther regions indicate that factors such as market competition and local operating costs play a more critical role in determining fuel prices than transportation costs alone. This raises important questions about the underlying rationale for maintaining the UPPF, especially given that its original purpose of ensuring uniform fuel pricing may no longer hold as much relevance in the current market.

In reality, political settlement considerations appear to be driving the persistence of the UPPF. The margin has been adjusted at the government's discretion, particularly when global oil prices decline after a surge. For instance, the UPPF, which was set at 22 pesewas in 2018, has ballooned to 90 pesewas today—an increase of over 300% in a span of barely five years. This significant hike in the margin suggests that price adjustments are being made without adequate economic justification.

A major issue with the UPPF lies in the lack of transparency and accountability for the nearly GHS 5 billion in annual revenues accrued from the levy. The discretionary increment of the levy has expanded its use to cover off-budget expenditures, such as fuel consumption for political appointees at the Presidency, security services, sole-sourced

tracking services and the Petroleum Hub Development Corporation. These expenditures are not accounted for in the national budget, allowing the government to collect what amounts to a clandestine tax. If the government genuinely needs to fund fuel consumption for official duties, it should be reflected in the official budget, not hidden behind the veil of the UPPF. This practice erodes public trust and creates the illusion that taxes are lower than they truly are when, in fact, citizens are paying more through secret taxes that are not accounted for in the budget.

Fuel Marking and Tracking

Consumers in Ghana currently pay GH 9 pesewas per litre for the marking of petroleum products, a fee intended to ensure the authenticity and quality of fuel sold at retail outlets. However, documents sourced from the National Petroleum Authority (NPA) reveal that the contractor responsible for the marking process receives only about half of the over GHS 400 million in annual margin revenues collected from consumers through this sole-sourced procurement arrangement. This discrepancy raises significant concerns about both the transparency of the procurement process and the use of the remaining funds collected from consumers.

Between 2019 and December 2023, the sole-sourced contract for fuel marking was renewed five times, each time for short durations ranging from two to six months. Such frequent renewals create a political incentive for NPA officials to ensure that the contractor remains responsive to political settlements. These brief renewal periods may encourage a "playing ball" approach, where political and personal interests take precedence over the efficiency and accountability of the scheme.

In addition to the concerns surrounding the procurement process, the effectiveness of the marking scheme itself is questionable. Evidence from the NPA shows that the proprietary chemical agent used for marking fuel ends up in the hands of fuel smugglers, undermining the very purpose of the scheme. Moreover, reports of over-concentration of the chemical at depots where petroleum products are loaded suggest that adulteration may occur after the marking process, further weakening the system’s integrity. In essence, the protection that consumers are paying for is not being realized, as the fuel marking scheme has failed to prevent fuel adulteration and smuggling effectively.

Despite clear evidence that the fuel marking scheme is not delivering value for consumers, there seems to be a political interest in maintaining the arrangement. The scheme serves as a tool for procurement power, enabling NPA officials to allocate lucrative contracts without the scrutiny that comes with competitive bidding. Additionally, the revenue generated from the marking scheme provides extra funds that can be spent outside the national budget, offering further incentives for political actors to preserve the status quo. This practice not only undermines consumer protection but also fosters a lack of accountability and transparency in the management of public resources.

The BOST Margin

Besides the PDM, BOST receives a margin on every litre of petroleum for the maintenance of BOST's operations aimed chiefly at keeping strategic stock, a function that it has never performed. In recent years, the company has taken on a more commercial outlook, competing directly with private sector players in the importation and sale of petroleum products. This shift has raised concerns about BOST's continued receipt of margins (almost GHS 600 million annually), particularly since the company operates tax-free assets while competing with private businesses that pay taxes.

Currently, BOST controls about 20% of the petroleum import market through its Gold for Oil Program, reinforcing its recent commercial outlook and a deviation from its core mandate of keeping strategic stocks. The changing refinery landscape further questions the necessity of maintaining BOST's margins, especially in a market where private sector players are capable of delivering the same services at lower costs.

ACEP has argued that strategic stocks could be achieved through regulation by mandating Bulk Oil Distributions Companies to hold minimum stocks that meet the strategic stocks of the country. Again, incentives could be provided for International Oil Traders (IOTs) to store products in Ghana to create a significant buffer to meet national supply security.

Conclusion

The failure of the downstream petroleum sector in Ghana is a cautionary tale of what happens when crony capitalism and political patronage are allowed to flourish unchecked. While other nations have successfully leveraged petroleum taxation to fund critical development projects, Ghana has allowed the sector to become a drain on public resources, with billions lost to inefficiencies and corruption. An estimate based on the applicable margins and volumes of petroleum product consumption reveals that Ghanaians pay over GHS 7.6 billion annually in hidden taxes on petroleum products. This revenue is largely unaccounted for in the national budget and is often not captured in the computation of the country's tax revenue to GDP ratio, with much of it siphoned off into politically connected businesses and intermediaries. Most of the revenue generated from petroleum levies and margins is used for sole-sourced service contracts that lack transparency and oversight. These service payments are directed toward intermediaries and contractors who provide little to no value in return.

The current system is unsustainable. The Ghanaian government must take immediate steps to reform the downstream petroleum sector and eliminate the inefficiencies that have plagued the industry for years.

Recommendations

- **Convert the UPPF, BOST Margin, Fuel Marking Margin, and CRM margin into tax revenues and redirect these revenues towards development projects.** By eliminating these burdensome margins and converting them into direct tax revenues, the government would be mitigating opportunities for corruption in the downstream petroleum sector while freeing up about GHS 6.3 billion in annual revenues to fund critical infrastructure and social programmes such as Free SHS or the development of highways to open the country.
- **Commercialize BOST and list it on the stock exchange.** This will ensure transparency and accountability in BOST's operations while reducing the burden on consumers.
- **End the premix subsidy.** Direct financial support should be provided to fisherfolk so they can purchase their fuel rather than maintain an outdated and corrupt subsidy program. Furthermore, progressive and sustainable means of transport should be encouraged for fisherfolks, such as using solar-powered fishing boats to eliminate the need for premixed fuel altogether.
- **The government should prioritise addressing the energy sector debts in the short to medium terms to free up revenues for development purposes.** As much as GHS 9.7 billion worth of levies are earmarked largely for energy sector and road sector debt servicing. For nine years of collecting the ESLA, the energy sector debt has worsened without any pragmatic solution to deal with it. The government must devise strategies to end the inefficiencies in the energy sector and free up resources for development.
- **The NPA should build regulatory capacity to facilitate healthy competition in the downstream petroleum sector and detect anti-competitive behaviour.** This will revert the current trend of the NPA's wholesale intervention in product pricing and control of downstream transactions and procurement of services in a deregulated market.
- **The NPA should focus on tracking the quality and quantity of fuel delivery into the country and at the pump.** This will eliminate the need for revenue assurance contracts and cumbersome fuel tracking systems by the NPA.

The recommendations outlined in this report offer a clear path forward, but they require political will and a commitment to putting the interests of the people first. Only by taking decisive action can Ghana unlock the full potential of its downstream petroleum sector and ensure that it serves the public good.

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