Zambia's total petroleum requirements are met through imports because the country does not have any proven reserves of crude oil. The petroleum industry in Zambia is made up of TAZAMA Pipelines Ltd, which is owned, by the Governments of Zambia and Tanzania, INDENI Refinery, Ndola Fuel Terminal, Bulk fuel storage depots and the Oil Marketing Companies (OMCs). The major activities that take place in the petroleum sector are; procurement, transportation, refining, distribution and supply petroleum products to various customers at a reasonable cost.

### THE PLAYERS

A. TAZAMA – ZAMBIA HAPUTA (TAZAMA) PIPELINES

TAZAMA Pipelines is jointly owned by the Government of the Republic of Zambia (40%) and the Government of the Republic of Tanzania (60%). The pipeline runs from Dar-es-Salaam (Tanzania) to Nkana (Zambia) and the pipeline pipes over a distance of 1,700 KM. TAZAMA has continued to have various problems mainly due to the under utilisation of the pipeline facilities as well as an aged infrastructure which requires upgrading.

B. INDENI REFINERY

Indeni is Zambia's sole refinery and is located in Nkana. It is owned by Government and refines the petroleum feedstock received through the TAZAMA pipeline. As in the case with TAZAMA, once there is a consistent flow of petroleum feedstock, INDENI Refinery should be able to run at almost full capacity and should be able to perform better. When Indeni is fully operational (in its current state) it offloads about 2.2 million litres of petrol and diesel per day. The long-term solution for the petroleum sector in Zambia is to liberalise imports and remove tax incentives on importation.

C. NDLA FUEL TERMINAL

The Ndola Fuel Terminal was constructed for the sole purpose of storage and distribution of petroleum products. The fuel terminal is the selling point of the Ndola Fuel Terminal and bulk fuel depots in Western and North-Western Provinces, Lusaka Provinces. Other depots are also currently under construction in the Eastern and Southern Provinces. Consequently, the bulk fuel depots in Ndola and Nkana are stocked with petroleum products imported from TAZAMA in bulk.

### BULK FUEL STORAGE DEPOTS

Government continues to have bulk fuel storage depots in Northern and Lusaka Province. Other depots are also currently under construction in Western and Northern Western Provinces. The two districts of Mongu and Solwezi, respectively. The depot in Solwezi is over 90% complete. The objective of the depot is to decentralise the distribution of petroleum products and provide relief to the Kafue Fuel Terminal. Consequently, the bulk fuel depots in Ndola and Nkana are stocked with petroleum products imported from TAZAMA in bulk.

D. OIL MARKETING COMPANIES

Oil Marketing Companies (OMCs) are responsible for the distribution of petroleum feedstock. OMCs distribute and market petroleum products, locally. All OMCs are jointly owned by the Government and the Oil Marketing Companies (OMCs) also distribute and market petroleum products, locally.

### INTERNATIONAL OIL PRICES AND ZAMBIA

In determining fuel (Petrol's) prices, the Energy Regulation Board (ERB) uses the Cost-plus Pricing Model, (CPM), which operates on the principle that the final price of petroleum products should cover all the costs incurred in the supply chain. Using the CPM model the ERB determines the wholesale prices and pump prices of petroleum products. OMCs rarely import finished products due to the high import duty of 25% on petrol and diesel.

### THE PROCESS

**Import of Finished Petroleum Products from the Region**

- **Imports of Finished Petroleum Products from the Region**

- **Cot & Service 4%**
- **Net Refiners 96%**
- **Commerce & Industry 18%**
- **Mining 17%**
- **Transport 31%**

This consumption pattern is key for the purpose of setting/appropriate policy to ensure that the productive sectors of the economy such as mining, agriculture and manufacturing remain at the focal point of sustaining the economic growth.

### PRICING

Fuel remains one of Zambia's largest import products. TAZAMA and INDENI Refinery are 100% dependent on the flow of petroleum feedstock that should ensure reasonable capacity utilization in order to operate efficiently. Any inconstancy in the supply of petroleum feedstock would result in operating these facilities below minimum capacity levels and would demand an increase in the level of imports of fuel feeding products.

According to the Ministry of Energy, in order to deal with challenges in the petroleum sector, the Government is reviewing the petroleum tariff and the financing options. Further, alternative sources of fuel supply are being considered. Discussions are bilateral level with producing countries for the supply of crude and finished products have commenced to diversify the procurement process by eliminating monoliths of, if any.

**Petroleum in the National Energy Policy 2008**

1. The Government must revisit and reform the controls and taxes that govern the petroleum procurement system in order to allow greater competition in the market, which may ultimately eliminate any existing monopoly procurement procedures.

2. The long-term solution for the petroleum sector in Zambia is to liberalise it. OMCs or the private sector need to be responsible for the procurement of the country's petroleum needs. This may reduce the financial burden on the Treasury and possibly free up resources to other sectors.

3. Government must stiffen measures to ensure that there is uninterrupted flow of petroleum products into the country to guarantee supply and ensure stable and predictable prices.

4. Taxation: With respect to the taxes charged on fuel, Government must consider reducing the rate of tax on petroleum products.

### RECOMMENDATIONS

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### CHALLENGES

- Infrastructure: The state of the major infrastructure in the petroleum supply chain, namely the refinery and the pipeline need to be addressed. These assets are all over thirty (30) years old and require some investments to make them more efficient. At present, the refinery’s production can only meet about 90% of national demand.

- Governmental Controls: The major activity that takes place in the petroleum sector are; procurement, transportation, refining, distribution and supply petroleum products to various customers at a reasonable cost.

- Tariffs: Government must revisit and reform the controls and taxes that govern the petroleum procurement system in order to allow greater competition in the market, which may ultimately eliminate any existing monopoly procurement procedures.

- Long-term solution: The long-term solution for the petroleum sector in Zambia is to liberalise it. OMCs or the private sector need to be responsible for the procurement of the country’s petroleum needs. This may reduce the financial burden on the Treasury and possibly free up resources to other sectors.

- Government stiffen measures: Government must stiffen measures to ensure that there is uninterrupted flow of petroleum products into the country to guarantee supply and ensure stable and predictable prices.

- Taxation: With respect to the taxes charged on fuel, Government must consider reducing the rate of tax on petroleum products.

### CONSUMPTION PER SECTOR

- Petrol (1.11 million litres): 94.2%
- Diesel (2.28 million litres): 4.7%
- Kerosene (50,000 litres): 1.1%

### STATUS ANALYSIS

According to the 2014 statistics from the Energy Regulation Board (ERB) Zambia’s average daily consumption in litres is as follows: Petrol (1.11 million litres), Diesel (2.28 million litres) and Kerosene (50,000 litres). This is an indication that the refinery has challenges in operating at full capacity.

### SUGGESTED MEASURES

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### INTERNATIONAL OIL PRICES AND ZAMBIA

Determinants of fuel prices:

- DOE determines the wholesale prices and pump prices of petroleum products. OMCs rarely import finished products due to the high import duty of 25% on petrol and diesel.

- Setting up an incentive mechanism to mitigate high petroleum prices in rural areas.

- Encouraging lower-cost petroleum retailing in rural areas

- Ensuring that the pipeline continues to be governed, and operated as agreed between the Zambian and Tanzanian Governments.

- Developing the blending of petroleum products with biofuels like biodiesel and ethanol.

- Effective management of the Single Point Mooring (SPM) through Government-to-Government cooperation between Zambia and Tanzania.

- Increasing petroleum, infrastructure capacity including storage and distribution.

- Encouraging investment in the modernisation of the petroleum infrastructure through appropriate incentives.

- Improved efficiency in the petroleum industry.

- Diversifying the shareholding structure in the petroleum refinery as a means of diversifying the shareholding structure in the petroleum market.

- Formulating policy and standards on the quality of fuels including gasoline, diesel, kerosene, LPG and heavy fuel oils.

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