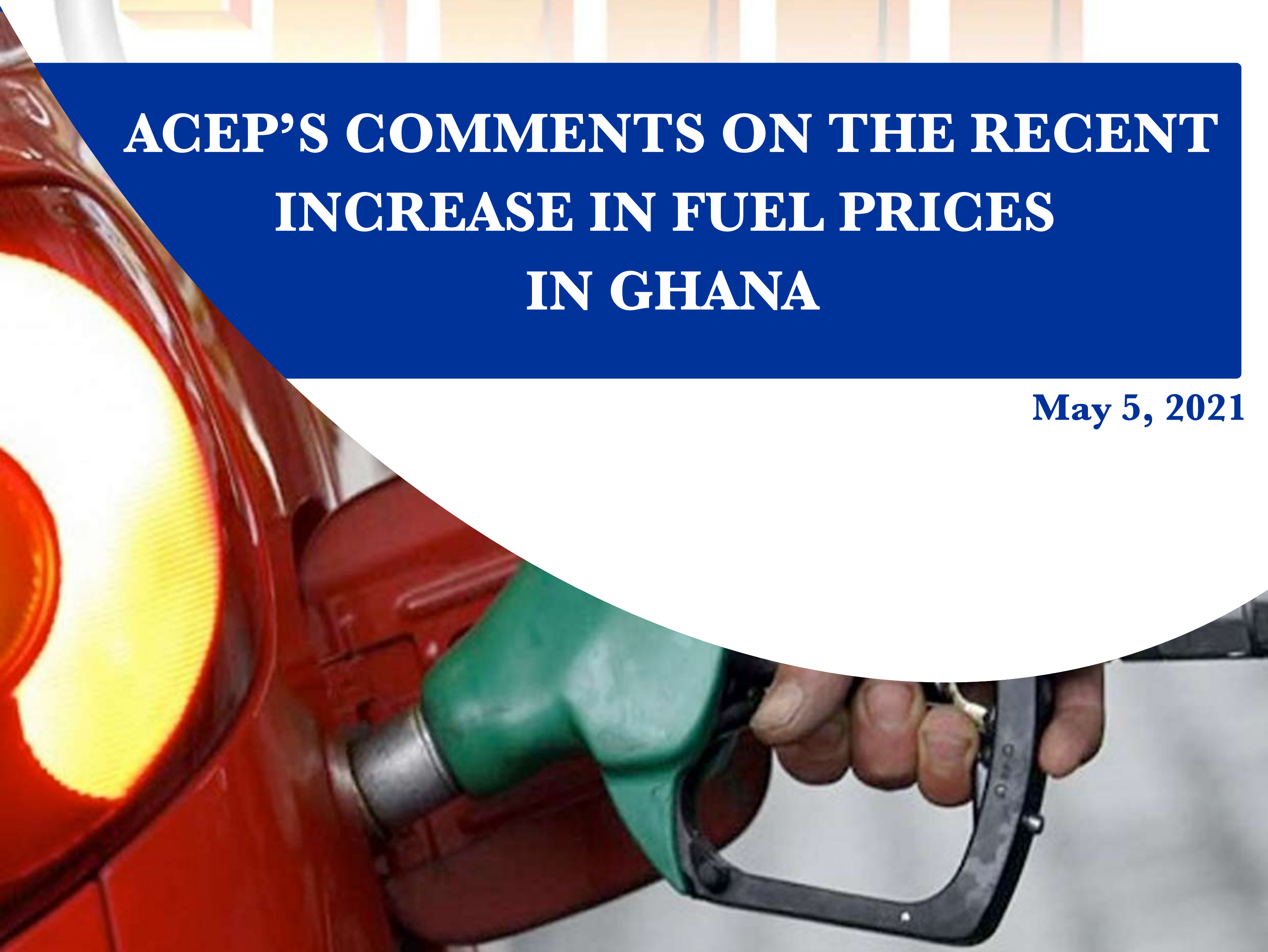
Africa Centre for Energy Policy

ACEP'S COMMENTS ON THE RECENT INCREASE IN FUEL PRICES IN GHANA

May 5, 2021



Introduction

Africa Centre for Energy Policy (ACEP) notes the increased public discussion on the recent adjustments of fuel prices at the pump. This paper consolidates all of ACEP's position on the adjustments since the proposal to increase levies on petroleum products by GHP30 in the national budget. However, a publication from the National Petroleum Authority (NPA) and a signed communication to industry players indicated an increment of GHP47 per litre on petrol and diesel. The initial increment of GHP47 has been revised downwards by GHP8 after public agitation and subsequent stakeholder meeting with the Minister of Energy on 4th May 2021. The communication from NPA indicates the two factors that account for the increase;

1. **Introduction of Sanitation and Pollution Levy of GHP10 per litre on petrol/diesel and a further adjustment of the Energy Sector Recovery Levy by GHP20:** In the 2021 budget statement, the Government proposed introducing these additional levies to improve sanitation and address the challenge posed by Ghana's excess generation capacity. The increment arising from these levies remain active.
2. **Increase in some margins on petroleum products:** NPA initially approved additional GHP17 as margins on petroleum products. The GHP8 reduction stated above affect these margins, as shown in Table 1.

Table 1: Breakdown of increase in margins on petroleum products

Margins	Increment (GH pesewas)	Revised Increment (GH pesewas)
BOST	6.00	3.00
UPPF	3.00	2.00
Primary Distribution	3.00	2.00
Fuel Marking	5.00	2.00
Total	**17.00**	**9.00**

The context of the adjustments and their implication

It is fair to acknowledge the economic context that Government finds itself and the need to raise more money to support the national budget. Out of the total revenue target of about GHS72 billion from taxes and grants, interest payment and employee compensation absorb about 91.6 per cent. Certainly, Government needs to find additional streams of income to address emerging development challenges. However, ACEP preferred that efforts to raise more revenue had focused on innovative ways to harness untapped potential rather than burden those already in the tax bracket and facing significant economic challenges partly imposed by COVID-19.

The downstream petroleum sector is characterised by unending evasion and smuggling, which account for revenue losses to the state. In 2019, NPA's records indicate that about 850 million litres of petroleum products were unaccounted for, yielding total revenue losses of about GHS 1.458 billion.[1] These are exclusive of pervasive illegal products on the market.

Notably, some efforts have been made to track the losses in the sector by Government. This includes integrating GRA's Ghana Customs Management System (GCMS) and NPA's Enterprise Relational Data Management Systems (ERDMS) to track product volumes for tax purposes. However, there still exists a gap in the reconciliation of revenues and consumption data on petroleum products. The disparities in revenues and consumption of petroleum products for 2020 is estimated to be about GHS1.1 billion.

Despite this shortfall, an independent contractor, Strategic Mobilisation Ghana Ltd (SML), procured by the Ministry of Finance for revenue assurance and tracking of petroleum product volumes, has mounted a spirited media campaign claiming it has saved Government about GHS 1 billion in revenue[2]. The claim is neither supported by fiscal data from the Ministry of Finance nor the company's data circulated to the media.

The Government of Ghana requires a robust system that accounts for tax evasion in official data and illegal petroleum products on the market, which is much pervasive. The composite loss across the downstream is estimated to be in excess of GHS3 billion, compared to an expected revenue increase of about 1.5 billion from the levies and margins, which may prove counterproductive given the current microeconomic condition of citizens dictated by escalating inflationary pressures since the beginning of the year.

The inflation rates for January, February, and March 2021 were 9.1%, 10.3%, and 13%. The inflation rates show an upward trend which could be worsened with the pass-through effect of the upward adjustment in fuel prices. Therefore, beyond the propriety argument of adding more taxes to petroleum products, the timing of the introduction within the economic context is poor and may make post-Covid recovery more difficult for individuals and businesses.

[1] Chamber of Bulk Oil Distributors. (2021). 2019 Ghana Petroleum Industry Report.
[2] A more detailed analysis of the claims by SML will be issued subsequently.

Impact of increment on ESLA proceeds

In 2015, the Government established Energy Sector Levies Act (ESLA) to facilitate sustainable long-term investments and recover debts in the energy sector. In 2016, the energy sector debt was about US$2.6 billion, out of which half was paid by mid-2018. In 2017 and 2018, about US$1.4 billion was added, yielding an accumulated debt of approximately US$2.7 billion for the period. The sector debt is projected to increase to US$12.5 billion by 2023 if the rate of debt accumulation is not managed.

The additional 20 pesewas on the Energy Sector Recovery Levy is estimated to yield about GHS795 million (US$137 million) per year based on projected petrol and diesel consumption. The budget also forecasts energy debt recovery levies to grow from GHS1.6 billion (US$281 million) in 2020 to GHS3.1 billion (US$ 464 million) in 2024. This projected revenue significantly falls short of the average rate of debt accumulation of about US$1.5 billion, making it impossible for ESLA to address the energy sector financial challenges. Therefore, the sustainable approach is to fix the debt accumulation in the energy sector, and not an imposition of additional levies.

Impact of increases in petroleum margins

The upward adjustment of some margins on petroleum products was the surprise package, unlike the increment by 30 pesewas imposed by law and first announced in the budget. NPA introduced an adjustment to the margins, as indicated in Table 1 above, without any prior notice to consumers. This does not only distort the plans and expectations of consumers at the pumps but significantly questions the propriety of the adjustment as analysed below;

1. BOST Margin

The mandate of Bulk Oil Distribution and Transport Company (BOST) is mainly to develop bulk storage and transportation infrastructure and manage the strategic reserve stocks for Ghana. In recent times, what has become an issue is whether BOST is delivering on the mandate and what the associated value is to the consumer who pays the margin. The fact of the matter is that BOST does not have strategic stocks and is rather trading actively in the market. In the current scheme of things, BOST imports to sell to other BDCs and charges commercial rates to utilise its facilities. Other players in the oil storage space build their own infrastructure and maintain them with their commercial charges, sometimes even below that of BOST.

The situation undermines the competitiveness and the survival of other businesses duly licensed to trade without access to public subsidy as given to BOST. This is the broader conversation that should precede recurrent adjustment of margins for BOST. If BOST prefers to be a trading company, it must play by the rules of traders without margins. Otherwise, citizens will be sponsoring the hypocrisy of the state to license companies and undermine their growth and effectiveness through subsidised covert trading. In the light of the above, there is no justification for any increment in the BOST margin.

2. Unified Petroleum Price Fund (UPPF) and Primary Distribution Margin (PDM)

UPPF and PDM are funds established by the NPA Act to facilitate the movement of petroleum products across the length and breadth of the country at a uniform price and meet the cost for transporting petroleum products from bulk supply points or refineries to various storage depots. NPA is the custodian of the funds and pays the cost of transportation on demand. Therefore, at any point, NPA knows the amount accrued to the fund and their specific pay-outs. However, there has been no publication in recent times on how the funds have been utilised to create public awareness of its utilisation to show the gap in financing petroleum product movement across the country. To warrant an upward adjustment, citizens need to be aware of how much accrues to the funds and how much gets disbursed to the object of the funds. This diffuses speculations that the funds are being used for non-core objects.

With the requested increments, the cumulative margin per litre is GHP39 which translates to about GHS1.5 billion annually. It cannot be acceptable that such quantum of funds will remain disbursed without any form of accountability. Again, there is the need for a conversation on the optimal deployment of the UPPF and PDM within the context of a deregulated market. For example, can NPA auction the transportation of products within specific geographic zones to ensure a market-determined rate for UPPF and PDM? This has the potential to eliminate cost padding and arbitrary determination of rates for product transportation within the country.

3. Fuel marking margin

The petroleum marking scheme was introduced in 2012 to preserve and protect the quality and purity of petroleum products and detect and prevent the adulteration of petroleum products. The existing levy of GHP3 per litre has been adjusted to GHP5 per litre. This is expected to raise a total revenue of about GHS198 million a year. This is a significant investment in petroleum product marking which also lacks transparency and accountability. The fundamental question is whether paying these huge sums for product marking is the most optimal way of tracking product quality. This can be answered by tracking whether marking has prevented adulteration and the movement of illegal products in the country. The answer is an emphatic NO! With the advancement in technology, it is possible to cheaply track product quality at the pump and relate it to the source/depot where it was lifted; why NPA continues to patronise this expensive scheme requires deeper interrogation, especially when they are already using an electronic tracking system.

4. Oil Marketer Margin

The increase from GHS5.40 to about GHS6.05 is not all tax related. GHP26 is introduced by price movement on the international market (about GHP10) and OMCs' Margin, which constitutes about GHP16. Why all the major OMCs adjusted their margins simultaneously is intriguing, questions the effectiveness of the deregulation effort and points to an apparent cartelisation of the oil marketing space. The OMCs had the liberty within the confines of deregulation to adjust their margins as often as dictated by the market conditions. Yet, they decided to wait until new taxes and margins were imposed to implement a unanimous adjustment of GHP16 pesewas.

The concentration of market power in the hands of few OMCs is responsible for the behaviour of the OMCs. Out of the functional 116 OMCs, five of them controls about 52% of the market. This is a product of a hypocritical liberalisation operated in the last decade, which is heavily regulated, behind the scene by politics for entry into the market. As a result, many 'capital-anaemic' companies have sprouted over the years and left the market to the control of a few. The fundamental question is, where is the regulator in tracking market power concentration and anticompetitive behaviour in the downstream business?

Conclusion and recommendation

Ghana is not the only country that mobilises tax revenue from petroleum products. Many countries tax petroleum products far more than Ghana. In some countries, taxes constitute about 80 percent of the pump price. However, most of these countries tax products to engineer behavioural change and specific tangible development agenda. The converse for Ghana is that a significant component of the taxes on petroleum are used to sustain inefficiencies of the energy sector agencies. If Government could take practical steps to fix the inefficiencies in the energy sector, petroleum taxes could free up significant revenue for critical development programmes such as efficiently effective mass transportation system, advanced road networks and climate action.

Government needs to commit to critical review of the object of all the agencies and companies in the energy sector to ascertain the relevance of each of them under the portfolio of government business to cut waste and translate tax and margins to development outcomes. ACEP is committed to reviewing the historical track record of these agencies to promote discussion on the appropriate tax burden on consumers. Prior to these discussions, the following recommendations are proposed;

1. At least all the increments on the margins recently imposed by NPA must be scrapped. The justifications provided are weak and present unnecessary burden on the consumer
2. NPA and BOST should immediately publish the utilisation of the existing margins to show cause for adjustment.
3. NPA should deepen electronic tracking of petroleum product to save the consumer from the ineffective but expensive marking of petroleum products.
4. Government must fix the debt accumulation in the power sector to avoid the persistent increase in petroleum taxes to pay energy sector debt.
5. NPA must investigate the coincidental adjustment of OMC margins and demonstrate to the good people of Ghana how it intends to prevent anticompetitive behaviour in the downstream sector.

Africa Centre for Energy Policy
Ghana Post GPS Address
GM-058-1471, Agbogba
P.O.Box CT 2121
Cantonments, Accra, Ghana
Tel. +233 302 900 730
info@acep.africa
www.acep.africa

Cover page image credit: thisdaylive.com & nairametrics.com