Time to review the Price Control on Fuel?

The cost of super petrol, kerosene and diesel at the pump in Nairobi has increased steadily between June/July, and August/September by 16.5, 33.7 and 26.6 per cent, respectively. The Energy and Petroleum Regulatory Authority (EPRA) attributes this increment to changes in the average landing cost of petroleum product. While rising global oil prices are a factor, policy options adopted by the government in the last 3 months have equally exacerbated the effects of these increments on the pockets of the mwananchi.

In illustration, the Tax Laws (Amendment) Bill, 2020 came into force on 25th April 2020 and was factored into the fuel prices in the May/June period. The amendment includes taxes and levies as part of the vatable base of petroleum products. Upon its enforcement, the contribution of taxes and levies to retail price immediately increased by 7.8 per cent to 56.1 per cent for super petrol, 9.1 per cent to 46.8 per cent for diesel, and 1.7 per cent to 46.2 per cent for kerosene (See Figure 1, 2, and 3). This can partly be attributed to increments in VAT for Super Petrol, Diesel and Kerosene of Kshs 2.36, Kshs 0.94, and Kshs 2.47, respectively.

On 10th July 2020, the government then increased petroleum development levy on super petrol and diesel from Kshs 0.4 to Kshs 5.40 which was adopted in pump prices in July/August. This contributed to further increase in the government share of the retail price. In the absence of this levy, with all other factors held constant, pump prices would have stood at Kshs 98.95 and Kshs 89.63, for super petrol and diesel, respectively in the August/September period.

Though the pump prices were generally higher for the period April/May to August/September in 2019, the government’s average share of the retail price for the same period stood at 34 per cent for Super Petrol; 35.2 per cent for Diesel; and 35.1 per cent for Kerosene. The latter currently stands at 52.3 per cent, 44.7 per cent, and 48.4 per cent for Super Petrol, Diesel and Kerosene, respectively.

**Figure 1: Breakdown of Costs for Super Petrol for the Period between April/May and Aug/Sep**
Further, in an article published on the Daily Nation on 2nd August 2020, EPRA was accused of miscalculating pump prices for the period June/July which partly caused the massive hike in prices for the period July/August. Prices for Super petrol and diesel were understated by Kshs 1.60 while Kerosene prices were understated by Kshs 1.55. The regulator argued that with the exception of excise duty it had omitted other taxes, levies and duties from the vatable base for 2 Oil Marketing Companies (OMCs) so as to avoid passing an unnecessary cost to consumers.
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The Finance Act, 2020 was also passed during the same period. The Act took into account recommendations made by the International Monetary Fund earlier this year to reduce the number of tax-exempt goods as a means to meeting the government’s revenue targets. LPG is now subject to 14 per cent VAT which amounts to an increase of at least Kshs 300 for a 13Kg cylinder during the period.

**What does this mean for Mwananchi?**

According to the Kenya Integrated Household Budget Survey (KIHBS) 2015/16, 36.1 per cent of Kenyans are living on less than Kshs. 1,900 per month for rural areas and less than Kshs. 2,700 per month for urban areas. This has likely worsened based on the findings of the Survey on Socio Economic Impact of COVID-19 on Households Report conducted by the Kenya National Bureau of Statistics (KNBS) earlier this year which revealed that there was generally a decrease in the number of hours worked across sectors attributable to COVID-19 lockdown measures. The survey also detailed that of those previously able to pay rent, 21.5 per cent had been unable to pay rent since the month of April. Therefore, in light of the prevailing socio-economic conditions, the imposition of these taxes is likely to increase household financial hardship.

The cost of public transport since the onset of COVID-19 in Kenya has gone up as a result of social distancing requirements. Due to limited policy and legal framework governing transport cost within the country, increments in pump prices of petroleum products has in the past led to upward shifts in public transport cost.

Based on KIHBS 2015/16 those that use kerosene stoves as primary cooking appliances in urban areas across the country account for 29 per cent; and 47.9 per cent in Nairobi. The use of Kerosene was found to be comparatively more common among poorer households. These households will be hardest hit should the upward trend in pump prices of kerosene continue. The Kenya National Policy, 2018 identifies
promoting the use of clean energy sources and technologies such as LPG as substitutes for the use of dirty fuels due to their health and environmental effects. Increased taxation on LPG is likely to reverse Kenya’s progress towards this.

Fuel was identified as an essential good under the Price Control Act, 2011. The original intention of price controls was to alleviate suffering of local *mwananchi* from unscrupulous commercial interest. What has changed since 2011? Kenyans should be leveraging on the global drop in oil prices to cushion other negative socio-economic impacts of the COVID-19 pandemic. It is unconscionable that during a pandemic the government would adopt policies that would only serve to widen inequality within the country. It points to an out of touch system piling on the misery of its citizens.

Kenya Civil Society Platform on Oil and Gas (KCSPOG) intends to monitor the causes of fluctuations in pump prices that leave the financial burden on poor households in Kenya. In undertaking its assessment, the platform has also noted that there is minimal reporting on the extent to which wholesalers of petroleum products adhere to set price maximums. Therefore, our future analysis will also monitor the enforcement of wholesale price as it may also have an impact on consumers and retailers.

*Ends 20th August 2020*