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CENTRO PARA DEMOCRACIA E DESENVOLVIMENTO

POLICY *UPDATE*

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Lack of transparency in the new fuel price readjustments

- Last Tuesday, March 15, the President of the Board of Directors of the Energy Regulatory Authority (ARENE), Paulo da Graça, announced to the press the increase in fuel prices of other oil derivatives, effective since Thursday, March 17.

Credits: www.observador.pt

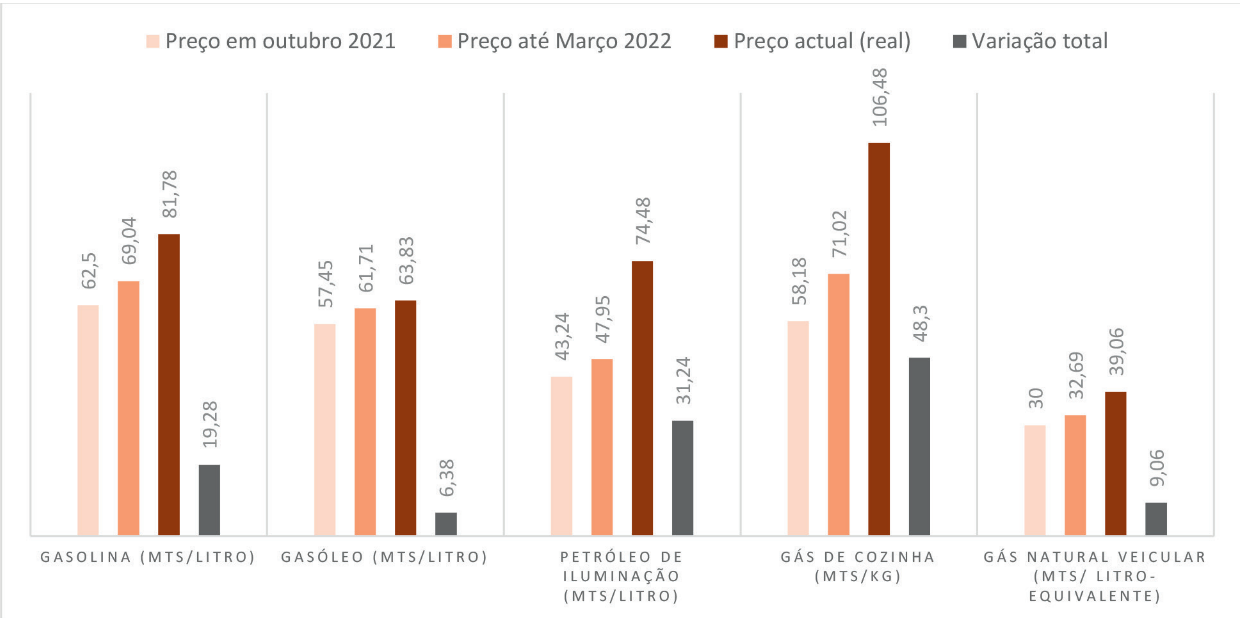
This announcement comes four (4) months after the last upward revision of fuel prices, registered on October 21st of last year. At the time, the adjustment was justified by the upward trend in the price of a barrel of crude oil in the international market. The increase was caused by the recovery in demand for oil derivatives after the reduction of measures imposed by the COVID-19 pandemic, in a context of maintenance of the volumes produced by the member countries of the Organization of the Petroleum Exporting Countries (OPEC).

In effect, the variation in prices of oil products was reflected in Mozambique with increases ranging from 9% to 22%, with emphasis on cooking gas which increased by 12.84 meticais/kg, followed by the price of gasoline, which rose by 6.54 meticais/liter.

This week, all prices were raised again. Gasoline went from 69.04 to 81.78 meticais a liter; diesel went from 61.71 to 63.83 meticais a liter; illumination petrol went from 47.95 to 74.48 meticais a liter; Liquefied Petroleum Gas (LPG) - cooking gas - went from 71.02 to 106.48 meticais a kilo; and Compressed Natural Gas (CNG) went from 32.69 to 39.06 meticais a kilogram. The new prices mentioned here represent the real cost of fuels before the application of measures approved by the Government to mitigate their impact on the domestic economy.

As can be seen in Chart 1, in just four (4) months the prices have increased in high magnitudes, with emphasis on cooking gas which rose by 38%, as well as gasoline and diesel, with positive variations of about 24%.

Graph 1: Summary of the latest oil product price updates



Currently, the pricing mechanisms for petroleum products are regulated by Decree no. 89/2019, of November 18, which approves the Regulation on Petroleum Products, and revokes Decree no. 45/2012, of December 28.

With the introduction of the new regulation, the prices of any petroleum product are now revised on a monthly basis, whenever there is a variation in the base cost (the sum of the base price, its correction and other import costs) of more than 3%, or if there is a change in the amount of applicable fiscal duties.

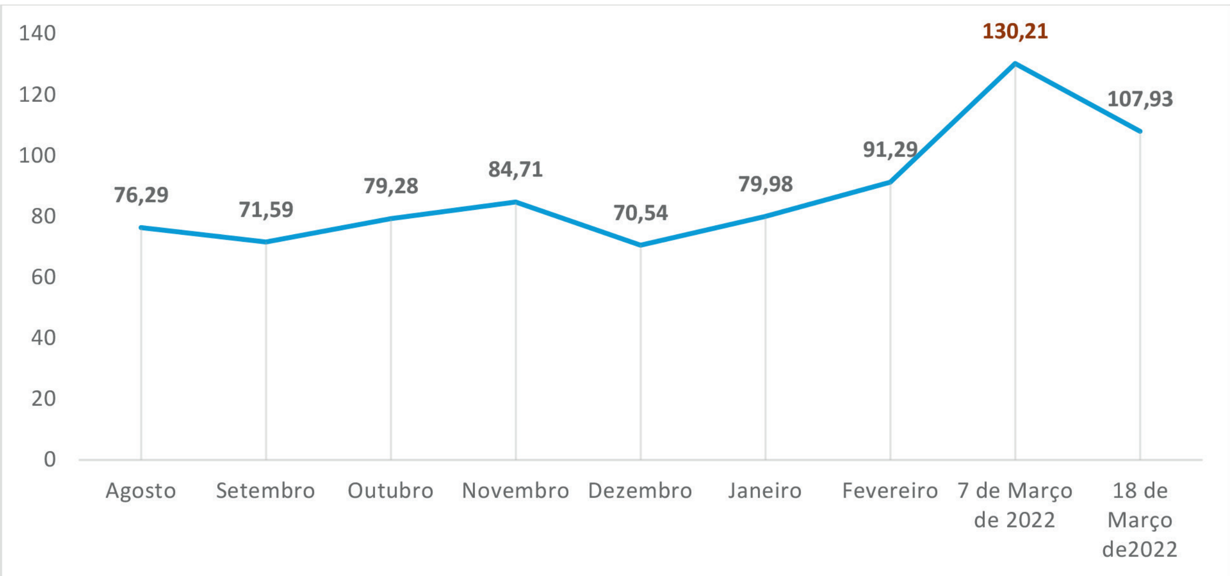
To justify the price readjustment, ARENE relied on the rise in the base price, that is, the price of a barrel of crude oil in the international market in the first two months of the current year and the economic sanctions applied to Russia (due to its invasion to Ukraine), one of the largest producers and exporters of oil and gas.

"This series of events translates into a series of impacts on our situation as an importing country of this product. We are left in a kind of dependency and have to be negotiating frequently with the suppliers that must provide this product. With the trend of prices not slowing down at a world level, we are starting to get into a situation that is not very comfortable for us to continue importing this product, bearing in mind that there is not much supply and that there is also a set of sanctions that have been applied against Russia, which is one of the world exporters, " said Paulo da Graça"[1].

The question that arises is why the impact of the sanctions applied to Russia is presented as one of the reasons for the rise in fuel prices in the domestic market. Article 73 of the Regulation on Petroleum Products states that the base price for each product is determined, at any time, based on the immediately preceding month - in the case of cooking gas, and the immediately preceding two (2) months, for other products.

It is true that there were already pressures in the international market in January and February that justify a readjustment in the price level, but it was on March 7 that Joe Biden's plans to sanction Russia by banning imports of Russian oil, oil products, natural gas, coal and coal products were announced. The announcement had a strong impact on the commodities market, with the price of Brent Crude Oil reaching around USD 130.21 per barrel, approaching its all-time high of around USD 146, reached in early July 2008, as shown in Chart 2.

Graph 2: Price of Brent Crude Oil (Dollars per barrel)



Source: Rigzone Energy Network (https://www.rigzone.com/news/commodity/)

It means that ARENE has not been transparent in its intervention, by giving the idea that the shock that occurred in the month of March has already been passed on to consumers. This is a situation that raises doubts about the extent to which the quantification obeyed the parameters established by the Regulation.

Reality reveals that the rule of not immediately adjusting the price foreseen in the Regulation is only triggered by the authorities in situations where there is a drop in the price of oil in the international market. For example, in 2020, when the average price per barrel fell from about USD 60 to USD 30, the Mozambican Oil Importer (IMOPETRO) argued that an immediate readjustment in the price of fuel could not be expected as a result of the sharp drop in the price of crude on the international market because the marketing of fuel at national gas stations reflected the import costs of the previous month [2].

Another aspect that shows lack of transparency by ARENE is the non-observance of paragraph 4 of Article 75 of the Regulation, which establishes that any readjustment in the retail prices should be published, in addition to the newspapers of largest circulation in the country, in the official website of the regulator, with due justification on the changes. However, ARENE has not yet published information regarding the price update, four (4) days after the new price list came into effect.

Government should announce complementary measures to those already announced to protect the purchasing power of citizens

In response to the behavior of prices on the international market, the Government, through a joint Ministerial Order from the Ministers of Economy and Finance and Mineral Resources and Energy, has decided to mitigate the impact on the national economy by taking the following measures reduction of port handling fees by 5% for diesel and gasoline; reduction of logistical infrastructure costs for fuel destined for gas stations by 60%; cost reduction for the Stabilization Fund by 50%; reduction of the amount of Central Storage Facility Margins for certain fuels and petroleum products by 30%; reduction of Distributor margins by 15%; and reduction of Retailer margins by 15%.

This set of measures, which are only in effect while the situation of extreme price increases in the international market continues, has resulted in real price reductions ranging from 5% to 24%, as shown in Table 1.

Table 1: Impact of the measures adopted by the Government

	Preço real	Preço actual	Impacto	Impacto percentual
Gasolina (Meticais/Litro)	81.78	77.39	4.39	5%
Gasóleo (Meticais/Litro)	63.83	50.16	13.67	21%
Petróleo de iluminação (Meticais /Litro)	74.48	70.97	3.51	5%
Gás de cozinha (Meticais/Kg)	106.48	80.49	25.99	24%
Gás natural veicular (Meticais/Litro-equivalente)	39.06	37.09	1.97	5%

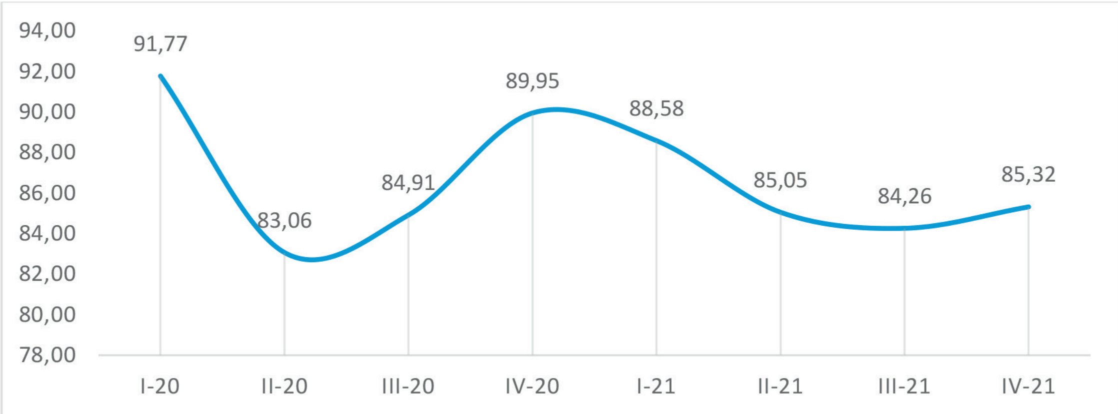
[2] ARENE

The CDD welcomes the measures taken by the Government to mitigate the impact of rising fuel prices. Still, the Government should introduce complementary measures to safeguard the purchasing power of citizens, especially the most vulnerable consumers, in a context in which minimum wages are at quite low levels, in addition to the fact that in recent years they have registered increases below inflation levels.

While several economies in other parts of the world have been engaged in stimulating the business sector and aggregate demand through economic and financial policies to promote a quick recovery from recession during the year 2021, the Mozambican government has adopted a worrying posture, keeping the monetary side tight and the fiscal side with high internal indebtedness.

This action makes the current shocks result in devastating impacts for the Mozambican economy - which is still suffering from the COVID-19 pandemic effects, with very high unemployment rates, as can be seen in Graph 3.

Graph 3: Current employment index (Q1 2020 - Q4 2021)



Source: INE 2022

Given this scenario, it is recommended to urgently adopt income redistribution policies, such as revising the policy of collecting fees and taxes, and promoting social protection programs to deal with the high inflation that is strongly driven by rising prices of food and non-alcoholic beverages.

Currently, VAT is the tax that puts the most money into the state treasury, contributing about 27% of revenues in 2020. This tax has already been pointed out by the International Monetary Fund (IMF) as being too high, in addition to not protecting the poor and being a stumbling block for the broadening of the tax base[3]. In fact, studies [4] . suggest that high indirect taxation (such as VAT) in developing economies can worsen poverty levels.

In addition, the government should review its tax exemption framework to reduce exemptions in areas that have no direct relation to the cost of living, as a measure to increase fiscal justice[5].

[3] https://observador.pt/2018/08/03/fmi-propoe-ao-governo-mocambicano-que-baixe-o-iva-para-os-16/
[4] https://econpapers.repec.org/article/eeedeveco/v_3a122_3ay_3a2016_3ai_3ac_3ap_3a63-75.htm
[5] https://observador.pt/2018/08/03/fmi-propoe-ao-governo-mocambicano-que-baixe-o-iva-para-os-16/

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