

UGANDA'S CONFIDENCE AMIDST HIGH FUEL PRICES

By Ivan Tibenkana

Immunity to the unceasingly high fuel prices is far-fetched across East Africa, where, for example, Kenya was rocked by riots last week, while Uganda has been nursing prices oscillating between sh4000 and sh9,000 plus leakage of supplies into Kenya. Although crude oil prices play a big role, part of the challenge lies in the global refined products supply contracts to which net-importing countries like Uganda are tied.

As the impact echoes across all sectors, including trade and transport, where mileage is cautiously managed or restricted, utilities like gas, where refill prices have increased by 16% this month, from sh50,000 to sh58,000 for a 6kg cylinder at outlets like Stabex, the energy ministry has drawn a redress pathway.

It includes maintaining a steady fuel supply to meet demand beyond the 8 million litres of fuel products (petrol, diesel, jet fuel, among others) consumed per day, monitoring Oil Marketing Companies (OMCs) operations to ensure that profitability margins are within the prescribed range and also widening the country's storage capacity.

During the press briefing at Uganda Media Centre on Friday last week, Eng. Irene Bateebe, the Permanent Secretary at the Ministry of Energy and Mineral Development, revealed that fuel prices would slightly hike through June, although not past the sh7,000 mark. And the reason is clear. Uganda has started importing fuel products, where contracts with suppliers are now within the time frame of the US-Israel war on Iran.

"As we enter June, we are starting to lift products that we ordered after the conflict, priced based on the prevailing international prices. You will note that the dollar rate for a barrel of crude oil has doubled. By the time the conflict began, it was at around \$65," Bateebe explains.

She adds that the ministry will monitor market stability and it does not expect the oil marketing companies to exceed the profitability margins already prescribed.

THE MATH BEHIND PUMP PRICES

The contracts between importing countries and refined products suppliers are not drafted in anticipation of conflicts or pandemics, which occasion supply chain cut-



Bodaboda riders awaiting refills at a fuel station in Yumbe town following a fuel shortage in the area due rising prices, yesterday



Yesterday's fuel prices at a fuel station in Yumbe town

offs, money market changes, including foreign exchange where the petrodollar still dominates, or production quotas as often seen with the Organisation of Petroleum Exporting Countries (OPEC), where recently, the United Arab Emirates quit the group partly due to output quota disagreements.

Subsequently, countries can not immediately walk out of these contracts even at the onset of a drop in market prices of key crude blends like the OPEC basket, trading at about \$115.42 (about sh436,501) per barrel and Brent Crude, \$98.0 (about sh370,621) or the West Texas Intermediate (WTI).

According to Anthony Ogalo, the general manager at the Sustainable Energies and Petroleum Association (SEPA), which brings together Uganda's oil marketing companies, Uganda, like many other countries importing refined fuel products, only reacts to current global market prices, but as reflected in supplier contracts, with



Bateebe

BETWEEN THE LINES

When global crude oil prices fall, refiners do not instantly revise their prices as these are already benchmarked on forecast and orders placed, which span months under contract at specific prices.

profitability margins at every stage of the supply chain. Refineries react to the price of crude oil. Once its price

THE STRATEGIES

There is an intent to shrug off the impact of the uncertain and contentious global supply chains. The Energy Ministry commits to monitoring market profitability margins of the Oil Marketing Companies (OMCs) so that pump prices are within manageable rates. Furthermore, together with the Uganda National Oil Company (UNOC), they are fast-tracking steady supplies and building a bigger storage capacity with the Jinja Storage Terminal (JST), bound for upgrade from the current 30 million litres to 40 million litres. For the Kampala Storage Terminal in Mpigi, its 320 million litres is anticipated to provide about 30 extra days of stock.

According to UNOC's Corporate Affairs Chief Tony Otoa, the company's sole importation mandate further puts it in a prime position to shake off the would-be supply shortages.

"Before, there was a lot of hoarding and extortion by middlemen. We also had no control over storage. To date, that has changed. We also have visibility over supplies as vessels come and what to give to the OMCs," he says.

To overcome hoarding and panic buying, the Government recently stepped in to contain re-export of supplies, for instance, to Kenya, where border districts like Busia had tankers and construction bowlers ferrying supplies.

The Energy Ministry is set to roll out a monitoring system that will track OMCs' fuel allocations vis-à-vis what they supply to the market. It further confirms being in control of supplies for the months ahead, having already placed orders for July. Still, supply routes across East Africa are being strengthened to link Kampala to regional ports like Mombasa, Tanga and Mtwara.

doubles, the cost of refining is almost 50% the price of crude per barrel. Before a local supplier sells to the OMCs, which in turn sell to the consumers, the local supplier buys from its international supplier in bulk, who also buys from a refinery. Across the whole chain, including transporters, there are profit margins instituted," Ogalo explains. He further notes that when global crude prices fall, it does not mean that refiners

will instantly revise their prices, already benchmarked on forecasts and placed orders which span months under contract at specific prices. As such, the oil futures market plays a key role.

According to CME Group, one of the world's top derivatives marketplaces, on average, a barrel of crude oil (159 litres) that runs through a complex refinery produces about 45% petrol and 30% diesel, subject to variations.

FOREX RATES

CURRENCY	BUY	SELL
US DOLLAR	3,765	3,775
EURO	4,384	4,394
POUND	5,079	5,094
KENYA SH	29.0	29.1
TZ SH	1.42	1.44
DIRHAM	1,025	1,028
S.A.RAND	230.6	231.5
JAPANESE YEN	23.6	23.7
RWANDESE FRANCS	2.5	4.5
DOLLAR OLDER & SMALLER	3,500	3,768

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RATES ARE SUBJECT TO CHANGE

Therefore, products like petrol, which hold a higher processing margin, become prime and subject to higher prices.

Bateebe reveals that when the USA-Israel war on Iran ensued, refineries reorganised themselves and updated their profitability margins, targeting the best product. This has had profit margins jumping from the \$2 (about sh7,563) - \$5 (about sh18,909) range per barrel to \$50 (about sh189,092) per barrel. This perhaps explains why petrol has been on high shortage in the past few months.

THE OPPORTUNITY AHEAD

Amidst the energy chaos, renewable energy, such as hydro-electricity, a key feedstock for electric vehicles, and ethanol-led fuel blending, are likely to gain throttle and offer a window to tame reliance on oil. The energy ministry confirms that the 1% start off point for fuel blending is performing well among the contracted companies, including Modern Energy Ltd in Busia, Bukoona Agro Processors in Malaba, Mahathi Infra Uganda Ltd in Kawuku and Afro-Kai Ltd in Mutukula. The target is to switch to a 5% blending ratio before the ultimate 20%, with the anticipation of collectively handling over 110 million litres of petrol annually.

UNOC and Vitol Bahrain are as well diversifying supply routes to circumvent shortfalls. For the long haul, Uganda and East Africa are pursuing big investments in regional refineries to create some kind of autonomy.