CBEG BRIEF
CENTRE FOR BUDGET AND ECONOMIC GOVERNANCE

ACODE

Issue No.13, December 2021

High Fuel Prices in Uganda - To Regulate or Not to Regulate!

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Since June 2021, pump prices for diesel and petrol in Uganda have steadily held an increase and are currently as high as UGX 4,600/= (1.29 USD) for petrol and UGX 4,000/= (1.12 USD) for diesel depending on the fuel service provider. An increase in the fuel pump price has a negative spill over effect on the general price level in the economy because fuel (for transport purposes) is critical in ensuring mobility of factors of production and the movement of citizens in access to different public services and functions. As the fuel prices increase, it is more likely that more Ugandans will be rendered economically vulnerable. This article considers whether regulation of the fuel prices would be helpful to Uganda's economy.

These high pump prices come at a time when the economy is still partially open with travel guidelines on public transport still holding at half capacity. Cyclically, public transport fares also often increase during the Christmas holidays. Now we have three factors that will make travel in this season hard. First, the seasonal increase in fares, the half capacity guidelines for public transport due to COVID-19 restrictions and the high fuel prices. The most directly related industry is the transport, tour and travel industry. It should be noted that Uganda's tourism industry is slowly recovering from the COVID-19 lock-down. The increase in fuel prices may therefore offset the minimal gains that the tourism industry is making.

As a result of this, the following could happen; reduced demand for holiday services since the cost of travel inland is significantly increased, a slump in the hospitality industry performance and increase in the price of goods that are transported by road into the country. Annual headline inflation is possibly going to increase basically due to the linkage between the food price and Energy Fuel Utilities (EFU) indices. Even when there are bumper harvests on the farm, the evacuation of the food to the market is likely to be affected by high transport costs.

In this context, the Shilling is holding steady against the dollar and has strengthened in the past two quarters. This means that the possible reasons for increase in the pump price for fuel could be linked to business models of the dealers (who could increase the profit appetite hence increase the prices), or external factors that relate to international crude oil prices.

The official explanation from Uganda's Ministry of Energy and Mineral Development (MEMD) is that the pump prices have been rising in response to the crude oil prices which have been rising as economies gradually open up globally. However, it is my considered opinion that the external factors have a limited effect on the pump prices in the economy. Fuel prices remain sticky downwards (slow to reduce) even as crude oil prices reduce.

On 26th November 2021, the front-month futures price for Brent crude oil fell by $9.50 per barrel (about 12%) according to the Energy Information Administration of the United States of America. This was in the aftermath of the World Health Organisation declaring concern over the omicron variant of COVID-19 (see Figure 1). However, despite this being the lowest the Brent crude oil price per barrel has been since the year 2000, pump prices in Uganda have continued to rise – leading to suggestions that the fuel prices in the country need more regulation.

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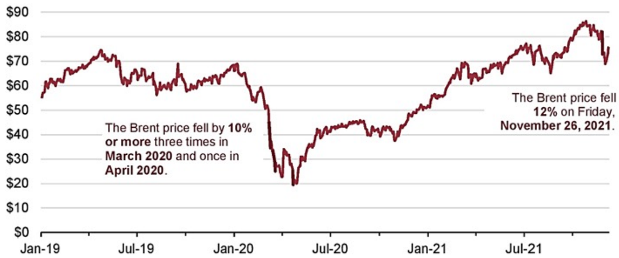
Figure 1: Brent crude oil front-month futures price (Jan 2, 2019–Dec 8, 2021) dollars per barrel



Source: Energy Information Administration - https://www.eia.gov/todayinenergy/detail.php?id=50618

The fuel price setting mechanism in Uganda has mostly left the pump fuel prices to market forces and as a result, there is no uniformity in price even for fuel stations within the same locality. It is even more concerning to note that the current fuel prices, high as they are, have not been considered high enough to warrant intervention from the industry regulator – MEMD. In addition, the regulator's statement on the high fuel prices does not state the high price threshold that would warrant intervention. This has left many Ugandans uncertain and at the mercy of speculators.

The limited or no intervention has resulted into inadequate physical planning in Uganda where several fuel stations are established without clear planning guidelines and standards. Fuel stations are established near or in sensitive service delivery centres like schools and health facilities and also in densely populated areas. This not only poses great risk to the population but also counterproductive in terms of ineffective utilisation of the limited physical space. To illustrate this, there are 12 fuel stations between Kiwatule and Bulindo – Kampala suburbs that are slightly over five Kilometres apart. Some of these fuel stations are less than 100 metres apart which poses a high fire risk for an area that is a major accommodation hub for Uganda's capital.

The liberal regulation of the establishment of fuel stations has also seen numerous players flock the industry. As at 19th February 2020, Uganda had 1,030 licensed petroleum retail outlets. This was believed to reduce price of fuel by allowing many players and break the oligopoly that was existent with few players in the market. This has evidently not worked. This leaves the price to forces of demand and supply.

Uganda has the highest pump prices in the region, reported to be higher than Rwanda whose fuel is either transported through Uganda or using a longer route through Tanzania. A comparison of fuel prices of Uganda to those in Kenya and Tanzania is not ideal due to varying contexts. Whereas Uganda is landlocked, the two have access to the coast therefore accessing fuel from the tankers quicker without incurring extra transport costs. Even then Uganda can learn from Kenya where the price of fuel is set by the Energy and Petroleum Regulatory Authority (EPRA) and is periodically revised to reflect changes in the global market among other factors. This minimises profiteering and also ensures that the dealers set a profit margin that results into a fair price being passed on to the consumer. This is also aimed at ensuring macro-economic stability in the country as fuel is a major factor in the effective functionality of the economy.

Uganda ought to consider intervening and setting a price for fuel in the country given the ramifications that the high fuel prices have on the general price levels in the economy. This additional regulation is essential for consumer protection in the country and will also minimise the number of people being priced out of essential goods as a result of the high prices in the economy.

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