Bulk Procurement System and Retail Price Cap on downstream subsector in Tanzania: Challenges, Success and sustainability

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Abstract
In Tanzania, the downstream petroleum sub-sector is regulated by the Energy and Water Utilities Regulatory Authority (EWURA). EWURA established in 2006 by EWURA Act Cap 414 and mandated to oversee the efficiency of the supply system, the quality and safety in the supply chain, and it is also responsible for technical and economic regulation. In a bid to solve the problem that emanating from the implementation of liberalization policy in downstream petroleum sub-sector EWURA implement a number of policy reforms including among others the price cap of 2009 and the Bulk procurement system of 2012. The reforms which EWURA embarked on had raised the controversial arguments between EWURA, TAOMC and commentators about operating efficiency and sustainability of the reforms. The study seeks to explain the key factors that lead to the reforms, how various players act and reacted to the reform, to evaluate the operation of these reforms in order to ascertain the challenges, success and sustainability. The result found based on the analysis of both primary and secondary data. The study conclude that

Keywords: Bulk procurement, Price Cap, Liberalization of downstream petroleum sub-sector, EWURA, Tanzania

1 Introduction
For a period of 12 years from 2000 to 2012, the Tanzania downstream petroleum industry was liberalized, this process increased competition within the industry. As part of structural reforms, liberalization allows all Oil Marketing Companies (OMCs) to participate in the purchase of petroleum products from international commodity markets, the process that involve importation, unloading, storage, transportation as well as wholesale and retail sale. Principally, liberalization helps to increase competition between OMCs in the downstream subsector. However, nothing good that has no drawbacks, liberalization also brought many problems in downstream subsector including among others, spiking of the prices, adulteration practice and many other illegal practices such as mixing of petroleum products, dumping of untaxed transit products in the domestic market by dishonest dealers. To resolve the problems that were emanating from the implementation of liberalization policy in downstream petroleum sub-sector EWURA was established. This establishment was in line with The National Energy Policy of February 2003.

As a regulator, EWURA had been struggling to improve the welfare of Tanzanian by making sure that there is both effective competition and economic efficiency within the business. It also ensures that; it protecting consumers’ interests, the financial viability of efficient suppliers and regulating the service and encouraging the accessibility of controlled services to all consumers of petroleum products. It takes into account the need for environmental protection and preservation, enhancing public information, awareness and understanding of the regulated sectors (EWURA regulations). In an attempting to exercise its powers and to perform its responsibilities, EWURA achieves a number of policy reforms. In 2009: EWURA perform its first reform by intervene the market price of petroleum products in the downstream sub-sector. It introduced the price control for petroleum downstream products and releases a formula that capped the wholesale and retail margins for downstream petroleum sub-sector aiming at discouraging profiteering by the OMCs and stabilise the petroleum retail pricing. Subsequently, in January 2012, EWURA implement its second reform by intervene the product importation process through establishment of the Bulk Procurement System (BPS). EWURA argued that, BPS is the system that is often believed to operate in a competitive way and provides assurance of security of petroleum products supplies as well as protects the interest of all players including OMCs and consumers.

The reforms that EWURA embarked on had raised the controversial arguments between EWURA - as a regulator and representative of the government and The Tanzania Association of Oil Marketing Companies (TAOMC) as representative of petroleum firms operating in Tanzania. The arguments put forward by EWURA and TAOMC were focused on the effectiveness of the current importation method (bulk procurement) and Retail Pump Price CAP (RPP – CAP). On the other side consumers and commentators also were worried about the new system. However, despite these controversies less is still known about the challenges and success of BPS and price cap in the downstream sub-sector in Tanzania. Because of these controversial arguments and the existing information gap which motivate the researcher to conduct this study. The researcher believed that the study of this kind is highly needed not only to clear out the existing information gap: but more notably to provide analysis of how best the BPS operates in Tanzania downstream sub-sector. The researcher also believed that the study explains the key factors that lead to the reforms and how various players act and reacted to the reforms. Finally: it helps to evaluate the operation of these reforms and to ascertain the challenges, success and sustainability and suggest practical implication and area for improvement.

2 Approach and Methodology
The approach / methods used in this study include a review of downstream petroleum market in Tanzania; The legal framework relevant for the petroleum downstream sector in
Tanzania; Institutional Framework as well as a review of Bulk Procurement Operating Activities Framework for the two years period from 2012 to 2013. Documentary search and desk study helped to access numerous official documents including among others official reports, manuals, policies, regulations, government statistics and unpublished papers in the focused area – the downstream subsector. The other methods – the survey, the interview, and observations – helped to collect information from the selected stakeholders in the downstream subsector. The study was done in a view to examine the way BPS operating focusing on the challenges, success and sustainability.

3. Review of Downstream Petroleum Product Market in Tanzania

Worldwide the petroleum subsector can at most be divided into three parts and in some cases it is divided into two parts. Ranja T. (2004) and United nation (2011) divide petroleum sector into three parts – upstream, midstream and downstream. Upstream involved exploration and Production (E&P) infrastructure such as transportation (Pipelines, Access to roads, rail and ports) and storage facilities are critical to various stages in the value chain including link between processing and final customer. These part of the value chain are usually referred to Midstream, refining and marketing (R&M) is referred as “Downstream” (Ranja T. 2004, United nation 2011).

In Tanzania context, the petroleum subsector consists of two parts the upstream and downstream. While the upstream include exploration and production, the downstream subsector includes importation, storage, transit, transportation, wholesale and retail distribution of petroleum products, including liquefied petroleum gas spikes (Masebu H and Borgstrom R.E, 2006). The subsector was liberalization in 2000, and every oil company in the sector has been free to import products in accordance with its requirements; local product prices being determined mainly by the market forces. At that time: there were approximately 60 oil marketing companies involved in importation and transit of petroleum products. Each oil company used to import from its supplier and at its own schedule. There were more than 1,000 retail outlets. In the liberalized system, the Oil marketing companies were allowed to import any product they need to service their customers. Importers could share their imports with the smaller oil marketing companies. That system also helped small and new companies to enter into the market. Nonetheless, the system had a number of defects in the part of the supply chain. The defects include among other the following: Procurement procedure: at that time each importer chooses its supplier and contracts with it as per agreed terms including petroleum products price between them. Sometimes the contract type used to include transfer pricing from parent companies. In addition, importers were free to import products at any time in accordance with their import schedules. Therefore, the Product prices varied from one company to another. These factors such as differences of profit margins from one company to another, bring about price fluctuations and disparities to consumers at different retail stations.

Availability of multiple entry points for petroleum product imports (entry through Dar es Salaam, Tanga, Sirari, Lake Victoria, Mtwara), claimed to pose difficulties in monitoring of quality and quantity of imported products. Therefore, create great possibilities of importation of substandard products. There was also a lack of current supply and demand data of petroleum products due to non-compliance of oil marketing companies to submit information to authorities as required under the law. There was fragmentation of imports because each company was free to import products individually leading to higher costs (lack of economies of scale). Given the fact that the importer used to imports from a different supplier using different transporters there were congestion at the KOJ adding to high demurrage costs, and oil transfer pricing. Currently in order to offset the above deficiency EWURA decided to use bulk procurement system of importation.

It is estimated that, annually Tanzania imported approximately 2.6 million cubic meters of various refined petroleum products mainly from the refining centers in Arab and India for sale on the local market and for transit for neighboring countries. The great part of imported petroleum products are coming to Tanzania through port of Dar es Salaam; the ports of Tanga and Mtwara are also used for the importation while other imports are brought by trucks and barges from Kenya.

Currently: Tanzania is only importing petroleum products – it is not importing crude oil anymore because there is no refinery process taking place since 1999. Importation of petroleum products involves inspection costs for freight, insurance and marine transit losses. The other costs are the demurrage resulted from holding-up a ship over and above the usually given to unload, wharfage (charge assessed against cargo for usage of wharf, or pier and its facilities). Congested ports, slow clearance and any other factors delaying discharging the fuel could incur large demurrage costs. Once landed and sent to the bulk oil terminal petroleum product incur additional costs including storage, transport retailing and wholesalers’ and retailers’ profit margin.

3.1. Transportation

Most of the petroleum products imported into Tanzania enter through the port facilities of Dar es Salaam. While Dar Es Salaam are the main users of the imported products, the rest are transported to upcountry destination and to neighbouring countries – Uganda, Burundi, DRC Congo and Rwanda. The estimate shows that 80% of the products are transported using roads, 15% railway wagons and 5% by barges.

Although road transport is the most expensive way of transporting petroleum products, it is still the widely used in Tanzania. Pipeline is cheap and safe mode of transport but less used in Tanzania and railway is also cheap compared to road but is also less popular because recently the reliability of railway is questionable in Tanzania.

In addition to higher costs, road transport is one of unsafe modes of transport; it is also linked to other illegal activities such as adulteration, illegal mixing of different petroleum products as well as dumping of transit and untaxed product onto domestic market. All these create non – level competitive

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playing ground and cause a great loss of revenue to the government.

The infrastructures need improvements so as to be in a position to support the development of the industry. The improvements are necessary for all modes of transports.

3.2 Storage

Currently: there is a total storage capacity of more than 900,000 Cubic Metric (CM) owned by oil marketing companies (OMCs) and TIPPER. While the OMCs owned 764,167 Cubic Metric (CM) storage capacities in Dar es Salaam, the remaining 137,652 CM owned by TIPPER. In Comparison to the current demand per month and considering the capacity of available Oil Jets and estimated time lag between ordering and delivery time, the storage capacity seems to be adequate.

In order to circumvent congestion and intensify the security of the storage facilities, the ownership of the storage depot was left to only few OMCs. Other OMCs requested to access the storage facilities through hospitality agreements with the owners of the storage facilities that are strategically around Kurasini Oil Jet (KOJ).

The former Tanzania Italian Petroleum Refinery plan (TIPER) currently known the Tanzania International Petroleum Reserves Limited (TIPER) is planning to expand its storage capacity more than twice to reach 300,000 cubic metric by 2015 at a cost of $ 16 million (about TSH 25.6bn/-). Oryx Oil and Gas (OOG) and government of Tanzania are the owners of TIPER each with 50% share. TIPER provides storage to all oil companies, national and international. At the end of this plan, the storage capacity increasingly be more adequately.
Table 1: Storage Facilities in M³

<table>
<thead>
<tr>
<th>No</th>
<th>OMCs / TIPPER</th>
<th>petrol</th>
<th>Diesel</th>
<th>Kerosene</th>
<th>Other</th>
<th>Total</th>
<th>Percentages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Camel Oil</td>
<td>6,000</td>
<td>18,000</td>
<td>-</td>
<td>12,000</td>
<td>36,000</td>
<td>3.99</td>
</tr>
<tr>
<td>2</td>
<td>Engen</td>
<td>6,800</td>
<td>16,300</td>
<td>4,400</td>
<td>-</td>
<td>27,500</td>
<td>3.05</td>
</tr>
<tr>
<td>3</td>
<td>GAPCO</td>
<td>26,419</td>
<td>67,501</td>
<td>10,313</td>
<td>6,036</td>
<td>110,269</td>
<td>12.23</td>
</tr>
<tr>
<td>4</td>
<td>GBP</td>
<td>17,574</td>
<td>38,499</td>
<td>13,470</td>
<td>-</td>
<td>69,543</td>
<td>7.71</td>
</tr>
<tr>
<td>5</td>
<td>Hass Petroleum</td>
<td>10,000</td>
<td>14,000</td>
<td>-</td>
<td>-</td>
<td>24,000</td>
<td>2.66</td>
</tr>
<tr>
<td>6</td>
<td>Kobil Tanzania</td>
<td>15,600</td>
<td>15,600</td>
<td>-</td>
<td>-</td>
<td>31,200</td>
<td>3.46</td>
</tr>
<tr>
<td>7</td>
<td>Lake Oil</td>
<td>3,987</td>
<td>20,974</td>
<td>-</td>
<td>-</td>
<td>24,961</td>
<td>2.77</td>
</tr>
<tr>
<td>8</td>
<td>Mogas</td>
<td>12,000</td>
<td>20,000</td>
<td>8,000</td>
<td>-</td>
<td>40,000</td>
<td>4.44</td>
</tr>
<tr>
<td>9</td>
<td>Mount Meru</td>
<td>500</td>
<td>1,485</td>
<td>875</td>
<td>85</td>
<td>2,945</td>
<td>0.33</td>
</tr>
<tr>
<td>10</td>
<td>National Oil</td>
<td>8,000</td>
<td>17,900</td>
<td>1,000</td>
<td>0</td>
<td>26,900</td>
<td>2.98</td>
</tr>
<tr>
<td>11</td>
<td>Oilcom</td>
<td>15,200</td>
<td>42,900</td>
<td>8,300</td>
<td>15,500</td>
<td>81,900</td>
<td>9.08</td>
</tr>
<tr>
<td>12</td>
<td>Oryx Energies</td>
<td>7,396</td>
<td>13,398</td>
<td>1,333</td>
<td>4,643</td>
<td>26,770</td>
<td>2.97</td>
</tr>
<tr>
<td>13</td>
<td>Petrofuel</td>
<td>-</td>
<td>289</td>
<td>-</td>
<td>-</td>
<td>289</td>
<td>0.03</td>
</tr>
<tr>
<td>14</td>
<td>Puma Energy</td>
<td>8,496</td>
<td>41,066</td>
<td>508</td>
<td>40,820</td>
<td>90,890</td>
<td>10.08</td>
</tr>
<tr>
<td>15</td>
<td>Total Tanzania</td>
<td>3,018</td>
<td>12,177</td>
<td>6,536</td>
<td>14,981</td>
<td>36,712</td>
<td>4.07</td>
</tr>
<tr>
<td>16</td>
<td>World Oil</td>
<td>8,963</td>
<td>26,936</td>
<td>-</td>
<td>-</td>
<td>35,899</td>
<td>3.98</td>
</tr>
<tr>
<td>17</td>
<td>NSK</td>
<td>300</td>
<td>1,300</td>
<td>9,434</td>
<td>-</td>
<td>11,034</td>
<td>1.22</td>
</tr>
<tr>
<td>18</td>
<td>Mansoor</td>
<td>5,500</td>
<td>4,500</td>
<td>5,500</td>
<td>-</td>
<td>15,500</td>
<td>1.72</td>
</tr>
<tr>
<td>19</td>
<td>Star Oil</td>
<td>12,400</td>
<td>24,800</td>
<td>-</td>
<td>-</td>
<td>37,200</td>
<td>4.13</td>
</tr>
<tr>
<td>20</td>
<td>Malawi Cargo</td>
<td>12,166</td>
<td>14,887</td>
<td>392</td>
<td>-</td>
<td>27,445</td>
<td>3.04</td>
</tr>
<tr>
<td>21</td>
<td>Tanga Petroleum</td>
<td>-</td>
<td>7,200</td>
<td>-</td>
<td>-</td>
<td>7,200</td>
<td>0.80</td>
</tr>
<tr>
<td>22</td>
<td>TIPER</td>
<td>21,566</td>
<td>94,386</td>
<td>9,599</td>
<td>12,101</td>
<td>137,652</td>
<td>15.26</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>201,885</strong></td>
<td><strong>514,098</strong></td>
<td><strong>79,660</strong></td>
<td><strong>106,166</strong></td>
<td><strong>901,809</strong></td>
<td><strong>100.00</strong></td>
<td></td>
</tr>
</tbody>
</table>

Source: EWURA

Table 1 shows that the greater facilities are available for diesel that account for 57% of the total facilities available, followed by facilities for petrol that account for 22%, others account for 12% and Kerosene account for only 9%. On the side of the ownership, all OMCs own 85% and TIPER own 15%. Only four OMCs and TIPER are currently owned more than 5% of the total available facilities. TIPER owned 15.26%, GAPCO owned 12.23%, Puma Energy owned 10.08 %, Oil Com owned 9.08%, and GBP owned 7.71% .

3.3 Wholesale operations

Wholesale marketing involve the acquisition from bulk supply link of the petroleum products of the quality and quantity required to the market and sell them in bulk either to bulk end – users. The end users include among other power generation plants – e.g. TANESCO, Industries, Large commercial customers – e.g. Said Salum Bakharesa Group of Companies (SSB). Other end users include government agencies and transport fleet operators such as trucking companies and bus operators; their own retail outlets; independent retailers under supply sales agreements and independent resellers who also licenced as wholesalers. In Tanzania context, all OMCs wishes to operate wholesale business have to acquire wholesale licence from EWURA. The licencing criteria include both technical and financial criteria. The technical criteria include certificate of registration, ownership of a storage depot or hospitality agreement with other licenced company; adequate skilled personnel; EIA Certificate for a new depot; business plan; Tax identification Certificate; Land ownership details and layout plans and list of facilities. On the other hand, the financial criteria include a proof of financial worth of, not below Tshs. 1,500,000,000.00 (Say One billion, five hundred million) in the form of bank guarantee; the bank statement or a confirmation letter from the financial institution confirming that the institution shall extend a loan to the applicant for that amount.

As at July 2013 there were 62 licenced companies dealing with wholesale business. Wholesalers who deal with Petro, Diesel, Jet fuel and Kerosene are required to procure their product through Bulk Procurement System. Other products such as liquefied petroleum gas (LPG) and Furnace oil are to
be procured through other arrangements because currently Bulk procurement system does not cover them.

Road transport tanker mostly delivers the products to OMCs’ (branded) retail service stations as well as bulk consumers. Some companies also own the assets used in the distribution operations and other companies outsources the road transport undertakings to private companies and use the storage depot owned by others under hospitality agreements.

3.4 Retail Distribution

The structure of retailing marketing involves buying bulk petroleum products – Petrol /gasoline, Diesel, Kerosene and selling them to the final consumer through retail outlay or oil service stations and other authorised distributors’ private shops in the case of LPG and Lubricants. For security purposes, LPG is usually distributed to end user in already packed cylinders through cylinder sales point. in Tanzania, the leading company in the distribution of LPG is Oryx Energies is a market leader in Liquefied Petroleum Gas (LPG) issues almost 30,000 MT per year, and it carry on financing the enlargement of its network, they store, bottle and distribute LPG from their storage facilities in Dar es Salaam. They are aggressively encouraged people to use LPG compared firewood and charcoal. They offer bulk deliveries of LPG, including the installation and supervision of gas tanks for collectivities, as school and university canteens. In addition, they export LPG to neighbouring countries such as Kenya and Rwanda.

There are three groups of retail outlay and petrol station; those owned and operated by a licensed company itself; those owned by a licensed company, but operated by independent dealers and those owned and operated by independent dealers. As at July there were 1074 retail outlays.

4 BPS and Retail price CAP in Tanzania

In Tanzania, Bulk Procurement System (BPS), it involves a set of operations whose sequence is critical for the proper functioning of the chain. Currently: BPS is implemented in the downstream petroleum market, and it covers petrol, diesel, and kerosene and Jet oil. It is envisaged that a well-planned bulk procurement system for petroleum products which are now in place will enable cost effective and access to petroleum products at the required quantity and quality at least costs. Among others: the series involve the whole processes that are within downstream petroleum market. It also indicates the other related auxiliary issues necessary for smooth operation of the system. The auxiliary issues include among others demand forecast, Pre – Bidding, Bidding, Product Delivering and Dispute issues (Operational Activities), The legal issues/ institutions (Legal Framework), who are the key player (Institution Framework). The BPS framework is as outlined in Figure 3 hereunder.

4.1 Legal Framework:

The legal framework relevant for the petroleum downstream sector in Tanzania is derived from, among others, the following legal instruments: The National Energy Policy of 2003; The Petroleum Act, Cap. 392; the Petroleum Regulations, 2010; the Petroleum (Bulk Procurement), Rules 2010; the Environment Management Act, Cap.119; the Energy and Water and Water Utilities Regulatory Authority Act, Cap. 414; and Tanzania Bureau of Standards fuel specifications.

4.2 Institutional Framework

In Tanzania, the implementation of the Petroleum Bulk Procurement System involves the following key players: The Ministry of Energy and Mineral; EWURA; Tanzania Ports Authority (TPA); Tanzania Revenue Authority (TRA). It also involves Bulk Procurement Technical Committee; Petroleum Importation Coordinator (PIC); Oil Marketing Companies – both wholesalers and retailers; Tanzania International Petroleum Reserve Limited (TIPER). The ministry has a role of formulating policies for upstream and downstream petroleum subsector; Tanzania Petroleum Development Corporation (TPDC) coordinate the upstream and EWURA regulated the downstream. As a regulator EWURAA is entrusted to regulate electricity, petroleum, natural gas and water. It is also assigned to supervise the supply chain of the petroleum products and ensure efficiency, quality standard and safety. Issue license in the subsector and set the price cap.

For effective implementation of BPS The Bulk Procurement System, Technical Committee was established to overseeing the implementation of the BPS. Specifically it is entrusted to ensure that the BPS is properly established and managed. it also responsible to ensure that matters of national interest are considered in the BPS, including the security of supply and any emergency situations of a major implication to the delivery of petroleum product. it supposed to advise the authority accordingly on the implementation of the BPS and the supply of petroleum product and in the event of distortion of the BPS or failure by the PIC to perform its functions and select a supplier for the whole period of distortion. The Committee has the following members: one representative from the ministry responsible for petroleum affairs, he is a chairman of the committee. One representative from the ministry responsible for port's affairs and one representative from the ministry responsible for finance. it also has one representative from TRA and one representative from TPA. EWURA is serving as the secretariat to the Committee.

Petroleum Importation Coordinator (PIC) regulates Competitive Bidding; PIC was established by petroleum wholesalers as a company limited by guarantee with no share capital. It is maintained by the Oil Marketing Company (OMC) themselves through the Board. Membership to PIC is a condition for granting of a wholesale license. Essentially, PIC is responsible for keeping records of consumption and procuring a supplier of petroleum products. According to EWURA, PIC is also responsible for: collecting members' petroleum products requirements; supervising the bidding process for procurement of a bulk petroleum product in an international Competitive way through either CIF or DAP as approved by authority from time to time; enter into a contracts with a supplier and oversee the contracts between the PIC and OMCs; reporting its activities to EWURA every month or any time required by EWURA or any other proper authority; preparing operational plans and a budget; maintain timely communication of information linked to the petroleum industry to all important parties; projecting supply and demand of

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petroleum products in collaboration with the Oil Marketing Companies (OMCs); organizing attentive receipts of petroleum products from the delivery vessels by OMCs; maintaining records of the shipments and performance of the supplier; organizing billing and payments for each and every portion of petroleum products imported by the OMCs; in collaboration with supplier, PIC appoints an autonomous inspector at both the loading-port and discharging-port to warrant supply of a required petroleum products in terms of both quantity and quality, and in line with the decision of EWURA in collaboration with other stakeholders, PIC appoints one bank through which payments for procurements of petroleum products will be made by OMCs.

The Board governs the PIC composed of the following: three representatives selected by large OMCs from among their members; two representatives selected by medium OMCs from among their members; and one representative selected from member of small OMCs. The tenure, proceedings and meetings of the Board are provided for in the rules issued by EWURA. The Board is responsible to identify the sources of funds for financing the activities of the PIC.

In supporting the BPS, TPA provides safe port services include the provision of tugs, pilot vessels and berth space and also provide pipeline and manifold services in the port area. Other facilities provided by TPA include KOJ and SPM. It uses the FIFO method to program the vessels for berthing and Tanzania Revenue Authority (TRA) is responsible for levying and collecting import duties and other taxes on petroleum products. It is also monitors the duty-free transportation of transit petroleum products.

Currently, the Oil Marketing Companies – both wholesalers and retailers operating in Tanzania include Multinational companies e.g. TOTAL, PUMA; Regional Companies e.g. Kobil, Engen, GAPCO, Oilcom and indigenous Tanzania Companies – Mount Meru, HASS it also involve the retail outlets

Without changing the acronym – TIPPER, The Tanzania International Petroleum Reserves Limited (TIPER), formerly known as Tanzania Italian Petroleum Refinery (TIPER) is now operate as an intermediate storage facility between KOJ and OMCs facilities for bulk petroleum.

### 4.3 Determination of price cap

The power of determining the price cap was vested to EWURA by rule 4(1) of petroleum products price setting rule of 2009 and it is in accordance with section 40(1) (c), (d) and (j) of EWURA Act. In exercised its power time to time EWURA issued a schedule of product price formula for petrol, diesel, and kerosene. The pricing formula is based on cost – plus pricing and involve four major cost elements- importation costs, importation costs incurred in the local authorities, different taxes paid to the government and allowances for wholesale and retail margins are added to arrive at the cap price.
<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>UNIT</th>
<th>Petrol</th>
<th>Diesel</th>
<th>Kerosene</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Weighted Average Platts's FOB</td>
<td>Tzs/Ltr</td>
<td>1129.59</td>
<td>1145.04</td>
<td>1146.99</td>
<td>1140.54</td>
</tr>
<tr>
<td>Weighted Average Premium as Per Quotation (Freight + Insurance+ Premium)</td>
<td>Tzs/Ltr</td>
<td>48.68</td>
<td>66.38</td>
<td>82.05</td>
<td>65.7</td>
</tr>
<tr>
<td>COST OF CIF DAR</td>
<td>Tzs/Ltr</td>
<td>1,178.27</td>
<td>1,211.42</td>
<td>1,229.04</td>
<td>1,206.24</td>
</tr>
<tr>
<td>LOCAL COSTS PAYABLE TO OTHER AUTHORITY</td>
<td>Tzs/Ltr</td>
<td>54.96</td>
<td>56.02</td>
<td>51.92</td>
<td>54.3</td>
</tr>
<tr>
<td>Government Tax</td>
<td>Tzs/Ltr</td>
<td>652</td>
<td>528</td>
<td>475</td>
<td>551.67</td>
</tr>
<tr>
<td>Wholesale Cap</td>
<td>Tzs/Ltr</td>
<td>2,009.23</td>
<td>1,919.44</td>
<td>1,879.96</td>
<td>1,936.21</td>
</tr>
</tbody>
</table>

Source: EWURA
5 The challenges, success and sustainability of BSP and Cap Price

The concept is still new in Tanzania; it has only two 2.5 years now since started in January 2012. It has both challenges and success which an impact in its sustainability.

5.1 Challenges

The BPS and Price Cap has now underway in Tanzanian economy. Notwithstanding the success of BPS, the system has also faced a number of challenges as follows:

i. The is a need for reviewing of the price cap time to time because the system fixing the price while the business environments are continuously changing.

ii. The current practice of testing the quality of the products is time consuming which cause delay in discharge operations.

iii. Risk of supply shortage when the appointed supply failed to deliver; in adequate use of ICT across all key players in facilitating fast tracking of information from one key player to another.

iv. Effect of exchange rate loss incurred by the lower allocation provided by BOT compared to the required amount required to footing the bills - this is a significant problem to the side of OMCs because OMCs forced to conclude the deal into other banks which have higher charges.

v. Creation of equal level playground between those who have depots and those who have not regarding margin determination - because those who have no storage facilities they have to use the facilities of who have for payments.

vi. Controlling of the difference between what measured before the discharging and what received by the OMCs, sometimes these differences are significant and cause a higher losses to OMCs. Inadequate staff in the side of regulator accompanied with decentralization of regulators' office.

vii. The is a need of having a single storage facility when receiving products different to the current practice where there are multiple terminals that receive products the current practice cause more delays in discharging products.

viii. The is a need of introducing a single financing or single Letter of Credit compare to the current practice whereby there are multiples Letter of Credit opened by each OMC when receiving products;

ix. Overlapping of rule and regulation which governs the operation of key player e.g. there is overlapping between EWURA and SUMMATRA, EWURA and TBS

x. Existence of unclear chain of command, EWURA is regulating Energy and Water Utilities. Energy matters are under the ministry of energy and mineral while water utilities are under the ministry of water.

5.2 Success

The study found that, since the BPS and retail price CAP operationalized in January 2012, there is international competitive bidding tendering process where selected bidder authorised and empowered to import the specified quantity and quality at a specified time between one to three months. The study found that the system improves procurement and supply chain management. The system managed to avoid unnecessary accrued demurrage charges which were associated with past practice of importing whereby there were many importers leading to longer time to offload through a single line.

The study found that the system allows one company to make bulk procurement; this practice gives strength for bargaining for better deal and opportunity of low freight charges due to the realization of economies of scale. This practice avoids the costs of uncoordinated shipping practice by several OMCs that used to duplicate importation by importing the same products from different suppliers. Hence reduce the cost of occupying birthing facilities. The systems increase transparency on importation, increase the accessibility of petroleum products in the required quality, quantity and at the required time. Therefore: the system is cost efficient compared to the period of liberalization. During liberalization era it was difficult to calculate accurate imports data. However, under the BPS it has become evident that with the single source of importation it is easily to establish accurate data of matters related to fuel from imports to daily consumption of each product thereby enhancing budgetary planning and operations. It is now possible to recalculate accurate freight on Board costs into final fuel price where it was an estimated work before the BPS.

Unloading: The study found that Dar es Salaam continue to be the major gateway of petroleum products imports for both local market and neighboring countries that transit their products through Tanzania. The study found that 98% of the imports imported through Dar es Salam port; Tanga and Sirari entry point accounted for 1% each. Tanzania import a total of 3,485,926,471 liters of various petroleum products. Out of which 2,999,994,017 liters imported for local market and 1,185, 932,454 liters were imported for transit to neighboring countries. The study also found that starting from December 2012, the SPM was starting working. The starting working of SPM has increased capacity for Tanzania to handle bigger fuel vessel of up to 150,000 MT that now coming in and discharge products. Before BPS only 40,000 MT vessels were able to come and discharge. The SPM operation also translate the success of BPS.

Storage: - the study found that one of objectives of establishing BPS and Retail Pump Price CAP is to reduce the cost of, among other things, storage of petroleum products by eliminating inefficiencies at this level of supply chain. Therefore, the system help to improve third part open access to storage by making sure that it becomes an obligation to the owner to offer terms use to others. Therefore with this system in place, companies with storage depot must extend hospitality to other players in case they have idle capacity during that particular time. The term of use are reviewed by EWURA and upon reviewed they have to be published.

Transportation: - The study found that with the system in place issues of adulteration, illegal mixing of different petroleum products, illegal dumping of untaxed transit products on domestic market while are in the way transported from one
point to another more general through road transportation were squared solved

Wholesale and Retailing: - The study found that the system (BPS) creates a level playing ground, easy access of the products as well as quality control of the product.

The findings shows that the system managed to reduce importation cost through economies of scale on importation which help to reduce cost of petroleum products – purchasing costs; CIF costs; the system help to reduce congestion at the port by importing heterogeneous products from one source; the system improve third part storage access transparency and, reduce the possibility of transfer price practices, the system improve the transparency for verification of costs profits and prices, the system help of substandard products; the system managed to control the price by imposing the price cap which is the maximum price for which the dealers have to charge the final consumers and against which is illegal attempt; the system managed to increase revenue as it managed to control tax evasion and therefore improve tax collections from fuel import and pump price; the system manage to improve service through improving data of importation, quality of the product, and the values of importations

the study found that the system reduces cost of importation of petroleum product, reduced CIF cost, reduced port charges, reduced cost of storage which at end this reduction also reflected in the final price of petroleum product consumed by the final consumer. It has a greater impact to the economy both at microeconomic level and macroeconomic level.

At macroeconomic level the petroleum products bulk procurement system lead to lower price of importation, therefore, improve the balance of payment (BOP), Gross Domestic Product (GDP) government revenue and exchange earnings in importing countries, it typically accounts for a less share of foreign exchange expenditure. The price tends to be low and unsubsidized leading to the reduction of government budget deficit and contingent liabilities. It became easy to collect revenue as there is only one importer who operates in a higher transparent way, closed supervised with a number of authorities such as EWURA, PIC, TPA, TRA. The BPS and Price cap help to reduce importation cost due to the realization of economies of scale, improving data management and control of the process is in one point and is in high transparency.

At microeconomic level, they can affect household effective income in three fold: - Firstly: - Households pay for the petroleum products they consume directly, so if the prices of petroleum products are relatively high reduces the effective income of the households. This situation is more serious in Sub-Sahara Africa where estimates show that 70% of its people are not yet connected to electricity; therefore they rely on kerosene for lighting. Secondly: petroleum products are used as intermediate products in almost in all other sectors, therefore, when the price is relative high it will course an upward increase of price of other products including food on which the households particularly poor households spend a high share of their expenditure. For example, when the price of petroleum products increased, other related costs such as the transport cost of fertilizer, the cost of running tractors and another farm equipment, the transport cost of farm outputs that are transported to the market are increased too. Finally, the price of food in the market tends to increase as well. This practice is also applied in the case of industrial products as well. Thirdly: - As mention earlier, the higher the price of petroleum products tends to reduce GDP then automatically the reduce the household income.

5.3 Sustainability

Performance of BPS: The findings show that with the BPS in place oil companies recorded a favourable performance. The results obtained from financial performance measures applied in this study, it shows that the oil company’s working capital (WC) is Tshs 21per liter. Return on Investment (ROI) is Tshs 23 per liter, and the profit is Tshs 107 per liter. Sales revenue increase every year as projected from industrial demand and market share of each company.

Sustainability of BPS: The findings show that with the BPS in place oil companies shows that they are sustainable. The results obtained from financial performance measures applied in this study shows that the oil companies in Tanzania are assured of making profit and are capable of footing their operating and financing expenses.

There is assurance of required quantity and quality of supply and the storage capacity is increasingly be more adequately.

There is political will toward the system which enhance availability of necessary services and boost coordination between key player
6 Conclusion and recommendations

In Tanzania, The Bulk Procurement System (BPS) which implemented together with the Retail Pump Price CAP was designed and established in January 2012 in a view to improve and bring a positive impact on downstream petroleum products sub-sector and the economy at large. The system improved procurement and supply chain management. Therefore, it enabled cost efficient and easy access to petroleum. The system reduces duplication and improves strength for bargaining for a better deal, low freight charges and cost saving through realizing economies of scale.

Overall, the financial performance analysis using WC, ROI, ROS, PMR, and FSS as well as OSS shows that the bulk procurement process and the retail price CAP perform relative well and shows a positive sign that the system is sustainable. On the other side the non-financial performance measures show that both OMC and final consumers are relatively satisfied with the service provided. There is greater improvement in efficiency delivery of quality services, currently the vessels that carry the product purchased under BPS are given first priorities over all other to use the berth. There is a greater improvement on 2 jetties and single point mooring (SPM) which it was not in operation before BPS and which makes it possible for delivery of large quantities involvement of international bulk procurement. There is greater transparence regarding hospitality charges. The existence of the legal framework, institution framework as well as a mechanism for dealing with a dispute help to enhance transparence

Drawn from the findings and conclusion of the study it is recommended that EWURA should improve its operational activities so as to increase confidence to both OMCs and final consumers. This could only be possible if EWURA could work out to eliminate all the challenges identified in this study

7 References


[33] HYPERLINK "http://kfknowledgebank.kaplan.co.uk/TagFeaturePages/Forms/TagPagesListIndexEx.aspx?tagName=financial%20sustainability&weburl=http://kfknowledgebank.kaplan.co.uk&listid=1d06790aa-ee61-4037-8b41-f862a89ff68e" http://kfknowledgebank.kaplan.co.uk/TagFeaturePages/Forms/TagPagesListIndexEx.aspx?tagName=financial%20sustainability&weburl=http://kfknowledgebank.kaplan.co.uk&listid=1d06790aa-ee61-4037-8b41-f862a89ff68e


### Table 3: Revenue Collected From Oil Products from 2011-2013 in Million Tshs

<table>
<thead>
<tr>
<th>DESCRIPTION</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fuel Levy</td>
<td>387962.3528</td>
<td>392798.4087</td>
<td>289583.62</td>
</tr>
<tr>
<td>Excise Duty</td>
<td>526010.6513</td>
<td>556940.5111</td>
<td>662041.3464</td>
</tr>
<tr>
<td>Petroleum Fee</td>
<td>1323.885617</td>
<td>408.8626692</td>
<td>1915.474967</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>915296.8897</strong></td>
<td><strong>950147.7825</strong></td>
<td><strong>953540.4414</strong></td>
</tr>
</tbody>
</table>

Source: EWURA

### Table 4: Petroleum products demand in the country

<table>
<thead>
<tr>
<th>YEAS</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGO (Diseal)</td>
<td>1,182,020,112.00</td>
<td>1,432,553,950.00</td>
<td>1,577,298,749.00</td>
</tr>
<tr>
<td>PMS (Petrol)</td>
<td>534,364,776.00</td>
<td>623,065,998.00</td>
<td>695,323,486.00</td>
</tr>
<tr>
<td>OTHER</td>
<td>347,171,403.00</td>
<td>387,186,254.00</td>
<td>399,767,045.00</td>
</tr>
<tr>
<td><strong>TOTAL (QUANTITY)</strong></td>
<td><strong>2,063,558,302.00</strong></td>
<td><strong>2,442,808,214.00</strong></td>
<td><strong>2,672,391,293.00</strong></td>
</tr>
</tbody>
</table>

Source: EWURA

### Table 5: Summary of cost per liter

<table>
<thead>
<tr>
<th></th>
<th>Tshs/liter</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deport Direct operating cost</td>
<td>29</td>
</tr>
<tr>
<td>Other company overhead</td>
<td>26</td>
</tr>
<tr>
<td>Depreciation</td>
<td>8</td>
</tr>
<tr>
<td>Financing Cost per liter</td>
<td>21</td>
</tr>
<tr>
<td>Returns on investments</td>
<td>23</td>
</tr>
<tr>
<td>Profit /liter</td>
<td>107</td>
</tr>
<tr>
<td>Working Capital</td>
<td>21.1</td>
</tr>
</tbody>
</table>

Source: EWURA