

FUEL PRICE INCREASE WILL HAVE EFFECTS ON TRADE AND POVERTY – SAYS JCTR

The fuel price increase announcement by the Energy Regulation Board (ERB) on Tuesday 11th April, 2010 will negatively affect many Zambians who are already struggling to meet their basic needs. ERB announced an increase of between 8.9% to 13% in both petrol and diesel costs. The Jesuit Centre for Theological Reflection (JCTR) has in the past asked if the whole issue is truly beyond Zambia's control and if there are areas that can be explored to bring the cost to appropriate levels.

The cost of fuel affects all aspects and the impact is harshest on the very poor, says Sydney Mwansa, Programme Officer in the Debt, Aid and Trade Programme of the JCTR. It has significant impact on trade in terms of the cost of production. Increase in fuel price thus affects local trade negatively. Increased cost of fuel leads to increase in cost of production and service provision. This is so because production of goods and the cost of transporting production inputs is dependant on the cost of fuel. The cost of doing business thus increases with every increase in the cost of fuel. To cover losses that maybe incurred in terms of revenue for the traders as a result of increased production costs, the cost is passed on to the consumer in form of a rise in prices of goods and services. This will have the effect of making the cost of goods produced in Zambia much higher than imported ones and consumers will be more likely to purchase the imported ones than the locally produced goods. This will consequently negatively affect the already few local manufacturers as their products will not be able to compete with the imported ones. For the agriculture sector, the cost of transporting produce to the market which is incurred by the farmers will also increase leading to an increase in price of their produce. All in all, continued increases in fuel prices have the ability to undermine efforts to encourage ordinary Zambians to engage in trade due to the high cost of doing business caused by the price hikes

Ultimately, all these effects will result in the increased struggles for the poor to survive. According to JCTR Basic Needs Basket in April a family of six in Lusaka needs K2, 778, 680.00. This already entails that the greater majority of Zambians who have monthly income below the BNB cannot afford the basic requirements. With the increase in price of fuel, the cost of these needs is likely to increase thereby depriving many more Zambians access to decent livelihoods. Furthermore, most Zambians will not be able to save as their would-be savings would be used to compensate cost increase in transport, food, non-food goods and services. With our quest towards macro-economic stability in terms of inflation, increased economic growth and meeting the Millennium Development Goals (MDGs) on ending hunger and poverty being somewhat far-fetched, instability in fuel prices is the last thing the economy needs.

The question thus remains on how to mitigate the fuel price increments so that the prices remain as stable as possible. Government must consider restructuring of the Energy Regulation Board and the current tax structure to mitigate the adverse effects of price increase of the commodity. The other alternative is the exploration of production of bio fuel to supplement that of fossil fuel so that international fuel price increment effects are cushioned. The Bio Fuel Policy under the Ministry of Energy and Water Development should thus be fully enforced in order to ensure self sufficient production of bio fuel as an alternative to the imported fossil fuel whose price is ever rising and countries like Zambia have no control over, therefore causing macro-economic instability as well as worsening the poverty situation of the country. This will in a way help to tackle two important problems of economic growth and development: fuel price stability and poverty. A way out therefore, has to be found if Zambia is to remain on the planned and projected economic growth and development path.