



10th June, 2024

📍 First Floor, Adeles Mum Place Agbogba - Accra
📞 GE-215-8035
✉ info@cemse.org
🌐 www.cemse.org
📞 0247732721 / 0244196730

OUTDATED UPPF MODEL, AN AVENUE FOR NPA TO SHORT CHANGE

PETROLEUM USERS IN GHANA

Introduction

The Unified Petroleum Price Fund is established by section 62 of National Petroleum Authority Act (Act 691). The functions of the fund as premised in Act 691 among others is to ensure regular supply of petroleum products, efficient distribution of petroleum products and an inclusion of transport cost in the price of the product. The government of Ghana's Energy Policy in 2009 indicated the regulation of transportation and distribution charges to ensure reasonable profits for transporters and distributors as well as uniformed national petroleum prices.

The sources of revenue for the fund are the differential between the UPPF margin in the Price Build Up (PBU) and actual cost of freight of each oil marketing company. The current price of the UPPF is 90 pesewas per litre an increment of about 300% since January 2022. The threshold for determining the allowable kilometres within the UPPF margin is periodically reviewed by the UPPF committee. The threshold ranges from 1km to 530km where a full trip of 530km exhausts the 90 pesewas per litre.

Although the true intention of the UPPF was to help distribute petroleum products to rural Ghana, it has become an avenue for the NPA to mobilise unneeded revenue, and this reduces consumer welfare because the consumer over pays for transport on petroleum products in Ghana. These are the following reasons:

Issues with the UPPF

1. Cost of Transportation over paid by the petroleum user

The cost of transporting a litre of petroleum products from 1km to 66km is 17 pesewas per litre and this must be paid to the transporter. At the current UPPF of 90 pesewas per litre the NPA makes 73 per litre on each litre of petroleum products distributed within the Greater Accra and Greater Kumasi area as well as Western Region. According the regional supply of petroleum products for 2023 published by the NPA, about 60% of the products are distributed within the 66km allowable threshold and for that matter the petroleum user in these regions over pays the transport cost of UPPF by 73 pesewas per litre. In volumes, the NPA makes about Ghc1.7 billion from the petroleum user.



📍 First Floor, Adeles Mum Place Agbogba - Accra
📞 GE-215-8035
✉ info@cemse.org
🌐 www.cemse.org
📞 0247732721 / 0244196730

Further, the distribution of products within 300 km threshold costs 67 pesewas per litre and only about 20% of the petroleum products are distributed within 300km threshold. Therefore, on each litre distributed within this threshold the petroleum user pay extra 23 pesewas per litre on each product consumed. In volumes, the NPA makes about Ghc207 million from the petroleum user. Further, the cost of freight for 400km threshold is 74 pesewas per litre which is less than 10% of distribution, the NPA rakes from the petroleum consumer about 16 pesewas per litre and that in volumes is about Ghc103 million from the petroleum user. In all the National Petroleum Authority makes between Ghc3 billion to Ghc4 billion annually from the petroleum user from using the UPPF model.

Hardly has OMCs gone beyond 635 km because of the zonalisation policy of the petroleum downstream because the farthest an OMC can go is Tamale because OMCs in Upper East and North East are expected to load from Bolgatanga. Information gathered from stakeholders in the industry even reveals that it doesn't make economic sense to move products from Accra to Tamale when products could be loaded at the Buipe Depot.

2. Transport owners are the losers of this model

The transporters in the industry are the main losers of the UPPF model because the cost of transportation has been reduced by the NPA. The transporter imports the price of a BRV and its ancillary devices costs about 300,000 euros which is about Ghc4,860 thousand. Most of these vehicles are expected to go about 4 trips in a month. The master truck (54,000) goes about four times a week within 66 km threshold makes only Ghc36,720 which means that it will take the transport owner about 11 years to recover their cost on their investment, and only begin to make profit in profit in the 12th year. However, vehicles have a life span of 12 years or 200,000 miles and for that matter vehicles begin to suffer mechanical challenges in the 12th year. The recent agitations by the driver unions because of their compensation packages goes to confirm that most transport owners are not able to pay their drivers well because about 80% of the UPPF on the PBU go to the NPA. The injustice meted out to the transport owners by NPA is likely to collapse the transport sector in the petroleum downstream.



📍 First Floor, Adeles Mum Place Agbogba - Accra
📞 GE-215-8035
✉ info@cemse.org
🌐 www.cemse.org
☎ 0247732721 / 0244196730

3. Illegal usage of UPPF to fund private businesses

The section 62 that established that UPPF specifically indicated the function of the fund, and tracking the products for government revenue was not part of the functions. However, the NPA uses 25 pesewas per litre of the UPPF to fund tracking of the product which is illegal. The tracker on each vehicle costs around US\$3000, and only 25 pesewas per litre on 54,000 litre BRV in four trips a month would pay for the tracker. The tracking costs the petroleum user about Ghc1.2 billion for a tracking that does not solve of unaccounted products or under recordings in the industry. The implication is that a business entity called Enterprise Relational Database Management Software makes about Ghc1.2 billion from petroleum users for no productive work done. While the transport sector with over 2000 BRVs share about Ghc1.036 billion, this company alone rakes about Ghc1.2 billion.

4. Uniform Prices across the country is an illusion

Prices of petroleum especially petrol and diesel are not uniformed across the country. OMCs have their individual prices across the country. The recent introduction of price floor by the NPA has also introduced a discount regime where OMCs are allowed to differentiate their prices depending on the location and market. For instance, STAR OIL have been seen to vary their prices on their price boards. Therefore, the justification that UPPF is used to keep prices the same across the country is factually inaccurate. Since the deregulation in 2015, prices have never been uniformed across the country.

5. Non-Disclosure of the Account of the UPPF to General Public

The NPA law mandates the UPPF coordinator on quarterly basis the UPPF report to the NPA Board. However, the inability of the Board to disclose the account of the fund to the public annually exhibits lack of transparency and dishonesty in the usage of the fund. The reason for this position is because the UPPF is paid by the petroleum user and for that matter must be informed about how the fund is being used. Article 899 or Article 1064 have sections that makes sure that government communicates revenue realized and utilized in the levies.

Conclusion

The NPA and the tracking company have been the beneficiary of the UPPF. The NPA makes about Ghc2 billion annually and Enterprise Relational Database Management System makes about Ghc1.2 billion annually while the transport sector makes Ghc1.036 billion. Unfortunately, the petroleum user and transport owners are the losers in the model.



📍 First Floor, Adeles Mum Place Agbogba - Accra
📞 GE-215-8035
✉ info@cemse.org
🌐 www.cemse.org
☎ 0247732721 / 0244196730

Recommendation

1. The NPA must deregulate the UPPF for the cost freight to be decided by the market between OMCs and transporters. The transport owners and petroleum users will be the final beneficiaries of this action.
2. The NPA should re-evaluate the contract with the tracking service providers because the 25 pesewas per litre is overpriced, and find alternative sources like the Fuel Marking Margin to fund the tracking of BRVs. It could also be totally scrapped since it does solve the problem of unaccounted products.

Prepared by:

Benjamin Nsiah

Executive Director

Centre for Environmental Management and Sustainable Energy (CEMSE)

