



Demystifying Downstream

EPIISODE 3

Where Is The Subsidy?

Subsidies?

UNDER-RECOVERIES

- ▶ What is often called petroleum subsidies are technically referred to as **Under-Recoveries**.
- ▶ Under-Recoveries refer to the negative differential between the supply contract price at which a Bulk Distribution Company (BDC) supplies the economy with fuel and the price at which the Government of Ghana (GoG)/National Petroleum Authority (NPA) directs BDCs to sell to the market.
- ▶ Under-Recoveries arise when the NPA set prices are lower than the supply contract price per the NPA supply contract formula.
- ▶ The reverse is referred to as an **Over-Recovery**

SUPPLY CONTRACT PRICE

- ▶ The BDC's Supply Contract Price (**SCP**) = International Market Reference (**IMR**) + The BDC Suppliers Premium (**BSP**)



The Supply Contract Price

- ▶ The SCP is a USD indexed Price.
- ▶ The SCP is pre-determined using the Pricing windows each fortnight (RE- Ep. 2 Part 1).
- ▶ The BDC's earnings or offtake are strictly limited to the SCP. A BDC is not allowed to earn or offtake more than the SCP irrespective of the price at which the NPA directs sales are made.
- ▶ When converted in the Price Build-Up (PBU) into Ghana Cedis at an FX rate determined by the NPA, the SCP becomes the **EX-Refinery Core Price**.
- ▶ BDCs are to sell at EX-Refinery Prices (different from the ***Ex-Refinery Core Prices***).
- ▶ Subject to GoG Policy decisions, the EX-Ref Core when computed may be adjusted upward or downward using the Price Stabilisation Margin (PSM) provision.
- ▶ The PSM adjusted EX-Ref Core Price becomes the **Ex-Refinery price** at which BDCs are to sell.



The Rise of Under Recoveries

- ▶ Under Recoveries arise when the set **Ex-Ref** prices are inadequate to fully recover the SCP. In such cases, the GoG will be indebted to BDCs.
- ▶ Where the Ex-ref prices are more than adequate to recover the SCP, over-recoveries are said to have occurred. BDCs become indebted to the GoG.
- ▶ Types
 - ▶ FX Loss Under-Recoveries (FLUR)
 - ▶ Price Under-Recoveries (PUR)

BDCs DO NOT GAIN MORE OR LESS FROM A PRICE DECREASE OR INCREASE AT THE PUMP!

FX Loss Under Recovery

- ▶ The **NPA/GoG** converts the USD indexed SCP into GHS at an FX rate (Pricing FX Rate) using its chosen FX rate model and directs the BDC to sell accordingly.
- ▶ The GoG through the BoG has the responsibility of providing USD at a rate adequate to convert the GHS sales proceeds into USD to meet the SCP when import payments are due (Payment FX Rate).
- ▶ When the BoG payment FX rate is higher than the Pricing FX rate, FX Loss Under recoveries occur.
- ▶ Technically, FX Loss under-recoveries are said to occur when the FX rate used by NPA/GoG in determining the Ex-Ref Core is lower than the FX rate at which GoG/NPA through the BoG provide USD to the BDC to pay for the imported or procured products

SCP= \$1/Ltrs; Qty= 1000Ltrs

**Contract Sum = 1000ltrs x \$1/Ltrs
= \$1,000**

Pricing FX Rate = 2.5 GHs/USD

Ex-Ref Core Price

\$1/Ltr x 2.5 GHs/USD= 2.5GHs/Ltr

**Sales Proceeds = 2.5GHs/Ltrs x 1000Ltrs
= 2,500**

Payment FX Rate= 3.0

**Realised Sum = GHs2,500/3.0
= USD 833.33**

FX LOSS= Contract sum- Realised Sum

\$1000 – \$833.33 = \$166.67

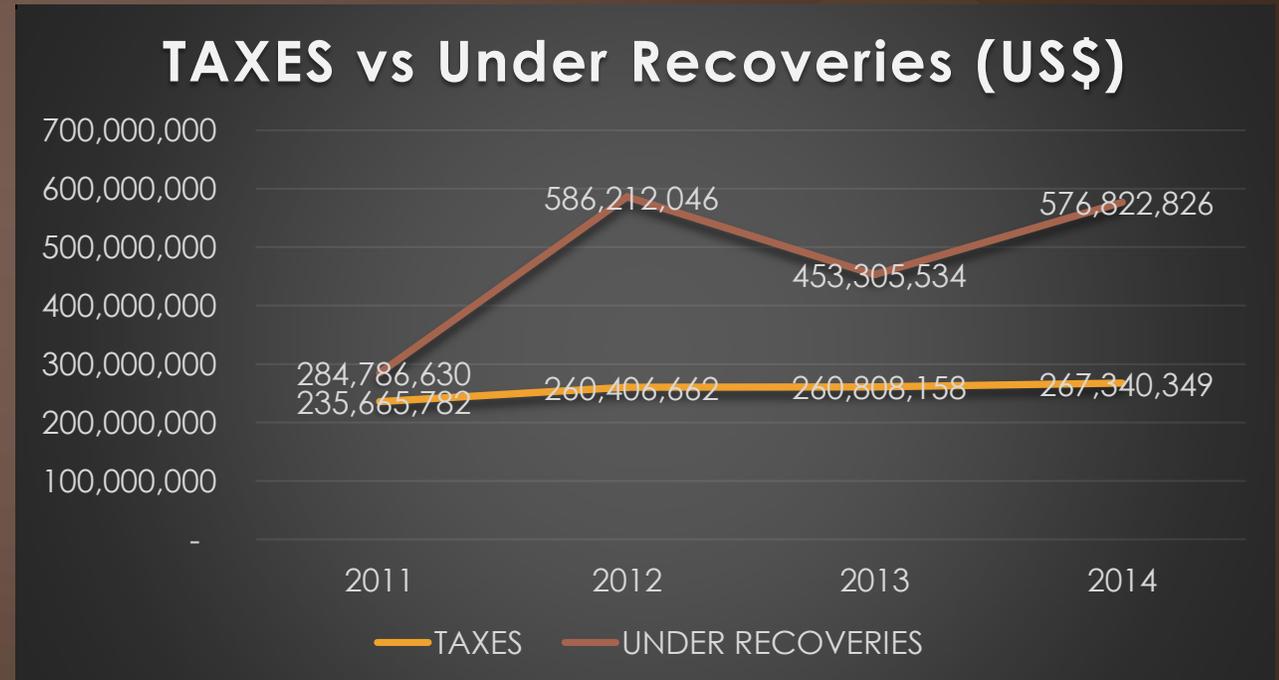
Price Under-Recovery

- ▶ This refers to the downward adjustment of the Ex-Refinery Core Price.
- ▶ This is also known as a negative Price Stabilisation Margin (PSM).
- ▶ It is reflected in the PSM line within the price build up

$$\begin{aligned} \text{SCP} &= \$1/\text{Ltrs}; & \text{Qty} &= 1000\text{Ltrs} \\ \text{Contract Sum} &= 1000\text{ltrs} \times \$1/\text{Ltrs} \\ &= \$1,000 \\ \text{Pricing FX Rate} &= 2.5 \text{ GHs/USD} \\ \text{Ex-Ref Core Price} &= \$1/\text{Ltr} \times 2.5 \text{ GHs/USD} = 2.5\text{GHs/Ltrs} \\ \text{PSM} &= -0.50 \\ \text{Ex-Ref Price} &= 2.5 - 0.5 \\ &= \text{GHs } 2.0 \\ \text{Price Under-Recovery} &= \text{GHs } 0.5/\text{Ltr} \times 1000 \text{ ltrs} \\ &= \text{GHs } 500 \end{aligned}$$

Taxes & Under-Recoveries

	TAXES (US\$)	UNDER RECOVERIES (US\$)
2011	235,665,782	284,786,630
2012	260,406,662	586,212,046
2013	260,808,158	453,305,534
2014	267,340,349	576,822,826
Total	1,024,220,952	1,901,127,036



GoG Debt to BDCs

SUMMARY OF GOG EXPOSURE TO BDCs

SCHEDULE	CLASSIFICATION	TOTAL AMOUNT	PAYMENT RECEIVED	BALANCE DUE
A	<u>AUDITED OR VERIFIED</u>			
	FX LOSS UNDER-RECOVERY (2011-2013)- USD	US\$ 396,659,099	US\$ 215,157,366	US\$ 181,501,733
	PRICE UNDER-RECOVERY AS AT (31ST MARCH 2015)	Ghs 35,709,713		Ghs 35,709,713
	RVF - 2013	Ghs 136,759,251		Ghs 136,759,251
B	<u>YET TO AUDIT/VERIFY</u>			
	FX LOSS UNDER-RECOVERY (2014)	US\$ 494,410,622		US\$ 494,410,622
	EST. PRICE UNDER RECOVERY (APR- JUN, 2015)	Ghs 223,076,603		Ghs 223,076,603
	RVF - 2013	Ghs 11,005,767		Ghs 11,005,767
	RVF - 2014	Ghs 131,026,323		Ghs 131,026,323
C	<u>YET TO CLAIM</u>			
	FX LOSS UNDER-RECOVERY (2015)			
	RVF - 2015			
	<u>A + B SUMMARY</u>			
	USD LIABILITIES			US\$ 675,912,355
	GHS LIABILITIES			Ghs 650,585,523
	TOTAL IN GHS	BoG FX RATE @ 18/6/2015	4.2504	<u>Ghs 3,410,475,530</u>