



ENERGY MARKET



Zambia has enormous potential for investment opportunities in the energy sector to meet the country's demand for the various forms of energy, attracting reputable companies such as Top Energy Zambia into Africa's second-largest copper producer.

The southern African nation, one of the continent's most stable democracies, imports all its petroleum requirements. Petroleum plays a crucial role in running wheels of Zambia's economy, including the transport sector.

The importation of petroleum products forms a major part of Zambia's expenditure with the fuel import bill currently estimated at around \$2.4 billion annually.

At Zambia's independence in 1964 and until 1965, the country's petroleum demands were met through importation of finished petroleum products into the country by

multinational oil marketing companies (OMCs).

Indeni Petroleum Refinery was constructed as a joint venture between the Government of the Republic of Zambia and the Italian Government in 1973.



The refinery was designed with an annual processing capacity of 1.1 million metric tonnes per annum but has aged over

time and is presently not operating. This presents vast opportunity for investment in the provision of finished petroleum products.

Zambia's market for petroleum products comprises sectors classified as retail, mining and non-mining. Retail refers to petroleum products that are sold at the filling station while mining refers to petroleum products consumed by the mines. Non-mining refers to all the other sectors in the economy.

The current demand for petroleum products in the country is around 52 million liters per month. This demand is projected to grow at average of about 40 percent per annum, mainly due to the growing economy.

The commercial segment of the market consists of relatively large volume consumers such as mining companies,



industries, trucking and bus companies and utility companies. The consumers in this segment of the market usually issue out tenders for supply of fuel.

In 2020, the consumption of diesel continued to be dominated by the retail sector, including transport which consumed 36.5 percent. Despite the dominance, it declined by 3.0 percentage points from 39.5 percent in 2019, according to a report by Zambia's Energy Regulation Board (ERB).

Currently, Zambia is estimated to have a motor vehicle population of around 1 million, with 75 percent of these in the cities of Lusaka and the Copperbelt and the consumption of petroleum products has been increasing annually due to increasing in economic activity.

In the same year, mining increased its

share of consumption to 33.1 percent from 32.3 percent in 2019. Similarly, there was a slight increase of 2.2 percentage points for the non-mining sectors share of national consumption from 28.3 percent in 2019 to 30.5 percent in 2020.

In both 2019 and 2020, the retail sector obtained the largest portion by economic sector followed by the non-mining sector. Despite the dominance, the retail sector recorded a decline of 3.2 percentage points from 97.3 percent in 2019 to 94.1 percent by economic sector in 2020.

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Globally, petroleum prices are influenced by the international petroleum product prices and the exchange rate in the respective domestic economies. In Zambia, fuel prices are largely influenced by fluctuations of the Zambian Kwacha against the United States Dollar exchange rate.

Changes in the international petroleum prices and exchange rate could trigger a price adjustment. Other factors that can initiate a price adjustment are changes in cost structure such as levies, duties and fees, margins for transporters, OMCs or dealers and pumping or processing fees.

The Cost-Plus Model operates on the principle that the final price of petroleum products recovers all costs incurred in the fuel supply chain, that is, starting from

the cost of product to the final price the consumer pays. The government or other industry intermediaries must not subsidize the cost.

The first market of the petroleum value chain was previously the wholesale of refined petroleum products and consisted of one supplier or feedstock importer and several buyers, namely the OMCs.

However, following the closure of Indeni Refinery, the monopoly in the provision of feedstock has been eradicated and OMC have to compete in trying to meet Zambia's fuel needs.

The export market, particularly the Democratic Republic of Congo (DRC) is mainly serviced by companies from South Africa and Tanzania using Zambia as a transit route. As a land-linked country, Zambia well positioned to service the DRC and this is yet another opportunity for Top

Energy.

By penetrating the DRC market and other regional markets like Zimbabwe, Top Energy could harness the benefits that would arise from economies of scale and reduction in the average costs that would result from an expanded market.

A World Bank Report released in April states that energy prices are expected to rise more than 50 percent in 2022 before easing in 2023 and 2024, making investment in Zambia's petroleum sector a worthwhile undertaking.

Top Energy is well positioned to take advantage of Zambia's peace and conducive investment climate, especially with the ushering in last year of a business-friendly government that has promised predictable policies.



Thank you!

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