ALLEVIATING FUEL ADULTERATION PRACTICES IN THE DOWNSTREAM OIL SECTOR IN SENEGAL

Executive Summary and Recommendations

1.1 Following a major reform that started in 1998, the downstream oil sector in Senegal is characterized by:

- A liberalized market with capped retail prices
- A de-facto monopoly on supply by the local refinery
- A de-facto oligopoly on wholesale storage by three oil majors
- A free and competitive retail sub-sector.

1.2 There is no source of cheap oil products available in the neighboring countries, which limits the possibility and scope of large-scale malpractice.

1.3 Besides the state of Senegal and the SAR, the main players in the wholesale sector are three oil majors (Shell, Mobil, and TOTAL) and to a lesser degree an independent international trader and a local independent. A growing number of smaller local companies operate on the transportation and retail sub-segments. At present there are 54 companies with approved license to operate in the sector.

1.4 Evidence of ongoing malpractice in the downstream oil sector in Senegal exists, but it is difficult to quantify. It could be assumed that this malpractice takes place at a relatively small scale mainly at the secondary transportation and retail level. This is mainly due to (i) the lack of a cheap supply source, and (ii) up to now most of the players in the wholesale distribution and storage are professionals with a reputation to protect.

1.5 However, the probable access to the sector by new local operators taking advantage of the liberalization process in progress is changing the picture. It is paramount that the Senegalese authorities be prepared for this to avoid some of the uncontrolled downward drifts in the quality of products and services especially regarding health, safety, and environmental standards (HSE). These phenomena have been observed in some countries with similar open access to the entrance of new operators and weak institutional capacity. Criteria to grant access to the sector should include sufficient financial capacity and minimal operations volume.

1.6 Distortion in the prices of the various oil products and grades provides the main incentive for the ongoing malpractice in the downstream oil sector in Senegal. Taxes on the various oil products should be harmonized to avoid the significant price difference between oil products, as indicated below: (prices for December 2003 per liter US$1.00 = 550 CFA francs)

Premium gasoline:	US$ 0.85
Regular gasoline (automotive):	US$ 0.78
Regular gasoline (fishery):	US$ 0.52
Kerosene:	US$ 0.39
Diesel (automotive):	US$ 0.63
Diesel (industrial):	US$ 0.42

1.7 Compared with Mauritania that has the largest fishing industry in the region, the gasoline consumption in Senegal's fisheries appears to be four times larger. Thus, assuming that three-quarters (3/4) of the gasoline sold for the fisheries market is consumed by gasoline vehicles, and that nearly half of the kerosene and 20 percent of the industrial diesel is also consumed by diesel vehicles, the tax loss of could reach up to US$25 million per year. The taxes lost because of these malpractices would amount to 15 percent of the taxes and duties collected from the sector.

1.8 The controls at the refinery seem to be the weak link. There are actually no controls by any governmental body or representative at the refinery. The customs and fiscal authorities rely entirely on the refinery for any information on the quantities and qualities of imported or produced hydrocarbons. There is no technical petroleum specialist working on the government's side to control the integrity of the data produced by the refinery. A very important percentage of the oil products marketed in Senegal has at some point been either produced or imported by the refinery. Given the weakness of these controls and the magnitude of the volumes involved if any malpractice should be taking place at that level, it would potentially have a very large impact. The Senegalese authorities should find a way to better control all interfaces between the refinery and the local and international parties.

1.9 At present there is a "light" regulatory system in place. However, there is a shortage of personnel with the adequate background and training in the petroleum industry working for the authorities. The Senegalese government should try to attract and keep such experts. The technical resources needed to fight malpractice in the sector should also be put in place (test laboratory, and so forth).

1.10 The authorities are not committed to punishing the wrongdoers in the sector. The government should assure that all individuals and/or organization suspected of committing any malpractice in the sector are brought to justice and punished, if convicted.

1.11 The coordination and cooperation between the various bodies of the government and the private operators playing a role in the fight against malpractice in the downstream oil sector should be improved.

1.12 Our recommendations can be grouped into three sets affecting the institutional level, the customs organization more specifically, and some technical issues.

Institutional

1. Commit the local authorities to reducing/eliminating product adulteration
2. Adjust tax structure to level the retail price of various oil products
3. Strengthen the role and resources of the regulatory agency
4. Recruit experts and train public servants on the oil industry and products
5. Improve cooperation and coordination between the National Committee for Hydrocarbons (Comité National des Hydrocarbures – CNH) and the oil companies
6. Communicate to the public to enhance awareness of oil product quality
7. Assure proper law enforcement

Customs

8. Review and adapt the role of the customs services
9. Build and strengthen the capacities of customs services
10. Post a customs officer or team at the refinery

Technical

11. Set up a test laboratory
12. Put dyes and tracers in "risky" products (industrial diesel and regular gasoline)
13. Improve recordkeeping
14. Adapt transparent glass bends on dispensers

Table 1.1 Brief Summary of Malpractice Situation on The Downstream Oil Sector in Senegal

	Imports & Refining	**Distribution**	**Retail**
Risks	• Huge volumes controlled by 1 operator	• Important volumes • Tax free products	• Distortions in retail pricing • Undetectable adulterants • Multiple actors & non professionals
Probability	• Low	• Medium	• Very high
Potential impact	• Very high	• High	• Medium
Solution / Controls	• Set up controls at refinery	• Improve customs capacity	• Harmonize retail prices • Introduce dyes & tracers • Sound license granting procedure & post monitoring