



PUBLIC POLICY BLOG

Impacts of an increase in fuel price on Papua New Guinea's economy

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Fuel such as diesel, gasoline (petrol) and liquefied natural gas are essential commodity that drives an economy in terms of production, and transportation of goods and services. In the transportation industry, “fuel” is regarded as major player in the supply chain of good and services. The issue of increased fuel prices in Papua New Guinea (PNG) will certainly have major ripple effects on the country's economy.

According to Independent Consumer and Competition Commission (ICCC) indicative retail fuel price notice on 8 July 2021, the price of petrol in Port Moresby was 370.30 toea/litre. As of 8 March 2022, the fuel price went up to 449.27 toea/litre, an increase of 78.97 toea/litre or more than 21 percent within eight months. The main cause of the increase in fuel prices is the result of rising crude oil prices. However, there are also other contributing factors, both domestic and international that also contribute to the issue of increasing fuel prices. Some of the factors include the following:

Internal factors: Shortages of foreign exchange within PNG affects multinational companies operating in PNG such as Puma Energy, which is the only oil refinery in the country as highlighted by its country director in a report by Business Advantage PNG (<https://www.businessadvantagepng.com/rising-oil-price-to-impact-papua-new-guinea-says-puma-energy-country-head/>).

External factors: The most obvious is the increased global uncertainty caused by Russian invasion of Ukraine. The world is faced with an uncertain future and there is a potential of escalating conflict involving North Atlantic Treaty Organization (NATO) and allied countries. This uncertainty combined with economic sanctions imposed on Russia by NATO includes the ban of Russian imports

including oil and that is contributing to increasing fuel prices.

In February 2022, the ICCC announced new retail fuel prices throughout PNG as reported and published by various media platforms. ICCC confirmed that the indicative retail prices for petrol, diesel and kerosene have increased significantly. The massive increase in domestic fuel prices was as a result of increased global oil prices. PNG, as a part of the global community, shares the same experiences as many countries that are experiencing similar increases in their domestic fuel prices.

The increases in fuel prices became effective for PNG consumers at the beginning of this month (March 2022). The increased prices are already having a significant effect on the country's economy as the private sector – retailers, aviation, and corporate customers are now adjusting the prices of their goods and services to incorporate the increased costs.

When fuel price increases, it also affects the domestic sea and road freight rates, and the annual wholesale and retail rates. Small and Medium Enterprises (SMEs) like public transport owners and other small businesses are now struggling to adjust their operational costs to meet the cost of fuel.

Some businesses might make losses as demand decreases with increasing price of goods and services. However, there is a chance that some businesses may capitalise on the issue of increased fuel prices by charging much higher than the ICCC regulated prices.

Companies have already been charging consumers of their goods and services at an inflated price. This means the cost of food, transport and other services are much

higher than what they were at this time last year. This entails severe consequences for households depending on the informal economy for livelihoods and those on low income. Consumers are now directly or indirectly paying the price at a gas station or when doing shopping at a store or supermarkets. This issue has added more to the already existing issue of inflation. This also entails increased costs for Government to deliver basic services, whether this be education, health or infrastructure. Much less can be bought or provided with any budgeted funds.

Way forward

As at this point in time, ICCC as the enforcing agency has to monitor all the business activities that are charging extra fees. Conducting regular random inspection of all service stations to ensure prices of petroleum products comply with allowable maximum prices. To minimise transport cost of other centers in PNG, the Government should consider providing freight subsidy. As much as possible, the Department of Treasury, Central Bank of PNG, and major commercial banks should work collaboratively to address the issue of shortages of foreign exchange so companies including Puma Energy can supply to meet demand of the international market at the going price.

Conclusion

As the issue of fuel price is being experienced nationwide due to various factors such as shortages of foreign exchange and uncertainty over war between Ukraine and Russia, with NATO countries continue to sanction businesses with Russia. It is evident that fuel price will continue to rise until such a time crude oil market is secured overseas. As this is directly affecting the prices of goods and services, which is having an impact on the livelihood of middle to low income earning households. The emphasis now is on ICCC to set up a task force to constantly monitor prices of fuel around the country.

About the Author

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