Nigeria's Petrol Subsidy Regime

Dilemma of the world's most populous black nation
About BudgIT

Founded in 2011, BudgIT is a civic organization that applies technology to intersect citizen engagement with institutional improvement, to facilitate societal change. A pioneer in the field of social advocacy melded with technology, BudgIT uses an array of tech tools to simplify the budget and matters of public spending for citizens, with the primary aim of raising standard of transparency and accountability in government.

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Premium Motor Spirit, PMS, popularly called petrol in this resource-rich country is one product whose price is regulated by the Nigerian government as its political class fears that increases in the price of petrol and by extension increase in the cost of living, occasioned by a deregulated price regime, could become a flashpoint for mass uprisings and political instability.

BudgIT lends its voice to the argument that continuation of petrol price regulation creates safety nests for intractable forms of corruption within the country's subsidy regime implied by price regulation, which deprives the nation of more funds needed for socio-economic development and also discourages investors, who generally prefer a deregulated industry, from investing in the downstream sector especially in the area of refinery construction and operation.

According to Petroleum Products Pricing and Regulatory Agency, PPPRA, and Nigerian National Petroleum Corporation, NNPC, between 2006 when the Petroleum Support Fund, PSF, was set up and 2018, at least N10 trillion has been spent on petrol import subsidy.

What is the opportunity cost of subsidy?

N10trillion can:

- **BUILD & EQUIP**
  - 2,400 units of 1,000-bed hospitals across 774 LGAs
  - or
  - **500,000** NEW HOUSES for families through mortgage at N20m per house

- **ADDITIONAL**
  - 27,000mw of solar powered electricity to the national grid

- **EDUCATE & SKILL UP**
  - 2,000,000 Nigerians with global standard quality tertiary education and sought-after skills

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2. [https://www.indexmundi.com/energy/?product=oil&graph=reserved&display=rank](https://www.indexmundi.com/energy/?product=oil&graph=reserved&display=rank)
3. [https://www.indexmundi.com/energy/?product=gas&graph=reserved&display=rank](https://www.indexmundi.com/energy/?product=gas&graph=reserved&display=rank)
4. BudgIT Research
A burden on the future

With no strategic framework for the removal of the country’s petrol subsidy program and a population expected to balloon to 398 million people by 2050, Nigeria risks carrying the financial burden of a subsidy program that could drown out development of its other sectors over the next 15 years.

Nigeria's Subsidy Expenditure & Transfers

Nigeria spent at least N10trillion on subsidy in the past 13 years (2006 - 2018)

$10.85bn was transferred from Nigeria's Foreign Excess Crude Account for subsidy payments between 2011 and 2014

13-year breakdown of Nigeria's expenditure on petrol import subsidy

Source: Daily Trust, NNPC Monthly Report

*From NNPC's Monthly Report only

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5. https://www.populationpyramid.net/nigeria/2050/
Petrol Price in Nigeria: What are the key cost drivers?

The price per barrel of crude oil plays a critical role in the surge in petrol prices being a major factor of production. Crude oil prices shot up by 713.4% from $12.54 per barrel in January 1977 to a peak of $102 per barrel in September 2013 and then dropped to $61.3 per barrel in 2018. In the last 41 years, the exchange rate of the Nigerian naira fell by 48,313% (that is, the amount of Naira needed to purchase a single dollar increased) from $0.63 to $1 in 1977 to N305 to $1 in 2018. Within the same period, the price of petrol surged by 34,424% from N0.42 per litre in 1977 to a regulated price of N145 per litre in 2018.

Our analysis shows a pearson's correlation coefficient of 0.92 between Petrol Price and Naira-USD Exchange Rate over a period of 16 selected years from 1977, indicating a very strong relationship between both variables.

Crude oil price shocks affect local petrol prices

CRUDE OIL PRICES SHOT UP BY 713.4% between 1977 to 2013 creating an upward surge in the total cost of production for refined petrol

Each time Nigeria's Naira is devalued, imports become more expensive. Nigeria's continuous dependence on petrol importation means that local petrol prices will continue to suffer from exposure to exchange rate volatility. As a result, subsidy bill required to keep petrol price at current regulated levels can be expected to balloon irrespective of the government or political party in power when next Nigeria's Naira undergoes another devaluation.

9. https://www.gpo.gov/fdsys/pkg/GOVPUB-T63_100-45728fcb131feeb322a376c70c606900/pdf/GOVPUB-T63_100-45728fcb131feeb322a376c70c606900.pdf
11. BudgIT Research
The price of petrol increased by more than 34,000% from N0.42/liter in 1975 to N145/liter in 2018.

Source: Fuel Subsidy Corruption and the Illusions of Economic Reconstruction in Nigeria

Crude oil price per barrel (1977 - 2016)

Source: US Imports of Crude Oil

Nigeria’s Petrol Subsidy Regime: Dilemma of the world’s most populous black nation

% Change in Petrol Price vs % Change in Naira-USD Exchange Rate

14. BudgIT Research
15. NNPC Monthly Operational & Performance Report, November 2018
Legal and political dilemma of subsidy removal

Petrol is one of the products listed in the Price Control Act 1977. The Act provides strict penalties for anyone who sells above the regulated price. However, no marketer will import a product to run at a loss due to price regulations that do not take into considerations the realities of market forces. Withdrawal of marketers from petrol importation often means petrol scarcity and possible civil and political unrest. To avoid political catastrophe, successive governments have had to sustain subsidy to ensure marketers find petrol importation and distribution somewhat profitable. There are two types of subsidy the government provides:

1. Petrol Import Subsidy:

In this program, the government pays petrol marketers for the difference between the regulated price of imported petrol and the Expected Open Market Price, EOMP, estimated by the Petroleum Products Pricing and Regulatory Agency, PPPRA, as an import subsidy. This program is handled through the Petroleum Subsidy Fund, PSF.

Import subsidy creates petrol price arbitrage - the differential between the regulated price in Nigeria and the high petrol prices in neighbouring countries - which is big enough to incentivise smuggling of subsidized products to neighbouring border towns. According to NNPC, there are 2,201 petrol stations in Nigeria’s porous border towns and coastal frontiers, with a combined fuel tank capacity of 144.9 million litres. However, the population in this area does not warrant the presence of such tank capacity. Like Nigeria, Venezuela, (which has the lowest petrol price in the world of $3.65/liter as a result of subsidy) also faced similar problems with smuggling, with official government figures estimating that the country loses at least $18bn annually to smugglers who sell Venezuela's cheap petrol in Colombia and other neighbouring countries.

Past governments have tried to end the country’s petrol import subsidy program, however, their moves have been fiercely resisted by citizens who benefit from low prices. In the case of Bamidele Aturu versus Attorney-General of the Federation the Federal High Court declared illegal and unconstitutional the policy decision of the federal government to deregulate the downstream sector which would have led to the removal of petrol subsidy.

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**Subsidy incentivizes smugglers**

Nigeria loses significant amount of its subsidized fuel to smugglers who sell it at market prices in neighbouring countries

**Venezuela loses $18bn TO SMUGGLERS** annually who sell that country’s subsidized petrol in Colombia and neighbouring countries

**Citizens & NGOs resist subsidy removal**

**Civil society often RESISTS SUBSIDY REMOVAL**

their argument is for the government to fight corruption in the program instead of ending subsidy

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2. Petrol Price Equalization subsidy:

Petrol sold in states near coastal regions (specifically Lagos ports) like Ogun, Ondo (etc) are typically cheaper than those sold in states that are inland (e.g. Kano, Borno etc) due to the additional cost of transportation to inland states when petroleum products pipeline infrastructure leading to these states are compromised or experience failure. The Nigerian government tries to solve this problem by covering the extra cost of transportation to oil marketers with an equalization subsidy, so that citizens in all parts of the country can buy petrol at the regulated price.

Unfortunately, this form of subsidy has failed to stabilize prices of petrol across inland states like Borno, Taraba etc. According to the PMS Price Watch published by the country’s National Bureau for Statistics, NBS, for July 2018, nearly all inland regions purchased petrol above the Fixed Price of N145 per liter despite allocation for PMS equalization subsidy - with Borno, Taraba and Bayelsa recording the highest petrol prices at N155.00 per liter, N151.82 per liter and N151.67 per liter respectively.\(^\text{19}\).

![Petrol Price Equalization subsidy chart]

\[\text{Source: NBS PMS Price Watch, July 2018}\]

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In 2006, Nigeria had only six (6) fuel importers, yet by 2011, this number had skyrocketed to 140. As at 31st December 2011, it was established that the total amount paid as subsidy in that year was N2.587* trillion, amounting to more than 900% increase over the appropriated sum of N245 billion for that year\(^20\). The outcry that greeted this stunning observation led to a series of probes initiated by the country’s Federal Government. More than 20 companies were identified as being complicit after investigations were launched, and several of them are still facing criminal charges in Nigerian courts for receiving hugely inflated subsidy claims. However, insinuations are rife that there may be a collusion between the political elite in government and some of those implicated in the probe 7 years ago, as many of them are yet to receive any real punishment. Indeed, news reports abound that some of these oil companies are being rewarded with juicy contracts as the Nigerian National Petroleum Corporation, NNPC, granted them rights to participate in the 2017/2018 crude oil trade where they are allowed to lift 32,000 barrels per day of crude oil\(^21\).

A total of N382** billion was lost to the subsidy scandal as probe committees set up discovered. This N382 billion lost could have provided 15,280 small businesses with long-term, collateral-free startup capital loans of N25 million each; this could then be re-loaned to others upon repayment.

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Nigeria's N382bn Subsidy Scandal: Will justice ever be served?

*This amount is more than the N2.11trillion reported as subsidy payment by PPPRA for that year (see page 2)

**Another presidential committee reviewed the amount lost to the scandal from the initial N422.54bn\(^21\) to N382bn

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NNPC’s new role as petrol importer: Should Nigerians be worried?

While the petrol marketers have been impugned for their role in the subsidy scandal, they too face genuine problems of their own with the Federal government especially with delayed payments of subsidy claims and difficulty in accessing foreign exchange to import fuel. This led many marketers to abandon importation of petrol leading to long queues at petrol filling stations and political backlash for the current administration. The administration has thus asked NNPC, the nation’s national oil company, to intervene and become the importer of last resort to ensure that the queues disappear. As at December 2017, NNPC was responsible for nearly 78% of all petrol imported in that year. In 2018, this figure is closer to 100% of all petrol imported. NNPC wasn’t set up for this importation role and doesn’t have all the infrastructure to handle importation of nearly 51 million liters of petrol daily, it must be noted.

Furthermore, NNPC’s reputation in the public eye is not necessarily top notch. A small part of its reputational crisis is due to largely fictitious claims made by some segment of the media, but some part of this crisis is of its own making as NNPC is often found to be economical with the truth. An example is NNPC’s claim that petrol subsidy no longer exists in the country, whereas it makes provisions for ‘under-recovery’ - a necessary condition for subsidy to be paid.

Here are a few things Nigerians, civil society and the government need to pay attention to as NNPC becomes the importer of last resort for petrol products:

1. NNPC may be paying itself subsidy for losses not incurred

In June 2017, the Landing cost of PMS was N124.83 per liter with an Expected Open Market Price, EOMP of N144.20 according to the Petroleum Products Pricing Regulatory Agency, PPPRA. This is lower than the government’s regulated price of N145 per liter by a margin of +N20.17 per liter. However, a review of NNPC’s monthly Financial and Operations Report for June 2017 shows that it claimed to have made losses of -N11bn on the sale of petrol and hence it deducted N11bn as subsidy/under recovery before paying the balance revenue to the country’s FAAC account.

2. Discretionary deductions and expenditure

NNPC appropriated $1.05bn of revenue from dividend accruals from the Nigerian Liquefied Natural Gas Limited (NLNG) Limited for handling fuel importation; this definitely includes deductions for under recovery/subsidy. However, Chapter V, Part 1 (E), Section 80(1 to 4) of the Constitution of the Federal Republic of Nigeria, says revenue from the federation must be paid into the Consolidated Revenue Fund, and funds must be authorised by an Appropriation Act before being paid out. While the intentions of NNPC may be very good, they are not enough to breach the constitution. If all well intentioned revenue agencies are allowed to break the law, the result will be complete fiscal irresponsibility. There is a reason these checks and balances exist in the constitution.
3. Subsidy over deductions

Due to little or no oversight over their activities and weak accountability framework, vested interests within NNPC may be taking advantage of the subsidy program through over deductions as pointed out by the Office of the Accountant General of the Federation. Two significant cases where this overdeduction occurred are in 2011 and in 2015. In 2011 and 2015, NNPC claimed to deduct N844.944 billion and N306.917 billion respectively. However, submissions from the Office of the Accountant-General of the Federation report showed that NNPC actually deducted N981.734 billion and N316.720 billion; a cumulative difference of N146.593 billion.

4. Risks from Infrastructure gaps

If NNPC continues to be the sole importer of petrol - a task it was not set up to perform - it will have to depend on third parties for infrastructure needed to handle subsidized petrol now and in the near future. This creates an additional layer of risk - especially the risk that subsidized petroleum products could be stolen by its partners. Indeed, N11 billion\(^2\) worth of NNPC’s subsidized petrol went missing from the storage facilities of two NNPC partners - MRS and Capital Oil & Gas. NNPC reported that it successfully recovered 30 million liters expropriated by MRS but was not as successful with Capital Oil & Gas which was yet to return 82 million liters\(^6\) of the 100 million liters it took at the time the incidence was reported.

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**NNPC made N146.59bn OVER DEDUCTIONS**

according to a report by the accountant general of the federation in 2011 and 2015

<table>
<thead>
<tr>
<th>Year</th>
<th>Actual Deductions</th>
<th>Initial Claim</th>
</tr>
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<tbody>
<tr>
<td>2011</td>
<td>N981.7bn</td>
<td>N844.94bn</td>
</tr>
<tr>
<td>2015</td>
<td>N316.7bn</td>
<td>N306.9bn</td>
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</tbody>
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**N11bn WORTH OF PETROL WENT MISSING**

from the storage facilities of two NNPC partners - MRS and Capital Oil

- **30m LITERS** RECOVERED from MRS successfully
- **82m LITERS** UNRECOVERED from Capital Oil & Gas

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The question of continuation of the country’s petrol subsidy program needs to be addressed decisively. Venezuelan government and its citizens played the ostrich and ignored all the warning signs of impending economic doom as its fiscals were beleaguered by huge subsidy bills while citizens enjoyed the lowest petrol price in the world of $0.27/liter. Today, Venezuela’s economy is in turmoil. Nigeria with the 6th lowest petrol price globally of $1.145/liter is headed in the same direction: struggling with a recent 60% currency devaluation crisis in 2016 (from N197:$1 to N305:$1) which increased the country’s subsidy bill, dwindling government revenue, weakening demand for Nigerian crude, low budget credibility and approximately 69% of its annual revenue spent on debt servicing\(^28\); Nigeria has had to take the desperate measure of withdrawing over $10.85bn from its Excess Crude savings Account to sustain subsidy. Of the $180bn that has accrued to Excess Crude Account since 2004 (which is supposed to be a fiscal buffer), less than $249m remains\(^29\) as at 2018.

We believe subsidy needs to be removed. Palliative measures should be provided for people that will be worse hit by the removal. Four sectors - Transportation, Power, Health and Education - should be prioritized for cushion the effects. We also believe that funding for cheaper mass transit and subsidies to public institutions can be targeted for these groups. The challenge is that Nigeria lacks a comprehensive single database structure to holistically define such a subset of the population.

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27. https://www.globalpetrolprices.com/gasoline_prices/
Recommendations

1. Boost local refining capacity to reduce the current 91% exposure to petrol importation

International development partners (World Bank, IFC, GIZ and DFID) need to work with the government and civil society to design a program to mobilize technical and financial support for refinery license holders to ensure refineries under construction become operational.

Turn Around Maintenance (TAM) contracts need to be fully investigated to determine if the country is getting value for money while the findings should be made public. All greenfield refinery projects for which feasibility studies have been completed (Lagos, Kogi, Bayelsa) need to be revived, especially the one for Kogi which is more inland.

2. Special Petroleum fraud tribunal and capacity boosting for prosecutors

To deter fraud, justice must not only be done, but must be seen to have been done in a timely manner. The current time frame for concluding corruption cases related to subsidy and other activities in the petroleum sector is too long. Perhaps, a special tribunal may be able to accelerate timeframes.

3. Fix pipeline network to the inlands so we can scrap PEF and let market forces play

The more petroleum pipelines are sabotaged, the more money the government will have to spend on paying for petroleum equalization subsidy for petrol sold across the country. It would also seem that as long as the petroleum equalization subsidy exists, the country may continue to experience sabotage of its product pipelines, as some vested interests seem to be benefiting from it without delivering value.

Perhaps, it's time for Nigerians to realize petrol prices at the coastland will always be different from prices at the inlands.

4. Adopt OpenData

NNPC and other agencies in the sector need to be supported to adopt open data principles over the next 5 years. Proactive disclosures and transparency always help to avoid suspicion and build better trust between citizens and stakeholders.

5. Courts need to interpret if NNPC has rights to make discretionary deductions

Civil society organizations need to approach the courts to determine which is superior between the country’s constitution which mandates that all revenue due to the country should be paid to the Consolidated Revenue fund and the NNPC Act which allows it to recoup its cost before paying the balance to the federation account. This will help introduce proper oversight to its functions and prevent arbitrary deductions.

6. Track outcomes from subsidy corruption cases

Civil society needs to ensure that all cases, investigations and findings of subsidy fraud are properly followed up on a regular basis, preferably monthly.
7. Foresighted Needs-Mapping

The government, in collaboration with civil society, needs to proactively map out current consumption needs and projected consumption needs of the citizenry viz-a-viz current and projected local refining capacity needed to meet those needs over the next 40 years. The civil society needs to engage regularly or perhaps, quarterly with the government to track its actions to ensure the nation is on course to have adequate local refining capacity.

8. Mindset resetting

On a long-term basis, a campaign for perceptual change of all stakeholders most especially the citizens has become imperative. Citizens need to understand the demerits of a petrol subsidy program and the centrality of every citizen’s predicament whenever an economic crisis occurs.