

Removing subsidy on petroleum products



**AN ANALYSIS OF COST SAVINGS, ECONOMIC
AND DEVELOPMENTAL BENEFITS OF
SUBSIDY REMOVAL**

Financial burden of petrol subsidy



- Between 2006-2011, the government spent N3.7 trillion on subsidy.
- Between January and November 2011, the government borrowed N850 billion to make up this year's N1.3 trillion fuel subsidy.
- As at October 2011, N1.3 trillion had been spent on subsidy in 2011 alone.
- It is estimated that N1.43 trillion would have been spent on subsidy by the end of 2011.
- Without the removal of the subsidy, it is projected that N1.1 trillion will be borrowed to fund the subsidy in 2012.
- Constant borrowing is not healthy for the economy.

Financial benefit of removing subsidy



- With the removal of the subsidy, the total projected subsidy re-investible fund per annum is N1.134 trillion based on average crude oil price of US \$90 per barrel. Out of this:
 - N478.49billion accrues to the Federal Government
 - N41.03billion to state governments
 - N203.23billion to local governments
 - N9.86 billion to the Federal Capital Territory (FCT)
 - N31.37billion as transfers to derivation and ecology, development of natural resources and stabilization funds

Corruption by subsidy beneficiaries



- Most of the products subsidy beneficiaries claimed to have been imported found their way to neighbouring countries through unscrupulous marketers.
- Most of the products they claimed to have imported didn't come into the country.
- To highlight corruption in the name of subsidy, it is unimaginable that 15 vessels of products would land at the port the same day, considering the differences in the import allocations to the marketers. Yet, there is such a record.
- Some marketers collected letters of credit, got paid their subsidies, yet failed to repay the loans they collected from banks.

Subsidy does not improve local economy



- With fuel importation and subsidy, government creates jobs for other countries and improves their economies.
- Government was subsidising consumption and not production. The implication is that the country is exporting jobs and importing unemployment.
- What the government calls subsidy is just paying for the inefficiency of the ports authority, demurrage as well as the corruption of some marketers.
- Subsidy benefits the wealthy more and hurts the economy and development.

Subsidy does not generate local revenue



- Between January and November 2011, the foreign exchange (forex) sold to oil marketers was \$8 billion and within the same period \$8.2 billion was paid to the marketers as subsidy. The revenue from the oil sector within the period was just \$200,000 higher.
- Although petrol is sold at N65 per litre in Nigeria because of subsidy, in neighbouring countries like Cameroon, it sells at N140, and so an importer can easily import fuel and transfer it to that country for more profit.

Removing subsidy protects economy



- Citing the Eurozone crisis, there are hiccups in economies of countries. If the price of oil crashes, the value of naira falls to N200 to a dollar, inflation rises to 18 percent; what will the government do?
- As a country, we should be prepared for the future. If we borrow to subsidise today, it is our children that are subsidising us.
- There is a need for the country to have stability in the economy. If the oil price crashes again by 30 per cent, it will be difficult for the government to pay workers' salaries and that is when the country will experience hardship.

Developmental benefits of removing subsidy



- Money spent on subsidy could go into funding capital projects and reducing deficit.
- The discontinuation of subsidy will save additional resources for investment in programmes targeted at mitigating poverty and spurring economic growth.
- Removing subsidy will create market conditions that will encourage investors to invest in new local refineries and increase local production capacity thereby reducing pump prices in the long term.
- Removing subsidy will encourage distributors to stop smuggling petroleum products to other countries, thereby increasing local availability.

Removing subsidy facilitates deregulation



- Deregulation will attract new investors to the oil industry, thereby generating more opportunities for growth.
- Deregulation will open up the market, thereby creating jobs.
- Deregulation policy will reduce smuggling of products to neighbouring countries and reduce fraud.
- Deregulation and subsidy removal will make the market more attractive for marketers to build new refineries:
 - The government has issued licenses to 20 marketers to build refineries, but they have failed to do so because the market is not attractive.

Other facts about petrol subsidy



- CBN was compelled to publish the names of bank debtors because most of them were in the oil industry.
- The major contributory factor to the financial crisis in the banking sector was their exposure to capital market and oil and gas.
- Nigeria is the only country where the government pays demurrage. The oil sector is a place where an idiot can make money.
- Regulation of fuel price in Middle East countries such as Qatar, Bahrain, United Arab Emirates, among others, works because all the surrounding countries regulate their prices and there is no need for diversion.

FG plan for managing subsidy savings



- A robust programme structure has been developed to ensure adequate oversight, accountability and implementation of the various projects targeted to reduce the impact of subsidy removal.
- The entire project will be overseen by a Board to be constituted by Mr. President.
 - Consulting firms with international reputation will be appointed to provide technical assistance to the Board in financial and project management.
 - Relevant MDAs will set up Project Implementation Units to drive the implementation.
 - An independent body will be responsible for monitoring and evaluating the implementation and will report directly to the Board.

Conclusion



- The Federal Government is desirous of discontinuing the subsidy on petroleum products because it is a huge financial burden on the government.
- As long as the countries that surround Nigeria sell petrol at N140 per litre, and marketers gain N80 from every litre sold, they would always bribe their way to the borders and sell in those countries at higher prices.
- Removing subsidy will free up funds for developmental projects, protect our economy, and stop fraud in the oil industry.
- Let's take a difficult decision today and make tomorrow better by supporting the removal of subsidy.