

NIGERIA

Remove the Subsidies Now!

Analysis of fuel subsidy regime in Nigeria based on recent consumer survey results

March 27, 2015 | Nextier Research

Data from recent monthly survey of consumers of petroleum products in Nigeria show the ineffectiveness of the fuel subsidy regime. This paper argues for a complete removal of subsidies on petroleum products.

ISSUE STATEMENT

How effective is the fuel subsidy regime in Nigeria and are there compelling arguments for its reform? This policy brief evaluates the effectiveness of the fuel subsidy regime in Nigeria using data from monthly surveys conducted by NOI Polls¹ between January 2013 and June 2014. This paper argues for a complete removal of subsidies on petroleum products in Nigeria.

PREAMBLE

Nigeria has high fuel prices because of its over-dependence on imported petroleum products. Estimates indicate that Nigeria imports about 80 percent of its domestic needs for refined petroleum products². The high importation is a result of Nigeria's low refining capacity as the four government-owned petroleum refineries, with combined capacity of 445,000 barrels per day, are operating at about 26 percent capacity utilisation.³

The government of Nigeria introduced fuel subsidies to shield Nigerians from fluctuations in international crude oil prices. Introduced in 1973, Nigeria's fuel subsidy was supposed to last for six months but has been in place for over 40 years. Every successive government in Nigeria has made partially successful efforts to remove the subsidy on petroleum products.

Issue Statement: Is Nigeria's subsidy regime effective and are there compelling arguments for a complete removal of the fuel subsidy?

Preamble: Despite being a top crude oil producer, Nigeria imports 80 percent of its fuel needs and has maintained fuel subsidies for over 40 years.

Poll Results: Despite spending over \$7 billion on subsidies, one in two Nigerians purchased fuel above the subsidised price. Most of the purchases were for cars and generators indicating that the poor masses may not be the primary beneficiaries of the subsidy. Although many of the respondents claimed that they would resist efforts to remove the subsidies, this is 10 percent less than the number that protested the January 2012 subsidy removal.

Reform Now!: Deregulation of the downstream sector is principle to restoring balance in both production, distribution and investment in the downstream sector that will eventually wean Nigeria from dependence on imported refined petroleum products and the corruption-ridden subsidy regime.

¹ NOI Polls (www.noi-polls.com) is Nigeria's premier polling firm with a partnership with Gallup USA.

² Khalid Siddig, Angel Aguiar, Harald Grethe, Peter Minor & Terrie Walmsley (2014). "Impact of removing oil import subsidies in Nigeria on poverty" Available at: <https://www.gtap.agecon.purdue.edu/resources/download/6616.pdf> (Updated 8th May 2014; accessed 12th February 2015)

³ Vanguard newspapers (2014). "Nigeria's refining capacity rises to 26%". Available at Vanguard website: www.vanguardngr.com/2014/04/nigerias-refining-capacity-rises-26/ (Updated 15th April 2014; accessed 12th February 2015)

Notwithstanding the distortion in fuel prices as a result of the subsidies, Nigeria still presents a compelling case for investment in crude oil refineries given its crude oil reserves and high daily consumption of refined petroleum products. Nigeria has about 37 million barrels of crude oil in proven reserves making it one of the top ten oil producing countries in the world. Conversely, Nigeria utilises about 35 million liters per day of Premium Motor Spirit (PMS) and 10 million liters per day of Household Kerosene (HHK).⁴ Despite this high domestic consumption, 19 out of the 20 investors issued crude oil refining licenses are yet to commence operations. The investors claim that they will be unable to recoup their investments under a government-supported subsidy regime; preferring rather to operate under a pricing regime determined by market forces.⁵⁶ It is instructive to note that the only licensee that has built its refinery produces diesel – a product that is not subsidised by the government.⁷

ASSESSING EFFECTIVENESS OF NIGERIA'S FUEL SUBSIDY REGIME USING DATA FROM NOI POLLS

The paucity of data on the impact of fuel subsidy removal (FSR) on Nigerians provided the impetus for NOI Polls⁸ to conduct monthly surveys (from January 2013 to June 2014) to track prices of petroleum products across Nigeria and appraise the effects of the partial FSR on the livelihood of Nigerians. Below is an assessment of the effectiveness of Nigeria's fuel subsidy regime based on the poll results.

- The fuel subsidy does not shield Nigerians from fluctuations in fuel prices.

One of the reasons adduced for retaining the subsidy on petroleum products is to protect Nigerians from fluctuations in fuel prices and to maintain the same product pump price across Nigeria. Results from surveys conducted by NOI Polls indicate that neither of these goals has been achieved by the current fuel subsidy regime in Nigeria.

Over the period of the survey, 49 percent of the respondents stated that they purchased Premium Motor Spirit (PMS) at higher than the subsidised ₦97 per litre. This result indicates the failure of the fuel subsidy regime to achieve one of its key objectives of uniform PMS pricing across Nigeria.

Table 1: Percentage of Nigerians who purchased PMS at higher than the regulated ₦97 per litre

Country	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average
Nigeria	57%	52%	22%	23%	79%	61%	49%

It is instructive to note that most of the purchases of petroleum product were from authorised marketers who benefited from the fuel subsidy regime but failed to pass on the subsidy to the final consumers. 60 percent of the purchases were from major petroleum marketers while 32 percent of the purchases were from independent petroleum marketers. Only 8 percent of the purchases were from roadside hawkers (or the black market, in popular parlance).

Table 2: Percentage of Nigerians who purchase PMS from the various product marketing channels

Product Marketers	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average
Major Marketers	61%	55%	70%	69%	46%	57%	60%
Independent Marketers	34%	34%	26%	24%	42%	34%	32%

⁴ Nigeria National Petroleum Corporation (2015). "Greenfield Refinery Initiative" Available at NNPC website:

<www.nnpcgroup.com/nnpcbusiness/midstreamventures/greenfieldrefineryinitiative.aspx> (accessed February 12, 2015)

⁵ Nelipher M. & Vera S. (2012). Removal of Fuel Subsidies in Nigeria: An Economic Necessity and a Political Dilemma. Available at: <http://www.brookings.edu/research/opinions/2012/01/10-fuel-subsidies-nigeria-songwe/>. (Updated 2012 accessed February 16, 2015).

⁶ Mike Cohen. (2014). Dangote Says Lagos Refinery to Start by Mid-2018. Available at: <http://www.bloomberg.com/news/articles/2014-11-17/dangote-says-nigeria-lagos-refinery-to-start-by-mid-2018/>. (Updated 2014 accessed February 16, 2015).

⁷ Okere R. (2012), "How Investors stall government's drive for private refineries". <http://www.ngrguardiannew.com/index.php> (Updated 2012, accessed February 14, 2015)

⁸ NOI Polls is a leading opinion polling and research organisation with a working partnership with Gallup Polls of the USA.

Hawkers	5%	11%	5%	7%	12%	9%	8%
---------	----	-----	----	----	-----	----	----

These distortions in fuel prices were recorded across all geopolitical regions in Nigeria and in every month during the study period. However, the South East region recorded the highest number of respondents who paid higher than the subsidised PMS price (60 percent) while the South West region had the lowest number of respondents who paid higher than the subsidised PMS price (36 percent).

Table 3: Percentage of Nigerians across the regions who purchased PMS at higher than ₦97 per litre

Region	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Period Average
North Central	52%	40%	18%	20%	66%	43%	40%
North East	70%	71%	25%	20%	80%	82%	58%
North West	66%	43%	27%	29%	95%	62%	54%
South East	86%	66%	28%	20%	85%	75%	60%
South-South	59%	57%	18%	29%	77%	63%	51%
South West	43%	32%	16%	19%	66%	41%	36%

The preponderance of independent petroleum marketers over major petroleum marketers seems to be the main explanation for the higher product price variation in the South East over the rest of Nigeria. 53 percent of the PMS purchases in the South East were from independent petroleum marketers as against an average of 32 percent for the rest of Nigeria (or 29 percent excluding the South East). These Independent petroleum marketers have a higher operating cost structure that they may be passing on to the consumers. Furthermore, there is limited monitoring of their activities from the government regulator. In some cases, a litre of PMS was sold at over ₦130, which was higher than the unsubsidised landing cost of a litre of PMS which averaged ₦123 per litre at an average crude oil price of US\$114 per barrel. The additional cost of distribution, bridging and profit margin calculated at ₦15.72 per litre results in an effective unsubsidised cost of ₦139 per litre.

Table 4: PMS sales points by region for the period Q1 2013 to Q2 2014

Sales Channels	North Central	North East	North West	South East	South South	South West	Nigeria
Major Marketers	67%	57%	60%	44%	56%	71%	60%
Independent Marketers	25%	28%	26%	53%	40%	27%	32%
Hawkers	8%	16%	14%	3%	4%	2%	8%

The variation in PMS prices across Nigeria is driven by the fact that a significant number of Nigerians (22 percent) do not know the government-subsidised price of PMS in Nigeria. The percentage of respondents who do not know the subsidised price of PMS increased from 11 percent in Q1 2013 to 25 percent in Q2 2014. This failure to effectively communicate the subsidised price have resulted in Nigerians paying higher than the subsidised price even as the petroleum marketers continue to collect the subsidy payment from the government. Furthermore, although about 78 percent of Nigerians are aware of the subsidised prices, poor monitoring of the activities of the petroleum marketers by the government regulators means that consumers take whatever prices they are offered.

Table 5: Percentage of respondents who know the regulated price of PMS in Nigeria

Do you know the price of PMS?	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average
Yes	89%	75%	78%	76%	76%	75%	78%
No	11%	25%	22%	24%	24%	25%	22%

- In Nigeria, it is the non-poor rather than the poor who benefit more from the fuel subsidy.

One of the most emotive and persuasive arguments in favour of fuel subsidies is that it is the main direct benefit poor Nigerians derive from Nigeria's crude oil. Data from NOI Polls present evidence to the contrary. Most of the fuel purchases were for use in automobiles and generators. The 68 percent of Nigerians who live below the poverty line consume less fuel as against the non-poor Nigerians who consume more fuel for their automobiles and generators.

Most of the PMS purchases (85 percent) were used in automobiles and/or generators. 35 percent of PMS purchases were for use in both cars and generators while 28 percent were for generators, and 21 percent for cars. According to 2011 World Health Organisation data, Nigeria has a high number of registered vehicles (12,545,177 in 2011) placing it as 25th out of 176 countries in terms of number of registered vehicles.⁹ Similarly, given the current state of electricity supply in Nigeria, private alternative electricity generation using electric generators have become widespread and the norm. According to a report by the government of Nigeria, self-generation of electricity (from diesel and petrol generators) is conservatively estimated at a minimum of 6,000 MW¹⁰, which is almost twice the average output from the national grid in 2014.

Table 6: Intended use for the purchases PMS

Where do you use the purchased PMS?	Q1 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Period Average
Car & Generator	24%	40%	46%	37%	28%	35%
Generator	34%	20%	31%	24%	33%	28%
Car	29%	21%	18%	18%	21%	21%
Motorcycle	7%	7%	2%	13%	7%	7%
Others	6%	7%	2%	3%	3%	4%
Generator & Motorcycle	0%	5%	1%	3%	3%	2%
Machinery	0%	0%	0%	2%	3%	1%
Car, Generator & Machinery	0%	0%	0%	0%	1%	0%
Generator & Machinery	0%	0%	0%	0%	1%	0%

- It is plausible that removal of fuel subsidy could lead to increase in household spending.

Results from recent studies by NOI Polls on fuel subsidy in Nigeria showed an increase in household spending since the partial removal of fuel subsidies in January 2012. However, the data did not prove a direct causal relationship. There are a number of other economic factors that could lead to an increase in household spending.

NOI Polls asked respondents if the partial removal of fuel subsidy had any impact on their spending pattern as individuals or as a household. 80 percent of respondents reported an increase in household spending. 13 percent claimed that their spending remained the same while 7 percent claimed that their spending had decreased. The above results represent the perception of the respondents but do not conclusively establish a direct causal relationship between the subsidy removal and the increase (or not) of household or individual spending.

Table 7: Impact of partial removal of fuel subsidy on individual and household spending patterns

Nationwide	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average
Our spending has increased.	79%	83%	84%	79%	77%	80%	80%
Our spending has remained the same	14%	10%	14%	15%	14%	7%	12%
Our spending has reduced	7%	6%	2%	6%	9%	13%	7%

⁹ World Health Organisation (2011). Number of Registered Vehicles – Data by Country <<http://apps.who.int/gho/data/view.main.51210>> (accessed March 10, 2015)

¹⁰ Presidential Task Force on Power (2011). *Roadmap for Power Sector Reform*. Pg. 17. <Available at: <http://www.nigeriaelectricityprivatisation.com/wp-content/uploads/downloads/2011/03/Roadmap-for-Power-Sector-Reform-Full-Version.pdf>> (Accessed February 28, 2015)

The poll results show that 50 percent of the respondents buy PMS at least three times a week. This could imply that the respondents, in a bid to manage their cash flow and household budget for petroleum products, buy small quantities of PMS with each purchase than they previously did before the hike in fuel prices.

Table 8: Percentage of respondents who purchased PMS at least three times a week

Regions	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Period Average
North Central	50%	52%	49%	25%	44%	43%	44%
North East	65%	56%	64%	13%	58%	63%	53%
North West	52%	51%	67%	35%	59%	63%	55%
South East	68%	43%	56%	20%	54%	61%	50%
South South	63%	48%	45%	22%	53%	58%	48%
South West	62%	51%	54%	18%	46%	53%	47%
Nigeria	60%	50%	56%	22%	52%	57%	50%

- Nigerians do not have clarity on the reasons for the variations in PMS pump prices.

Respondents adduced a myriad of reasons for the evident differences in PMS prices across Nigeria with the most prevalent being the government's inability to monitor the filling stations.

Most respondents (54 percent) believe the differences in fuel prices are indicative of the failure of government to effectively monitor the filling stations. About 23 percent of the respondents erroneously believe the cost of importing fuel is not the same for all marketers. A further 22 percent of the respondents believe the filling stations are exploiting the public by hoarding fuel. A number of analysts have argued that distance from the seaports to the hinterlands could explain the price variation. This point is nullified by the fact that Petroleum Products Pricing Regulatory Agency (PPPRA) allows a distribution margin that covers retailers' costs, transportation, bridging funds, and administrative charges.

Table 9: Percentage of respondents who adduced various reasons for the difference in fuel prices

Nationwide	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average
The government is not monitoring the filling stations	54%	60%	48%	53%	50%	57%	54%
The cost of importing fuel is not the same for all marketers	22%	16%	25%	27%	26%	19%	23%
The filling stations are exploiting the public by hoarding fuel	16%	25%	27%	20%	22%	23%	22%
Others	3%	0%	0%	0%	2%	2%	1%
Don't know	5%	0%	0%	0%	0%	0%	1%

- Fewer Nigerians will contest the removal of the fuel subsidy.

Compared to the fuel subsidy protests on January 2012, there is a 10 percent drop in the number of respondents who will resist any attempt by the government to remove fuel subsidies. The 10 percent is calculated as the difference between the 60 percent of the respondents who did not support the January 2012 fuel subsidy removal and the 50 percent who indicated that they would not support any new government decision to remove the subsidy.

60 percent of the respondents indicated that they did not support government's January 2012 partial fuel subsidy removal. There were widespread protests in most of the major cities across Nigeria.

Table 10: Are you in support of the government's decision to remove fuel subsidy?

Nationwide	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average
No	61%	63%	65%	62%	58%	53%	60%
Yes	35%	37%	35%	38%	42%	47%	39%
Don't Know	4%	0%	0%	0%	0%	0%	1%

Only 50 percent of the respondents (a drop of 10 percent) indicated their opposition to any attempts by the government to further remove subsidy on petroleum products. Half of these respondents (26 percent) will join any street protests against the decision while the other half (24 percent) will not join any street protests. Only 29 percent will support any decision by the government to remove subsidies on petroleum products; a 10 percent drop from support for the January 2012 action. More Nigerians (21 percent of the respondents) are now indifferent.

Table 11: How would you react if the Government decides to further reduce or remove the fuel subsidy?

Nationwide	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Average
I will support the government's decision	22%	27%	28%	28%	36%	34%	29%
I will not support the government's decision and will join the street protests	33%	23%	22%	24%	22%	31%	26%
I will not support the government's decision but will not join the street protests	23%	28%	28%	15%	29%	20%	24%
I will be indifferent/neutral	21%	22%	22%	33%	13%	15%	21%
Others	1%	0%	0%	0%	0%	0%	0%

CASE FOR A COMPLETE REMOVAL OF FUEL SUBSIDIES IN NIGERIA

The data from the monthly surveys conducted by NOI Polls indicate the ineffectiveness of the fuel subsidy regime in Nigeria. As a result, there is need to review the subsidy regime and make a case for its complete removal.

- Nigeria's fuel subsidy regime is not working.

The survey data presented in this paper show that the fuel subsidy regime in Nigeria is not delivering on its core objective including maintaining stable and uniform pricing across Nigeria. In fact, it is one of the reasons why there has not been any significant investment in the refining sector of the oil industry in Nigeria.

- The subsidy regime is unsustainable.

Nigeria spent ₦0.971 trillion (US\$6.069 billion) in 2014 on fuel subsidies. Although this is about 25 percent drop from a high of ₦1.3 trillion (US\$8 billion) in 2011, it is still 20.7 percent of Nigeria's 2014 Federal Budget. The 2014 fuel subsidy (₦0.971 trillion) equals the total budget for the Ministries of Education, Health, Works, Transport and Power (₦0.985 trillion).

Nigeria is not able to sustain the high fuel subsidy bill in the face of declining international crude oil prices and other competing development needs. International crude oil prices dropped by over 60 percent from US\$115 in June 2014 to about US\$43 in March 2015. This drop will have a direct negative impact on Nigeria's gross revenue, which is depended mainly on crude oil sales.

- Nigeria is subsidising corruption.

The recent investigations of Nigeria's fuel subsidy regime shows that it is a bastion of corrupt practices. It has been characterised with lack of transparency and accountability. For

instance, in the first quarter of 2012, a parliamentary report from the House of Representatives revealed that corruption in Nigeria's State-run fuel subsidy scheme drained US\$6.8 billion (N1.08 trillion) from the country's coffers from 2009 to 2011. Many of the companies and individuals indicted by the investigation are yet to be prosecuted.

- The drop in oil prices presents an opportunity for a painless reform of the subsidy regime.

The significant drop in crude oil prices present a window of opportunity for a painless reform of the fuel subsidy regime in Nigeria. In January 2015, Federal Government of Nigeria dropped the recommended subsidised price from N97 per litre of PMS to N87 per litre of PMS. While this is a welcome development, pump prices are not yet determined by market forces; rather, by continued government involvement or interference in the market.

- A complete removal of fuel subsidies will unlock investments in refineries.

Fuel subsidies deter investments in refineries because the inability to compete against subsidised imports creates a disincentive for private investment in oil refinery infrastructure. Government's commitment to market-determined prices will give investors impetus to invest in refineries.

Furthermore, removal of subsidies will encourage competition which in turn will reduce inefficiencies in the petroleum product value chain, discourage wasteful consumption, cross-border smuggling, shortages, black market sales, adulteration of lower subsidised fuels with higher subsidised fuels and reduce pressure on foreign exchange.

- The Federal Government of Nigeria should apply the savings from the complete removal of fuel subsidy to expand transport infrastructure to reduce the cost of moving goods and people and for other ripple impact on other sectors.

Increased focus on inter-modality in the transportation sector will raise the efficiency of the sector in terms of convenience, travel time, and cost of moving goods and people. According to Nigeria's *National Integrated Infrastructure Master Plan*, which outlines the country's 30-year infrastructure plan, the transport sector needs about US\$800 billion (N128 trillion) over the next three decades to achieve its targets. As at 2013, only US\$4.4 billion (N704 billion) had been investment in transport projects, meanwhile, a total of over N6 trillion has been spent on fuel subsidies from 2006 till date excluding the huge amount spent on kerosene subsidy.

Following the January 2012 fuel subsidy removal, Federal Government of Nigeria established the Subsidy Reinvestment and Empowerment Programme (SURE-P) to invest the savings from the subsidy removal in social services and infrastructure. Although some good work has been done with SURE-P, government still needs to invest more funds in the transportation sector.

A total of about N540 billion has been invested in SURE-P in the past two years part of which was used in the developing 1,664 road projects including the 338-kilometre East-West highway and 3,430-kilometre railway lines. Increased investment in the transportation sector will subsidise transportation cost of moving people and goods, which will in turn be the absolute benefit derivable by the common Nigerian.

CONCLUSION

The results from the monthly surveys conducted by NOI Polls show the ineffectiveness of the fuel subsidy regime in Nigeria. Petroleum products are sold at various prices across Nigeria and in some cases they are sold at higher than the price without subsidies.

The various investigations into the fuel subsidy regime show that the subsidies have become a bastion of corruption by Nigeria's elite. Although in 2012, 25 companies and individuals were indicted, no one is yet to be convicted for the crime.

Nigerians understand that the subsidy regime has become a source of corruption and drain on the economy. Current data shows that one out of two Nigerians will support a complete fuel subsidy removal. This number can be higher if government is able to show real commitment to plug its own excesses, leakages and inefficiencies.



www.nextierlimited.com
research@nextierlimited.com
+234 701 002 7301