
BRIEF ON FUEL SUBSIDY

Dr. Ngozi Okonjo-Iweala
Coordinating Minister for the Economy /
Honourable Minister of Finance

DECEMBER 6th, 2011

Key facts about subsidy

1.

Under the current downstream sector structure, prices are not determined by demand and supply.

2.

Pump price of PMS is fixed at **N65 per litre** by Government.

3.

- The landing cost of a litre of PMS is about **N123/litre** based on an average crude oil price of US\$113.98pb

4.

In 2012, The landing cost of a litre of PMS is estimated at **N104/litre** based on a crude oil price of US\$90pb

To this add the cost of distribution, which is **N15.70/litre**

What is fuel subsidy?



1.

Paid, by government, to keep prices below

free market.

This means that currently for every one litre of petrol purchased at the official price of N65

Government contributes N73

2.

Causes distortions that result in huge economic costs such as rent-seeking

behavior and smuggling etc. Presently, only petrol and

kerosene enjoy government subsidy. Diesel has already been successfully deregulated.

3.

Amount of Subsidy = difference between the consumer pump price of fuel vs. the total cost of producing or importing

The price of petrol = **N65 per litre** but actual cost of supply = **N139 per litre;** And projected at **N120/litre** in 2012.

Deregulation of the downstream sector (Benefits of deregulation)

1. Implies limited intervention by government

2. Allows for better regulation & transparency

3. Allows for free operation activities in the sector.

4. Attracts new investors into the market. Increase competition and promote overall higher productivity.

5. Reduces scarcity: by ensuring adequate supply of petroleum products.

6. Similar Success story to the telecommunication sector.

Why remove Subsidy? (1)

It is a major fiscal and financial burden on the nation:

- (i) From 2006 to 2011, about **N3.7 trillion** was spent on subsidy.
- (ii) In 2011, N1.348tr was spent between January and October and it is expected to reach N1.436tr by the end of the year.
- (iii) This represents **30%** of total FGN Expenditure, **118%** of the capital budget; **4.18%** of GDP.

Year	Average Crude Oil Price (US\$ pb)	TOTAL Subsidy	Year on year Growth Rate
2006	67.03	261.11	-
2007	74.68	278.86	7%
2008	101.78	630.57	126%
2009	63.02	463.59	-26%
2010	81.25	672.84	45%
2011 (Jan - Oct)	113.98	1,348.20	100%
TOTAL		3,655.17	-

The I
(i) In
(ii) E
(iii) L
(iv) N

Why remove Subsidy? (2)



Lack of Investment Incentives

20 refinery licenses already issued to private individuals/
companies since 2000

None has built a refinery yet because with the current market
structure, investors cannot even cover their costs



Decrease smuggling activities particularly to neighboring
countries

Reduce fraud and rent seeking behavior in the sector



Present level of Subsidy is not sustainable!!!

Does not reach intended beneficiaries

Benefits mostly the rich



Revenue can be used for many other pressing social and
infrastructural development projects in sectors like health,
education, power supply and roads.

Who Benefits from Subsidy?



The Rich & Middle Class

- A motorcycle owner uses about 20 litres/week compared to 60 l for a small car owner
- Others take buses, taxis & okodas and their subsidy level is



Neighboring Countries



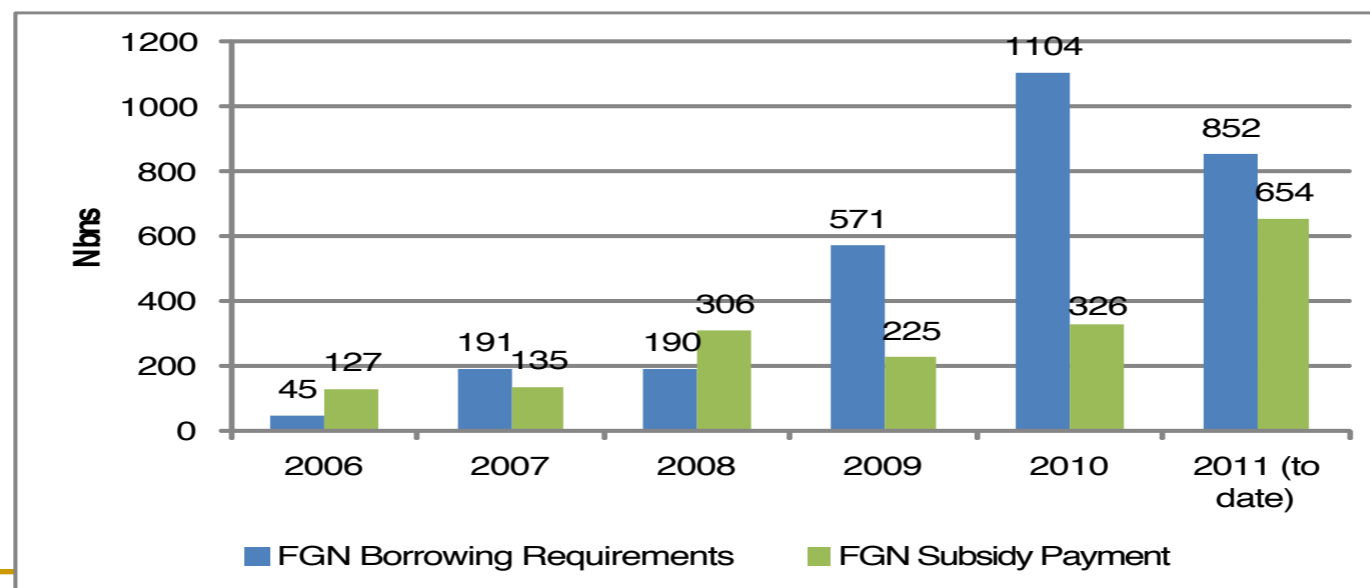
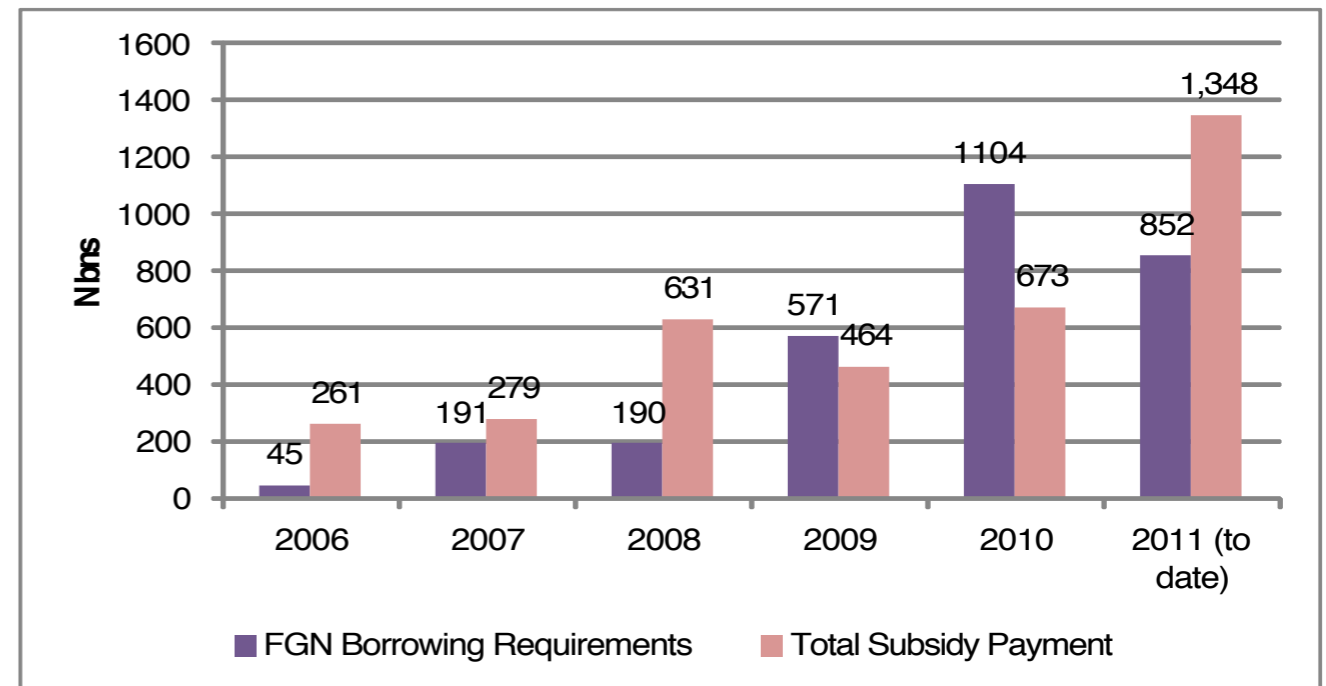
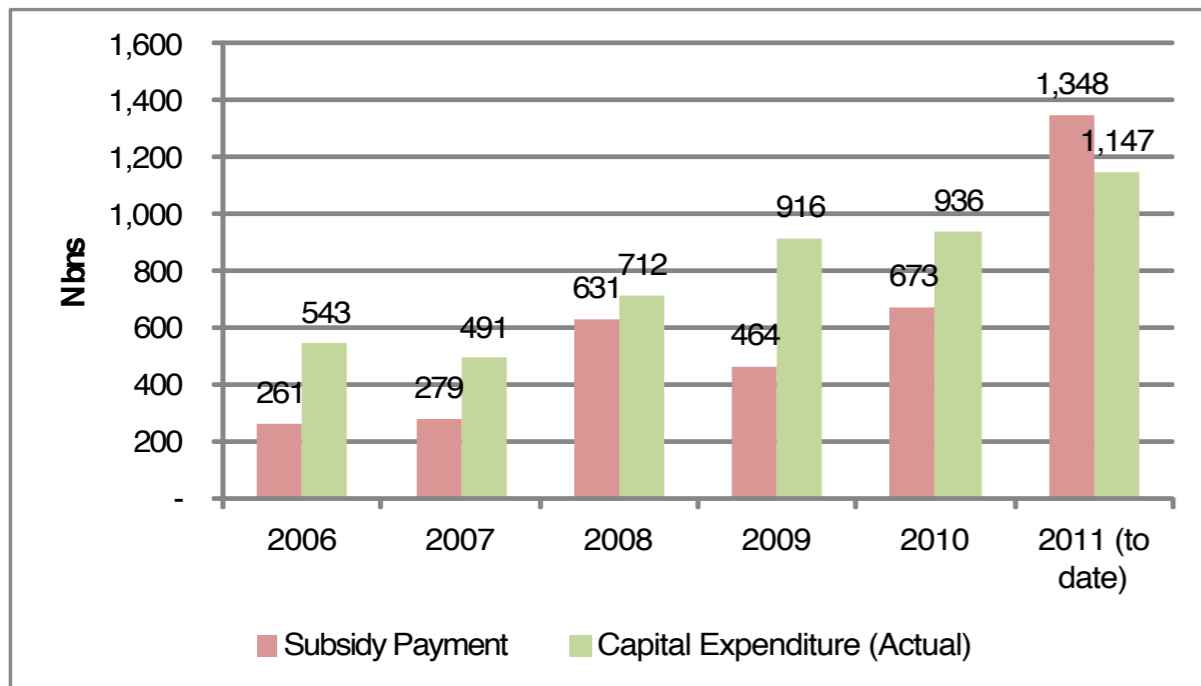
Normal profit accruing to Independent Marketers



Smugglers

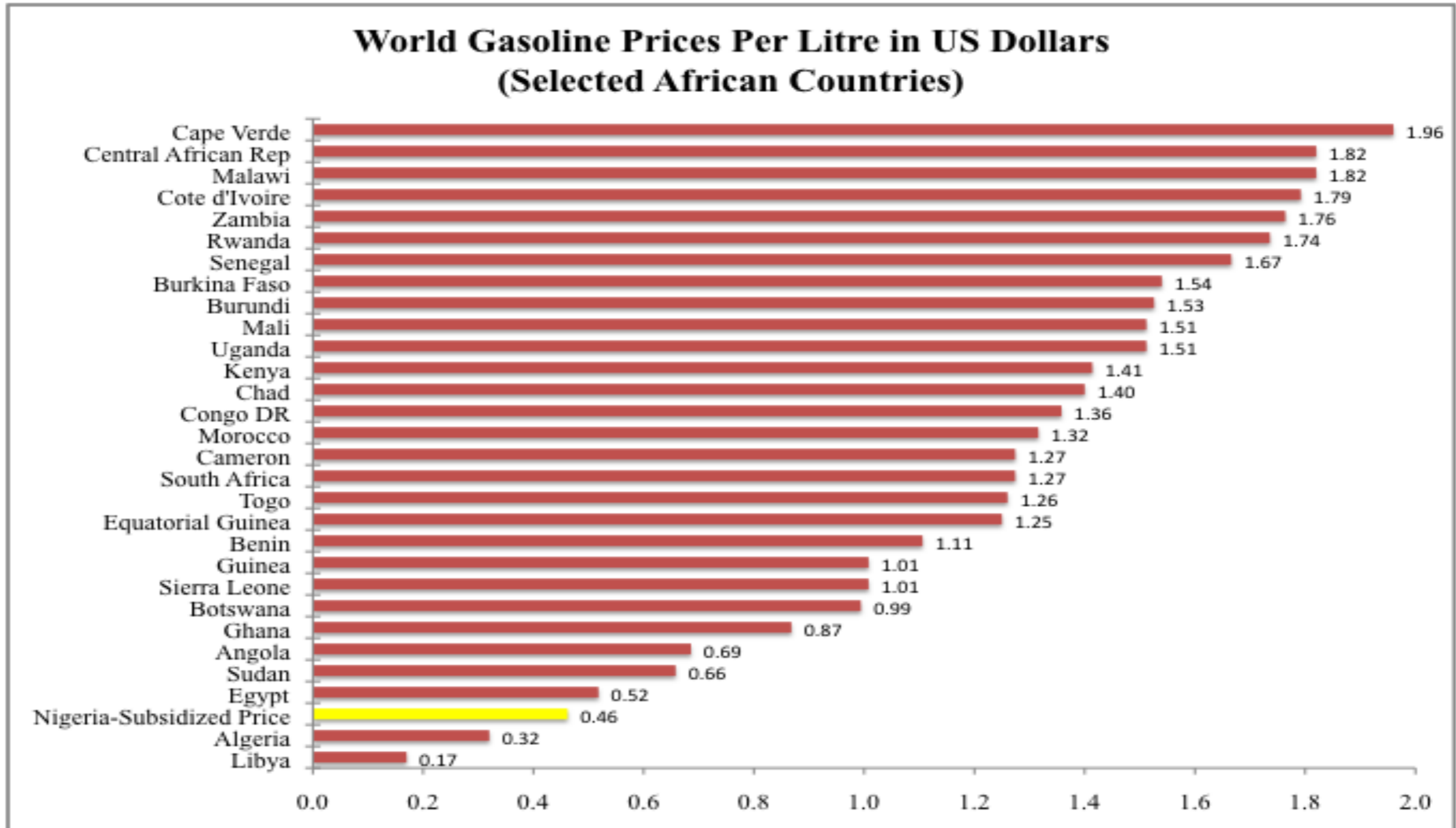
Subsidy and FGN Budget

- A substantial amount of money is **expended** on subsidy
- This could be invested in capital projects and used to reduce deficit and domestic borrowing which adds to our debt.
- In 2011 FGN borrowed N852bn to finance its deficit.



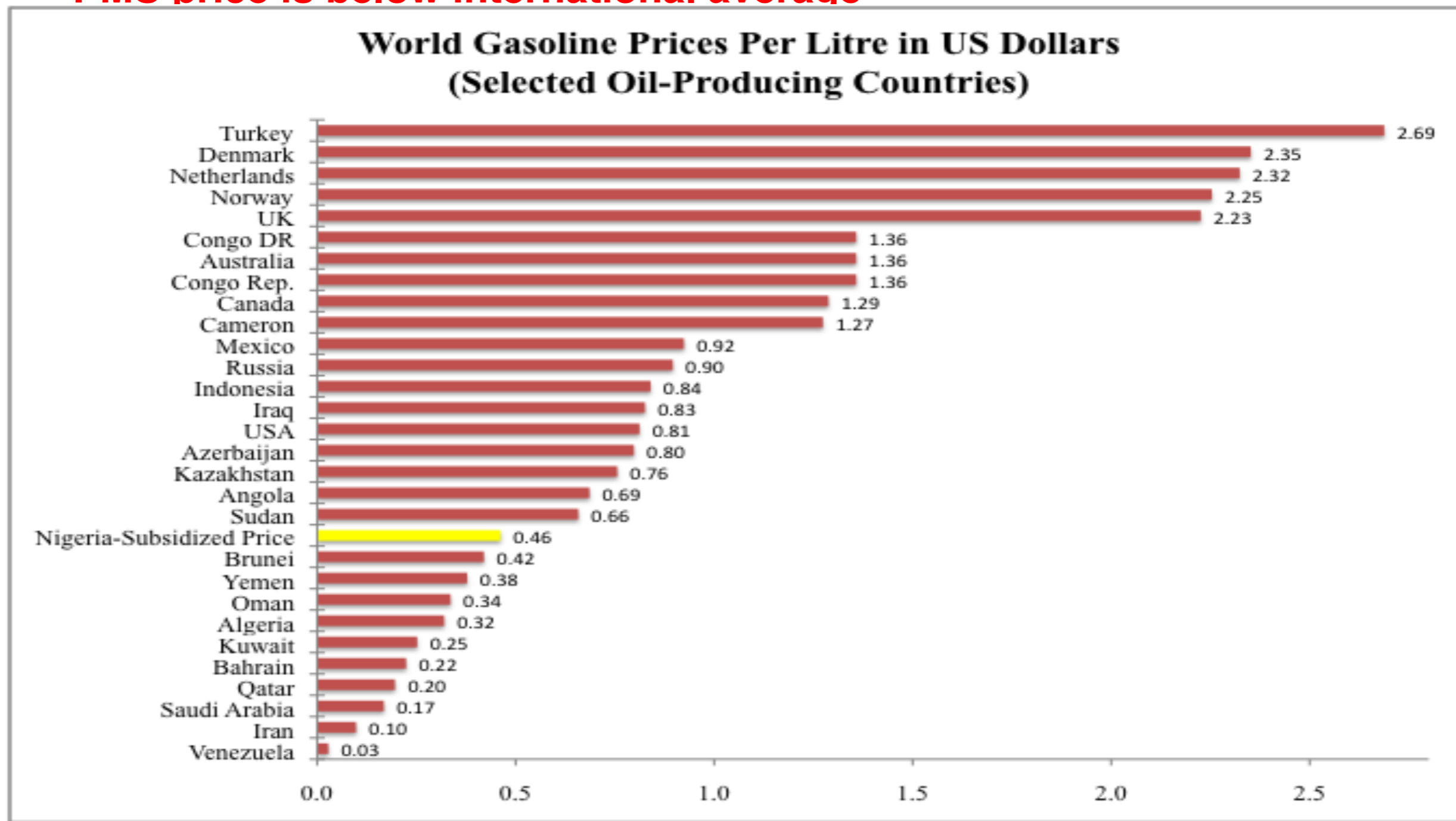
How Nigeria Compares with Other African Countries

- Petrol price in Nigeria ranks low in Africa...



How Nigeria Compares with Other Oil Producing Countries (3)

- **PMS price is below international average**



How Nigeria Compares with Other Oil Producing Countries (1)

- Nigeria is poor compared to other oil producing countries

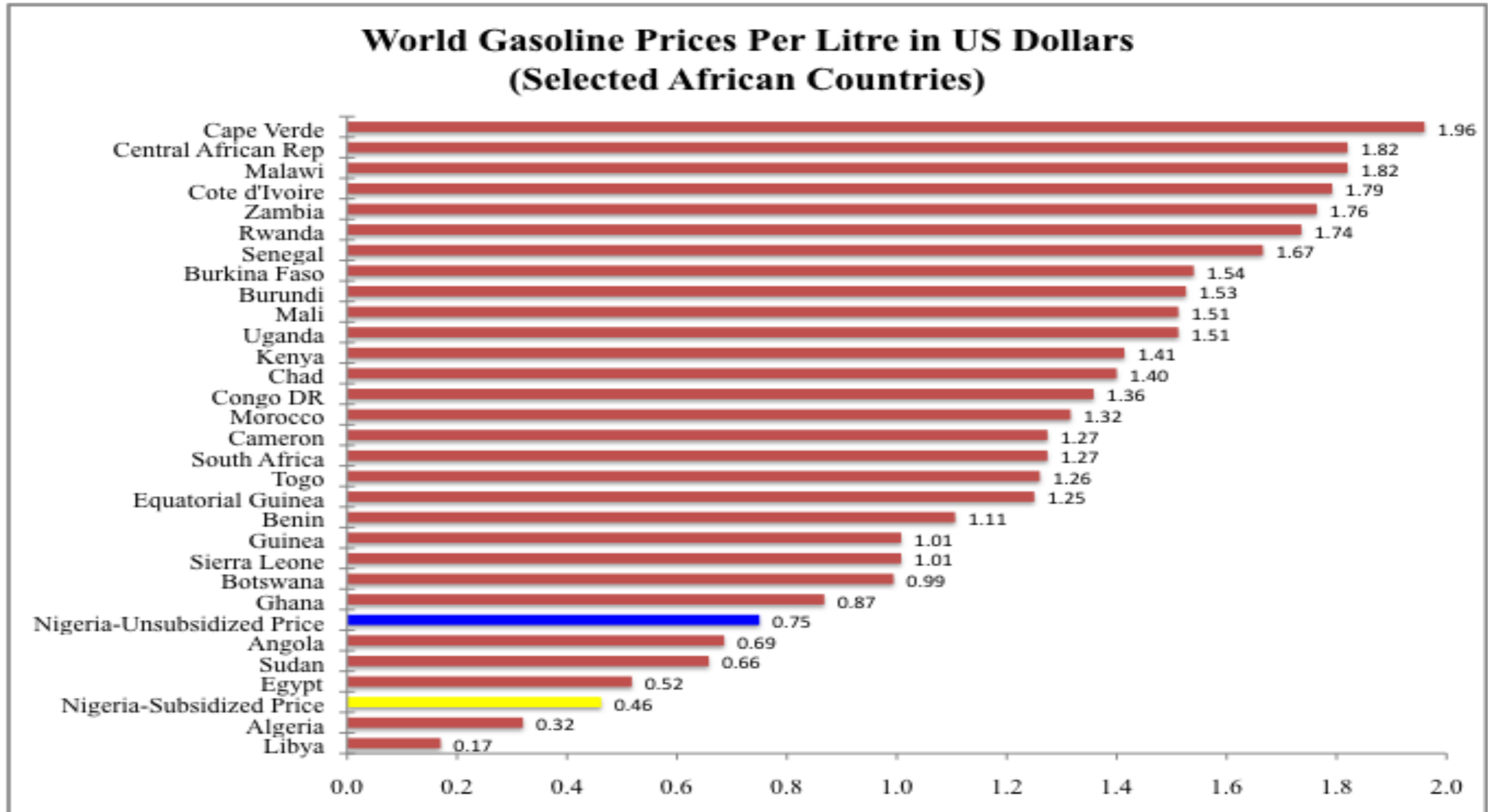
N/S	Country	Population (millions)	Crude Oil Reserves (barrels per person)	Oil Revenue (US\$ per person)	Average GDP per person (2006-2010 in USD)	Human Development Index	Price Per Litre (in US Dollars)
1	Sudan	30.89	217	521	1,338	0.41	0.66
2	Nigeria	167.05	223	472	1,203	0.45	0.46
3	Yemen	23.83	112	364	1,079	0.46	0.38
4	Cameron	19.4	10	109	1,102	0.48	1.27
5	Angola	19.6	689	3,101	3,817	0.48	0.69
6	Congo Rep.	4.14	469	2,317	2,721	0.53	1.36
7	Iraq	32.11	3,581	2,517	2,197	0.57	0.83
8	Indonesia	237.64	18	137	2,228	0.61	0.84
9	Algeria	36.2	337	1,638	4,125	0.70	0.32
10	Iran	75.88	1,806	1,840	4,559	0.71	0.10
11	Venezuela	29.46	7,168	2,756	9,544	0.73	0.03
12	Kuwait	2.82	35,993	29,239	35,516	0.76	0.25
13	Saudi Arabia	27.14	9,746	12,116	15,839	0.77	0.17
14	Qatar	1.71	15,150	30,161	68,080	0.82	0.2
15	UK	62.3	46	706	40,304	0.86	2.23
16	USA	312.69	99	789	46,071	0.91	0.81
17	Norway	4.97	1,340	14,145	81,616	0.94	2.25

How Nigeria Compares with Other Oil Producing Countries (2)

- Compared to other oil producing countries, Nigeria has a significantly lower GDP per capita; substantially less oil revenue per capita and greater social:
 - Total crude production of approximately 2.5 million barrels per day.
Therefore Nigeria has a significantly lower GDP per capita
 - Nigeria's GDP per capita is around \$1200 per year with over 167 million in population
- Low level of human development indicates :
 - That our spending priorities **MUST** differ from those of more developed oil producers
 - And address a large number of **unmet needs** through **judicious use** of resources flowing from deregulation.

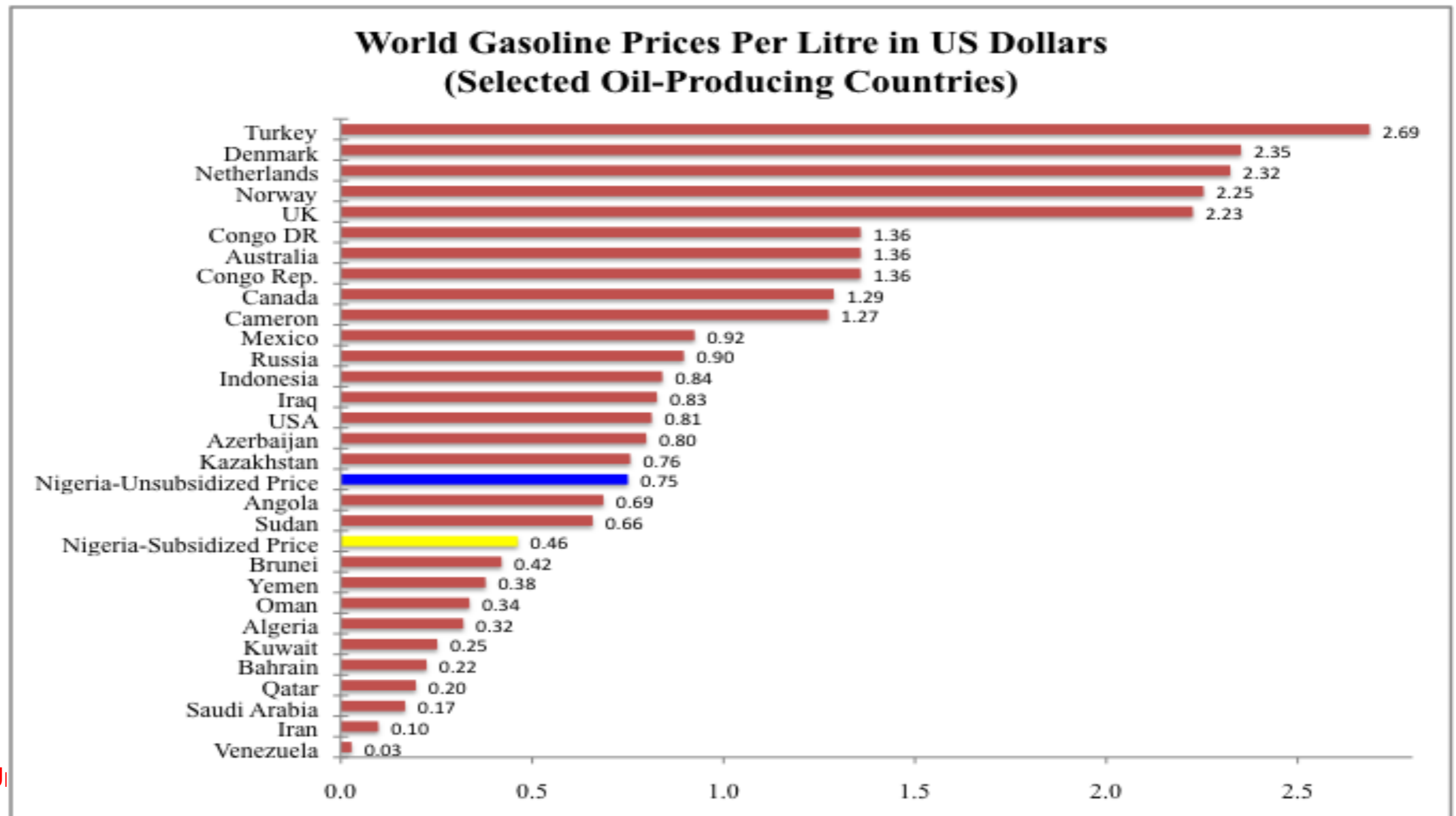
Where will Nigeria stand after Subsidy Removal? (1)

- Within Africa...



Where will Nigeria stand after Subsidy Removal? (2)

- Internationally...



U

How will FGN use the freed resources from subsidy removal? (1)

Subsidy Reinvestment and Empowerment Programme (SURE Programme)

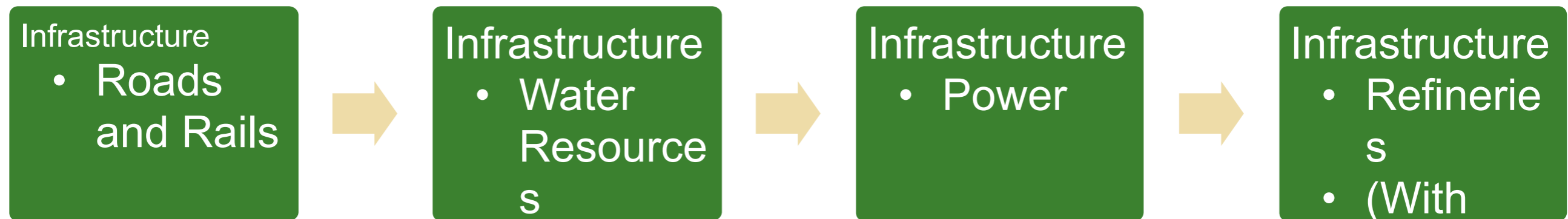
FGN developed this program

Social Safety Net Programs to help poorest households to cope with impact of price increase

- Maternal and child health services,
- Public works/youth employment programme
- Urban mass transit scheme, and
- Vocational training schemes

How will FGN use the freed resources from subsidy removal? (2)

- High profile infrastructure projects across the country in sectors such as:



- To ensure **sustainability** and **delivery** of these projects:
 - Structures have been developed to guarantee adequate oversight, accountability, and implementation of the various projects.
 - High powered committee of eminent Nigerians to monitor revenue proceeds and proper implementation:
 - Members with proven integrity from Nigerian Youth, Women groups and Civil Society Organisations.

Who will benefit from the subsidy removal?



**The Nigerian
Public at
large**



Youth through:
- Public works programme
- Training schemes
- Refineries creating jobs
- ICT projects



**Women
and their
Children**
through:
- Maternal
and Child
health
services



**Urban
Mass
Transit
Users**



**Traders
and Inter-
city
Commuters** through
improved
roads and
railways
system



Farmers
through
improved
irrigation
and water
conservation
systems

End Notes:

- The current subsidy on petroleum products is the difference between landing cost and pump price fixed by government
- Subsidy does not get to the poor. The middle and upper classes are the real beneficiaries
- **It is clearly unsustainable!** Subsidy in 2011 alone so far is over N1.3tr; which is higher than our capital budget.
- Evidence shows that the price of fuel in Nigeria is below both the African and International average!
- Nigeria with its large population and small oil base is comparatively **poor** compared to other oil producers
- Therefore:
 - We must rethink our approach to managing our scarce resources to provide services to Nigerians.
 - We will be better off using the amount spent on subsidy to target poorer groups and big infrastructure projects
- To ensure effectiveness, efficiency and delivery a high profile committee will monitor implementation and use of the amount saved

Thank You!