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APPROVAL

Chukwulobe, Ukamaka O., a Postgraduate Student in Department of Political Science, University of Nigeria, Nsukka with registration number PG/M.Sc./12/62370 has satisfactorily completed her research requirements for the award of Master of Science (M.Sc.) in Political Science (Political Economy). The work embodied in this report is original and has not been submitted in part or full to this or any other University, to the best of our knowledge.

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DEDICATION

To God Almighty for His steadfast love endureth forever.
ACKNOWLEDGEMENTS

I sincerely acknowledge God, the owner and giver of knowledge for his immeasurable love, kindness and inspiration to accomplish this research work, praise to His name forever! I am most grateful to my supervisor; Professor Ken Ifesinachi for his ideas, patience, timely corrections and the insights our interactions brought to the work. My profound gratitude to Prof. Okey Ibeanu for his support in my life and family, may God reward you. My sincere appreciation to my lecturers, whose ideas served as catalyst for invigorating me all through my stay as student in the department of political science. Prof. H.A Asobie, Prof. Jonah Onuoha, Dr. Ogban iyam, Dr. Nwosu, Dr. H. Agbo, Dr. Edeh, Dr. Mbah, Dr. C. Ezeibe your academic prowess and intellect shines light to my academic path.

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To my late sister Chioma Mbanefo you were a part of this dream, may your kind and beautiful soul continue to rest in peace.

CHUKWULOBE UKAMAKA
ABSTRACT

Fuel subsidy is critical to the Nigerian economy. It is argued that fuel subsidy for years has remained the only avenue through which the Nigerian government lived up to its socio-economic responsibility to its citizenry; and the attempt to withdraw this policy has been interpreted as a move by the government to default on its responsibility. This study, therefore, investigates the effects of fuel subsidy removal on national development in Nigeria between 1999 and 2012. The specific questions for investigation were: Does the incremental increases in the pump price of fuel undermine the living standard of Nigerians? Has the fuel subsidy probe improved on national revenue accounting? Did the mass protests that accompanied fuel price increase undermine the economic stability of Nigeria? Public choice theory was adopted as the theoretical framework of analysis. The Ex-post facto design was employed as the research design. Data from secondary sources such as books, journals and official documents were qualitatively analyzed. The findings revealed that the incremental increases in the pump price of fuel undermined the living standards of Nigerians. It also ascertained that fuel subsidy probe has not improved on national revenue accounting in Nigeria. Finally, the study demonstrated that the mass protests that accompany fuel price increases undermined the economic stability of Nigeria. The study recommends the need for government to embark on programs that would create more jobs to ameliorate the negative effects on poor and vulnerable groups in the face of increases in pump price of fuel.
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CHAPTER ONE

Introduction

1.1 Background of the Study

Subsidy has been defined as aids directly granted by government to an individual or private commercial enterprise deemed beneficial to the public. It is also a grant or gift of money from a government to a private company, organization, or charity to help it function. In relation to fuel in Nigeria, it means the financial aid granted to autonomous and foremost oil marketers by the government for them to supply their products at a cheaper rate for the good of the masses. This move is almost always aimed at boosting the economy of a country, providing social amenities for the people, stabilizing the market, creating employment opportunities and of course the assumption by the government that it is capable of fighting corruption. The Nigeria Extractive Industries Transparency Initiative (NEITI, 2011) notes that the issue of subsidy is not alien to the nation’s blood stream because it existed during the military regime when the four refineries of the nation could only produce little which could not even satisfy the domestic needs of the people.

Subsidy, in economic sense, exists when consumers of a given commodity are assisted by the government to pay less than the prevailing market price. In relation to fuel subsidy, it means that consumers would pay less than the pump price per litre of products. More so, fuel subsidy could be described as the difference between the actual market price of petroleum products per litre and what the final consumers pay for those same products.

Indeed, developing countries have used petroleum products or fuel subsidies for consumers primarily as a means of achieving certain social, economic, and environmental objectives, as identified by Bazilian and Onyeji, (2012). These include alleviating energy poverty and improving equity, increasing domestic supply, national resource wealth redistribution, correction of externalities and controlling inflation.

Subsidies were introduced in the Nigerian petroleum sector in the mid 1980’s. Something of a creeping phenomenon, the value of the subsidies has gone from 1 billion
Naira in the 1980s to an expected 6 billion Dollars in 2011. Nigeria is a country endowed with vast mineral resources prominent among which are the oil and gas reserves. The country possesses 28% of Africa’s proven oil reserves, second only to Libya; and is the largest producer of crude oil in the region, producing 2.4 million barrels per day in 2010 which is about 24% of the continent’s petroleum (Siddig, et al, 2013). In addition, Nigeria has four refineries with an installed production capacity of 445,000 barrels of fuel per day, adequate to meet its domestic needs with a surplus for export (Explore, 2011). However, Nigeria is a large net importer of fuel and other petroleum products. In spite of efforts to revamp her economy via various reforms, which includes comprehensive non-oil export diversification initiatives, petroleum still contributes an average of 95% of the nation's external earnings (Majekodunmi, 2013). The country increasingly relies on imported petroleum products because the existing refineries are producing below 20% of their installed capacity. In fact, the cost of importing petroleum products has risen so rapidly in recent years that the country’s capital expenditures and balance of payment are under threat (Adelabu, 2012).

According to Majekodunmi (2013), for five decades now, Nigeria’s economic growth and other related activities, (including living standards) have largely been influenced by the oil industry. The view that the economy is heavily dependent on the oil industry will amount to an understatement as the oil industry is nothing short of the life-blood of the Nigerian economy (Adelabu, 2012). The International Monetary Fund (IMF, 2013) indicates that Nigeria is the largest oil producing country in Africa and the sixth in the world. The country’s economic strength is derived largely from its oil and gas wealth, which contributes about 99 percent of government revenues and 38.8 percent of GDP (National Budget, 2010). Despite these positive developments, successive governments in Nigeria have been unable to use the oil resources to significantly reduce poverty, provide basic social and economic services for her citizens (Ering and Akpan, 2012).
Fuel subsidy was, before the coming of the Goodluck Jonathan’s administration, a policy of the federal government meant to assist the people of Nigeria to cushion the effects of economic hardship. However, the controversy over the removal of fuel subsidy was sparked off in June 2011 at the instance of Nigeria Governors' Forum, which includes governors of the 36 federating states in Nigeria. The Forum visited President Jonathan in the wake of the national debate over the payment of the new N18,000 minimum wage. The governors pleaded their inability to pay the new wage bill and suggested the removal of fuel subsidy to ensure that more money accrues to the Federation Account, which will in turn be shared among the three tiers being federal, state and local governments. Nevertheless, the Chairman of the Forum, Governor Chubuike Amaechi of Rivers State later stated that contrary to the prevailing notion that the Governors' support for the removal of fuel subsidy is hinged on their inability to pay the new minimum wage, they wanted it removed because only a few people were benefitting from the subsidies. He added that “with billions spent on fuel importation and we are not seeing the fuel, refineries are not in place … if we remove the subsidy, then people will establish refineries … the refineries will employ people and make fuel available (Social Action 2013:1).

The debate over subsidies was further fuelled on the 4 of October 2011 when President Goodluck Jonathan forwarded to the National Assembly [Senate and House of Representatives] the 2012-2015 Medium Term Expenditure Framework, and the 2012 Fiscal Strategy Paper. Among other issues, the documents proposed to phase out subsidy on fuel beginning in 2012. According to the President, this will make available about N1.2 trillion - some of which will be available for use in creating safety nets for the poor who will be adversely affected by the removal of the subsidy, and also go into the establishment of 'critical infrastructure'.
Fuel subsidy removal, which the federal government has effectively canvassed and lobbied for since May 29, 2011 appear to finally take off on December 12, 2011. This is when the National Economic Council (NEC) headed by Vice President Namadi Sambo decided that the government should finally remove the subsidy from January 2012. By January 2012, there were revelations that amount expended on fuel subsidies in 2011 was much higher than what the government was keen to admit. While it has been estimated that government expenditure for this purpose was about N561 billion in 2010, the figure, at least, tripled in 2011 though there was no substantial increase in fuel consumption between the periods.

An interesting matter from the economy is the issue of fuel subsidy removal, which has been a great controversy for Nigerians. The issue of fuel subsidy removal has been on in Nigeria for some decades of which different governments have tried to implement the reform but were unsuccessful due to fierce public demonstration of disapproval. This has often led to mass protests by the citizens and the civil society who regard such policy as a measure to further subjugate and impoverish the masses. Notwithstanding, it seems that the longer the subsidies have existed, the more entrenched the opposition to reduce them. It is against this backdrop that this study investigates the effect of fuel subsidy removal on national development in Nigeria, with emphasis on the period between 1999 and 2012. To this end, it aims to determine if the incremental increases in the pump price of fuel undermine the living standard of Nigerians. More so, the study seeks to establish if the fuel subsidy probe has improved national revenue accounting. Finally, the research will determine if mass protests that accompany fuel price increases undermine the economic stability of Nigeria.

1.2 Statement of the Problem

The issue of fuel crisis has become a common phenomenon in Nigeria. There is hardly any issue that draws more emotion across all strata of the Nigerian society than fuel
subsidy. The problem of fuel subsidy has led to a great debate in Nigeria. Much as subsidy is an economic necessity, the discussion over its impact on the masses and desirability in Nigeria remains unresolved. This question is necessary because the government argues that withdrawing the subsidy programme will enable it to have more money at the expense of the citizens, who contend that if there is subsidy removal, they stand to benefit nothing from the government. The position of the government for the removal of fuel subsidy in Nigeria is based on the premise that it will use the money realized to provide infrastructures. To the other side of the debate it seems this has never been achieved despite several increases in pump price of petroleum products between 1999 and 2012. This culminated to the formation of Subsidy Reinvestment Programme (SURE-P) to manage the funds accrued from the subsidy removal (Alwell, 2012).

However, despite the attempts by successive government to bring an end to fuel subsidy in Nigeria through price increases since 1999, there appears to be no empirical evidence to show its beneficial effect on the living standard of Nigerians. The upward adjustments of petroleum products have resulted in inflation, high cost of living, and inequitable distribution of income in Nigeria. Between 1978 and 2012, the various government regimes have changed the fuel prices for a total number of 23 times. Most of the increase occurred in the 1990-2012 period when petroleum products prices were adjusted upwards sometimes twice in one year. One major problem this has caused was the instability of the prices of goods and services in the country. Whenever there is an increase in prices of petroleum products in Nigeria, it affects transportation, cost of goods and other services. The cost of the fuel subsidy continues to expose the citizens to untold hardship due to rising cost of fuel as well as transportation which indirectly affect food prices. A survey showed that from 2012, the prices of fruits such as oranges, pineapples, banana, and apples have risen. Cost of frozen chicken, vegetable oil and other food items sky-rocketed, this survey was done
within the first month of subsidy removal (Harambe, 2012). There is therefore the need to undertake empirical study of this nature to determine the effects of fuel subsidy on national development in Nigeria between 1999 and 2012. The concomitant effects of fuel price increment, probes and protests in relation to national development buttressed by living standards, revenue accounting and economic stability, appear to be lacking in incremental systematic treatment of their relatedness, complexity and utility maximization in public choice analysis. To this end, the research seeks to investigate the following questions:

1. Does the incremental increases in the pump price of fuel undermine the living standard of Nigerians?
2. Has the fuel subsidy probe improved national revenue accounting in Nigeria?
3. Did the mass protests that accompanied fuel price increases undermine the economic stability of Nigeria?

1.3 Objectives of the study

The broad objective of the study is to investigate the effect of fuel subsidy removal on national development in Nigeria between 1999 and 2012. However, the specific objectives are:

1. To determine if the incremental increases in the pump price of fuel undermine the living standard of Nigerians;
2. To ascertain if fuel subsidy probe improved on national revenue accounting in Nigeria; and
3. To establish if the mass protests that accompany fuel price increases undermined the economic stability of Nigeria

1.4 Significance of the Study

The study has theoretical and practical significance. Theoretically, it investigates fuel subsidy and national development in Nigeria between 1999 and 2012. It is apparent from the
above review that the concomitant effects of fuel price increment, probes and protests in relation to national development buttressed by living standards, revenue accounting and economic stability, appear to be lacking in incremental systematic treatment of their relatedness, complexity and utility maximization in public choice analysis. This study therefore, fills this gap in literature.

Practically, the findings will enhance the management of fuel subsidy in particular and petroleum resources in Nigeria. It is obvious from various studies that efforts to bring sanity and efficiency in the management of the nation’s resources have failed to achieve their objectives because they were not stemmed from empirical research. This study is therefore a contribution to this regard. It will bring to the fore, issues related to subsidy, standards of living and national revenue accounting in Nigeria. More so, it will serve as guide to policy makers, administrators and the general public and help make informed decisions on the challenge of fuel subsidy policy, particularly concerning standards of living in Nigeria and national revenue accounting. Finally, the study will add to the body of literature on fuel subsidy and national development in Nigeria and stimulate further research in the field.
CHAPTER TWO
LITERATURE REVIEW

2.1 Literature Review

A successful research depends on a well-planned and thorough review of the relevant literature available and such a review usually entails obtaining useful references or sources. Literature is reviewed for the following reasons (De Wet et al., cited in Okonkwo, 2013): to obtain perspective on the most recent research findings related to the topic of the search; to obtain an indication of the best methods, instruments for measurement, and static, which can be used; to improve the interpretation of one’s own research results; and to help determine the actuality of research on a particular topic.

Therefore, the purpose of this review is to investigate subsidy and national development in Nigeria between 1999 and 2012. There have been intellectual debate and researches on the issue of subsidy and national development in Nigeria between 1999 and 2012. These studies have focused on the desirability and the benefits of petroleum subsidy in the Nigerian society. This review therefore interrogates literature related to subsidy and national development to ascertain the state of knowledge on petroleum subsidy and living standard of Nigerians, fuel subsidy probe and revenue accounting in Nigeria and the impacts of the mass protests that accompanied the fuel price increases on the economic stability of the nation in order to locate our study.

Energy subsidies are defined as “any government action that lowers the cost of energy production, raises the revenues of energy producers or lowers the price paid by energy consumers” (Citizens Guide to Energy Subsidies in Nigeria, 2011). There are two categories of subsidies: those designed to reduce cost of consuming energy (consumer subsidies) and those aimed at supporting domestic production (producer subsidies) Subsidy is meant to contribute to economic growth, poverty reduction and security of supply. A subsidy is an assistance paid to a business or economic sector mainly by the government to prevent the
decline of that industry (Todaro et al, 2009). Similarly, the Oxford Advanced Learners Dictionary (2001) defined a subsidy as money that is paid by a government or an organization to reduce the cost of services or of producing goods so that their prices can be kept low. In addition, Bakare (2012) points out that to subsidize is to sell a product below the cost of production. The Academics Dictionary of Economics (2006) defined subsidy as “the cash incentive given by the government to an industry with a view to lower the price of the product of the concerned industry and to raise its competitive power. This may be given as a counter balancing measure to the imposition of the custom duty (In the nature of protection duty) by an importing country government. One important objective of subsidy is to keep its prices below the cost of production.”

Furthermore, subsidy can also be defined as any measure that keeps prices consumers pay for a goods or products below market levels for consumers or for producers above market. Subsidies take different forms. Some subsidies have a direct impact on price. These include grants, tax reductions and exemptions or price controls. Others affect prices or costs indirectly, such as a regulations that skew the market in favour of a particular fuel, government sponsoring technology, or research and development. Thus, there are two major classes of subsidies – production subsidies which is associated with developed countries and;

- Consumer subsidies, which are found mainly in developing countries like Nigeria. A subsidy is a reverse tax. It is a deliberate attempt by government to support a chosen economic agent – a consumer and a producer and it can be applied in any market that involves the buying and selling of products and or services. A subsidy as defined by the OECD in a study is basically government action that decreases the consumption price of the consumer and or increases the selling price of the producer (UNEP, 2002)

Indeed, subsidies enjoy widespread use in several countries and several commodities such as petroleum products, food or farm inputs liker fertilizer and machinery. Prices are
regulated in Canada, Ghana and South Africa. In many OPEC countries, the pricing of crude is different from crude in the international market which explains the relatively lower prices of petroleum product in OPEC countries. Though, a subsidy can be a very powerful policy tool that can be used to address market failures or achieve social objectives. It may also be an artificial tool to skew markets and this can impose large economic costs with huge negative externalities such as corruption. Since government is the primary provider of subsidies, it is expedient that policy makers should be well equipped to decide whether, where and when to provide subsidies. It is equally important that any such subsidy injection should adequately recognise the costs to the economy of distorting competition when assessing subsidies and to identify where, if possible, such costs may be minimized.

Within the Nigerian context, fuel subsidy means to sell petrol below the cost of importation. It is a mechanism designed by the government to keep the price consumers pay for products below market levels to specifically make targeted goods and services affordable to consumers who ordinarily may not be able to afford them. Subsidies could benefit people and businesses in the form of tax deductions, grants, exemptions or price control. In Nigeria, fuel subsidy as designed in the Petroleum Product Pricing Regulatory Agency (PPPRA, 2012) template is the compensation due to importers of petroleum products based on the difference between landing cost less ex-depot price of fuel. This is to ensure that consumers pay a regulated amount of petroleum products at the same time, ensuring that producers get their real costs remunerated. It is a scheme meant to alleviate poverty by providing energy security for the country. Subsidies affect prices or costs indirectly, such as regulations that tilt the market in favour of a specific fuel, government funded technology or research and development (Adebiyi, 2011).

In many countries of the world, the pricing of petroleum products is regulated for many reasons (The petroleum industry is not a competitive one but oligopolistic and the
importance of the products/impact on the poor). Prices are regulated in Canada, Ghana and South Africa. In many OPEC countries, the pricing of crude is different from crude in the international market which explains the relatively lower prices of petroleum product in OPEC countries. Indeed, Independent Petroleum Marketers Association of Nigeria has formally declared that its members could not sell PMS at the official price of N97 because they buy from independent tank farms at N105 per litre (Vanguard, 2013).

Fuel subsidy is particularly popular in oil producing countries like Iran, Venezuela, China, Saudi Arabia, India, Indonesia, Egypt and Ukraine, (Nwachukwu and Chike, 2011). Fuel subsidy removal programs are sensitive to economic structure, level of development of the country, political systems and the state of the economy. There is evidence that the more successful countries have taken a phased or gradual approach, have engaged in conscientious research prior to implementation and followed by a rigorous approach to policy making (Majekodunmi, 2013). That effective communications and a fair level of trust between citizens and governments may be the other critical success factors in such an exercise. It has been shown in the past that any significant increase in the fuel price often cause economic recession, such as witnessed in 1973 and 1979. One way in which the government had made fuel sufficiently available and affordable to the low –income earner is through subsidy. The introduction of subsidy indirectly promote economic growth and development as a result of the affordability of the price of goods which provides an enabling point for the middle class citizen to contribute significantly to the economy. Lesson from China shows how subsidy had contributed significantly to economic growth and development. The success could be attributed to the affordability of energy and hence an increase in its demand.

Subsides were introduced in the Nigerian energy sector in the mid 1980’s. Something of a creeping phenomenon, the value of the subsidies has gone from 1billion in the 1980’s to an expected 6billion dollars in 2011 (Centre for Public Policy Alternatives, 2012). In this
period the specific products targeted for subsidy have changed. Diesel oil has had its associated subsidy redacted while petrol gasoline DPK continues to enjoy 54.4% subsidy over the international spot market price at the Nigerian pump (Oyedele, 2012). A subsidy by definition is any measure that keeps prices consumers pay for good or product below market levels for consumers or for producers above market. Subsidies take different forms. Some subsidies have a direct impact on price. These include grants, tax reductions and exemptions or price controls. Others affect prices or costs indirectly such as regulations that skew the market in favor of a particular fuel, government sponsored technology or research and development (R and D) (Adebiyi, 2011).

International experience indicates that results of subsidy removal have been mixed. In some countries subsidy removal as program enjoyed relative success with limited social stress. In other cases the exercise was deemed a failure. There is a view that the Arab spring was caused by a build-up of tension from stresses caused by high food prices and extreme social inequality. Materialists have blamed Arab economies for being highly vulnerable to inflation, and recently, rising food prices (CBN, 2009).

The Nigerian case is that of the imposition of a consumer subsidy which translates into a consumer surplus whereby the consumer pays for fuel at a price at N65 per litre that is less than the current world market price of imported fuel inclusive of distribution cost of N142 per litre. The consumer benefits by also purchasing the commodity/product in quantities that are at variance to the ideal quantities to be demanded by the consumer public. The supplying, community (oil marketers) enjoys the product’s surplus as they are now inclined to sell larger quantities at the market price. Economic theory postulates that the actual cost of subsidies exceed the transfers offered by the government to the producer and consumer community. The Nigerian situation is somewhat peculiar and manifest in a rather intriguing way that almost hints of the notorious Nigerian factor. There is certainly a case for
the removal of subsidies in Nigeria. Nigeria currently does not meet any of the listed criteria in the framework adopted in a UNEP 2003 study on energy subsidies that would justify the continued imposition of a subsidy. So far, government’s plans have only been discernable from press statements or interviews given by officials. Statements attributed to some government officials and the president (This Day, 23rd October, 2011) suggests a number of plans and projects including: Setting up a fund from the withdrawn subsidy to be managed by a committee of highly respected Nigerians. Infrastructural and social services projects involving road constructions; major public maintenance works; and improving on the progress made in power generation and distribution through additional investment. Facilitation of a comprehensive mass transportation system; schemes for skilled and unskilled youths; social programs targeted at pregnant women, children and elderly. Public Private Partnership to establish refineries and increase domestic fuel production and supply. However, federal government is yet to present a detailed plan with specific projects that will cushion the initial shocks to the economy and difficulties that may be suffered by the poor and vulnerable groups in society (Centre for Public Policy Alternatives, 2012).

Ekine and Okidim (2013) investigated that the consumption-related fossil-fuel subsidies have exceeded 2 percent of GDP for many countries, particularly the developing countries with low GDP per capita. Some of these countries are Bangladesh (3.0% of GDP), Ecuador (8.7% of GDP), Turkmenistan (15.2% of GDP in 2008), Egypt (8.4% of GDP), and Ukraine (3.3% of GDP). The study also revealed that expenditures on subsidisation in some of these countries are larger than expenditures on their health and/or public education.

While the above facts proved convincing, the nature and behaviour of Nigerian ruling elites and class does not give room for any optimism regarding the decision to remove subsidy on fuel. For instance, United Nations Environment Programme (UNEP, 2008) argued that there are so many inconsistent and non-transparent activities prevailing in Nigeria on the
issue of petroleum subsidy. He stated that the Executive director of Petroleum Product Pricing Regulatory Agency in Nigeria (PPRRA) estimated that the gross amount spent on fuel subsidy from 2006 to September 2011 stood at N3.655 trillion which contradicted that of NNPC. The list of over one hundred beneficiaries also showed that some of them do not qualify while some are even construction companies. It was also discovered that some of the companies did not import the quantities they claim to import. All these and many other issues generate lack of confidence in the mind of Nigerian citizens.

With an estimated 37.2 billion barrels of proven oil reserves (IMF, 2013), Nigeria is one of the world’s largest oil producers. However, the country’s mineral riches have not resulted in a significant improvement in the quality of life for the majority of Nigeria’s citizens, 54 percent of whom live below the national poverty line. In 2010, Nigeria earned $59 billion from oil exports (Nwachukwu and Chike, 2011). Therefore, Nigeria does not lack the resources to reach its development goals, rather its resources have been utilized inefficiently.

In the wake of the global financial crisis and increasing sovereign debt risk, financing for development is drying up and developing countries must now look inward to finance their growth and development needs. Crisis times require bold reforms and President Jonathan of Nigeria has the ability to take on one of the most difficult problems in his country. But in order to succeed, he will also have to take on another challenge – transparency in the use of the $8 billion fuel subsidy funds. The government must utilize these resources more efficiently to create social welfare and infrastructure improvement programs that will not only improve the quality of life for Nigeria’s poorest but also put the country on track to meet its development goals.

It therefore connotes that subsidy removal though will play significant role in nation building it is not the absolute resort to improve the economy. While it looks significantly
important, there are other measures that could be adopted even without subsidy removal which would improve the economy significantly. And the presence of subsidy will play a pivotal role to the accomplishment of this measure as is being witnessed in china. The removal of government benefit to the people in the form of subsidy will have a negative impact on the low to middle income earners. The middle income earners have been identified as the group of people in the nation, whose activities mostly drive economic growth and development. The high cost of commodities following the removal of subsidy will constitute an impediment to the good plan of the government associated with subsidy removal.

Energy subsidies are defined as “any government action that lowers the cost of energy production, raises the revenues of energy producers or lowers the price paid by energy consumers” (Citizens Guide to Energy Subsidies in Nigeria). There are two categories of subsidies: those designed to reduce cost of consuming energy (consumer subsidies) and those aimed at supporting domestic production (producer subsidies) Subsidy is meant to contribute to economic growth, poverty reduction and security of supply.

In Nigeria, there are consumer subsidies for three energy products: gasoline (Premium Motor Spirit), Household kerosene and Electricity. Igbuzor (2013) notes that in 2010, PMS subsidy cost was $673 billion but in 2011, it was $2.17 billion. Similarly, in 2009, a directive from the President to NNPC to discontinue subsidy was ignored. NNPC claimed N310 billion.

Successful Nigerian governments have continually removed part of this subsidy claiming that prices paid by Nigerians to use petroleum products are less than what they should pay particularly when benchmarked against the prices in the international market and will provide necessary impetus for the Nigerian economy to find its rhythm (Onyeizugbe and Onwuka, 2012). This is further reiterated by Plante, (2013), while noting that subsidies especially on petroleum products are an important policy issue for many developing and
emerging market economies because of the steep costs they impose on the governments that provide them.

Deregulation in economics means the reduction or removal of government control in a particular sector or industry so as to create more and better competition within that industry. It is the elimination of government interference in the running of a system (Akinwumi and Agwaranze, 2005). This means that the market forces are allowed to determine the swings of operations rather than the state. Deregulation does not allow for restrictions in enterprises and services. One highly conflicting issue in Nigeria is perhaps the question of petroleum industry deregulation, which has been generating debates from its protagonists and antagonists.

The protagonists postulate that the liberalization of the petroleum downstream sector would finally actualize the objective of ending persistent fuel scarcity and maintaining sustainable fuel supply across the society. Also, liberalization and deregulation of the sector would open it up for foreign investments, and, the cases of petroleum products smuggling and inefficiencies in the sector will be greatly mitigated. By the deregulation of the sector, the government would be able to channel funds to other sectors of the economy. The antagonists oppose the total deregulation and liberalization of the petroleum sector for whatever reason but can only be partially reformed for efficiency purposes. As such, the overall national interest will be achieved, (Obayi, Eme and Eme 2012).

Kemp (2011) argued that petroleum product should be priced to reflect its full values to the economy (that is market price), the nation should obtain benefit from production through tax revenues and assists the poor consumers through direct financial assistance schemes. An empirical analysis was conducted by Majekodunmi (2013) to ascertain whether fuel subsidy is a fact or fallacy, and they concluded that fuel subsidy is a fact and that government should control the level of fuel subsidy prevailing in the country. Kojima and Bacon (2011) argued that subsidizing fuels has high costs. More so, universal price subsidies
always favour high income households more than the poor, because richer households consume more energy. The undesirable consequences include rampant abuses in fuel markets and an inefficient downstream petroleum sector languishing for need of reform. Subsidies only give the consumers financial incentives to over consume the subsidised commodity which leads to deadweight loss. Also, Nwaoga and Casmir (2013) concluded, after reviewing some the experiences of some developing countries, that fuel price subsidies though help the poor but place a large cost on the society and governments. They therefore advise the governments to move away from fuel subsidies as rapidly as possible and substitute them with targeted aids to the poor. An efficient ways to identify the targeted beneficiaries and deliver such aids to them should be given an utmost priority.

International Monetary Fund (IMF) projected that global consumer pretax subsidy to reach $250 billion in 2010 from $60 billion in 2003; and the tax-inclusive subsidies are estimated to reach $740 billion in 2010, which is 1% of the global GDP (Nwosa, 2012). Meanwhile, G-20 countries account for 70% of tax-inclusive subsidies with emerging countries among the G-20 account for the sizable share. Thus, cutting tax-inclusive subsidies by one-half could reduce projected fiscal deficits by one-sixth in subsidizing countries and could reduce greenhouse emissions by around 15 percent over the long run. Revenue generation and environmental degradation should be put into considerations; hence, petroleum products should be taxed at a rate that reflects the marginal environmental damage caused by their consumption. They concluded by suggesting subsidy reform such as compensating the poor, transparency in government accounts among others. Coady, El-Said, Gillingham, Kpodar, Medas, and Newhouse (2006) also studied the impact of subsidy phase out in oil exporting developing countries specifically Algeria, Iran and Nigeria. They confirmed that fuel subsidies bring about excessive demand and supply by the consumers and the producers respectively which lead to wastages. The outcomes of their investigations
showed that policy geared at more rational use of energy lead to energy-efficiency. This, according to them, will enable these countries to save enough oil to meet future increases in demand while maintaining stable production capacity which would enhance their economic development.

According to World Energy Outlook (2013), the annual level of fossil-fuel consumption subsidies fluctuates with changes in international prices, domestic pricing policies, exchange rates and demand. Iran was identified as the country with the highest subsidies in 2008 which stood at $101 billion and the value was around a third of the country’s annual central budget. This has placed a major burden on the economy that is forcing reliance on imports of refined products.

In Nigeria, there are consumer subsidies for three energy products: gasoline (Premium Motor Spirit), Household kerosene and Electricity. Igbuzor (2013) notes in 2010, PMS subsidy cost was $673 billion but in 2011, it was $2.17 billion. Similarly, in 2009, a directive from the President to NNPC to discontinue subsidy was ignored. NNPC claimed N310 billion.

Fuel subsidies are visibly undesirable for a number of reasons (Onyeizugbe and Onwuka, 2012). Subsidies displace higher priority public expenditure, dilute motivations for increasing energy efficiency, encourage domestic shortages due to cross-border smuggling, are economically expensive, and more beneficial to higher income individuals. However, any attempt to reduce subsidies is of serious political contentions. The Federal Government experienced this in Nigeria in 2012 when the general public protested against the purported removal of fuel subsidies. This is because the public does not have trust in government’s use of budget savings to the benefit of the masses. Also, there could be a resultant increase in poverty as a result of the subsidy reform, which leads to sizeable reduction in the real
incomes of low-income households. Therefore, only reform strategies that seek to address the above constrictions are more likely to succeed.

Nigeria is a country endowed with ample human and natural resources. In the early 1950s and 1960s, agriculture was the main foreign exchange earner of the country. Other mineral and agricultural resources like coal, tin, rubber, cotton, groundnuts, etc. were explored, and government’s expenditures were financed from their proceeds. The discovery of crude oil in commercial quantity at Olobiri in Delta state (in 1956) diverted the country’s attention to oil production and exportation. This led to huge foreign exchange earnings and reserves rising to an unprecedented buoyant level and thus, led to the abandonment of other vital sectors like agriculture. To this day, the Nigerian economy has become dependent on oil for most of her economic transactions with rest of the world.

According to Obasi (2003), 95% of Nigeria’s foreign exchange earnings are accounted by petroleum products. To bolster the effect of underdevelopment and poverty, the government has long been subsidizing the pump prices of petroleum products, such as petrol, kerosene, and diesel. However, following the global economic slump in most countries, the amount paid by the government to subsidize goods and services were gradually reduced to prevent more severe situations. In order to prevent the total failure of the economy, the Federal Government decided to subsidize fuel.

Several empirical works have been put forward by researchers in the areas of gasoline price effects on various aspects of the Nigerian economy. Nwosa (2012) examined empirically a one-to-one nexus between domestic fuel price and various macroeconomic variables in Nigeria for the period 1986-2011. The research employed a vector autoregressive (VAR) and a vector error correction (VEC) models for appropriate analysis. The VAR model revealed that a unidirectional causation exist from domestic fuel price to short-term interest rate for pairs of variables that are integrated of the same order but not co-
integrated while VEC model revealed the existence of causality from domestic fuel price to inflation rate in the long run and in the short run for pair of variables that are integrated of the same order and are co-integrated. Caution should therefore be taken by government on the issue of fuel subsidy removal and the liberalization of the downstream sector of the petroleum industry with respect to increase in gasoline prices (Nwosa and Ajibola 2013).

Hui-Siang et al., (2011) examined the relationship between domestic petrol price and the 10 principal economic sectors in Malaysia, using quarterly data for the period 1990-2007. The research employed a vector error correction model. Out of the 10 sectors, only the agriculture sector, trade sector and services sectors had a co-movement with fuel prices. Secondly, the significant coefficient for error correction term (ECT) in the sectoral equations showed that beyond the short run, fuel price remained the principal variable for these three economic sectors. Thirdly, unidirectional causality running from mining sector to fuel price was discovered via the standard Granger causality test. Finally, employing the generalized variance decomposition (GVDCs) test, it was established that some of these sectors over a longer period are influenced by the fuel price.

Ehinomen and Adeleke (2012) assessed the distribution of petroleum products in Nigeria, between the periods 1960-2007. To them, the distribution of such products in the country is burdened with complex problems, which sometimes lead to petroleum products outages, hiked prices of products and conflicts on the pump price of products. To them, the downstream activities of the oil industry should be completely deregulated to allow private sector and entrepreneurs’ full participation in the distribution of the products so as to drive effectiveness in the sector. As effectiveness is enhanced, operational cost will be cut down with a resultant reduction in the price of petroleum products that will be beneficial to all stakeholders in the industry.
The literature of living standards and condition in Nigeria is mainly centered on the emphasis of factors that constitute human capital and affect development e.g. education, health, social services and enabling environment. A definition of human capital in the work of Ogujuiba and Adeniyi (2005) state that; anything contributing to the improvement of human productivity, stimulate resourcefulness and enhance human dignity and overall quality of human life while refining attitudes, is an essential part of the human capital of any nation. These will include four important aspects namely the education system, health services, social services and good governance. Any improvement of these four important aspects will eventually lead to development. Akingbade (2008) asserts that; for any nation to have economic development within and outside its borders, it has to cater for its citizens via human capital development. Under achievement of human capital development in a country leads to underdevelopment of such country via failure to meet national objectives and lack of optimization of available potentials and resources. Poor human capital leads to hunger, poverty, disease, brain-drain, optical flight, huge debts, political instability etc. thereby hampering the development process and the happiness of the populace of a society.

There is a positive relationship between living conditions and development. As more and more efforts are made to increase the value of human capital of a society, the more the development level of that society. The more a nation has knowledgeable, skilled and resourceful individuals, the more the national growth and development of that nation. The human capital status of a nation will directly influence and positively correlate with economic and social indicators such as gross domestic product, income per capita, balance of trade, life expectancy, literacy rate, level of industrialization and the quality of infrastructural provisions. It can also have great impact on political stability, national peace and harmony as well as the prevailing ethos (Ogujuiba and Adeniyi, 2005).
One of the factors that constitute human capital and affect development is education. Increase in the level of quality education of Nigerian citizens will increase productivity and hence development. Lucas (1988) includes human capital as an additional input in the production of goods, while retaining the other features of the neoclassical growth model. In the model, the labour force can accumulate human capital, which is then used together with physical capital to generate the output of the economy. In one version of the model, human capital is acquired through time spent in an (non-productive) educational process, introducing a trade-off for workers between employing time to produce output and using it to gain further human capital that will increase their marginal productivity when working in subsequent periods. In another version of the model, human capital is gained by the workers through on-the-job training, and so the time employed working increases their productivity later on. A recent research on the impact of human capital on economic development carried out by Ogujuiba and Adeniyi shows a more robust result using data from the Central Bank of Nigeria annual report 1970 – 2003. Their findings were that education level indicated via primary to tertiary education enrolment in Nigeria has a positive impact on Nigeria’s economic development. Even though the relationship between economic development and tertiary education enrolment is positive, it is also found to be weak. This is probably associated to the decay in most of the tertiary institutions, persistent strikes and disruption of academic activities, inadequate funding and weak infrastructure in the educational sector of Nigeria.

Becker (1992) provides the most direct link between education and economic growth: lower fertility provides an opportunity to increase human capital, which in turn helps sustain lower fertility. The more educated the parents are, the more likely they go for smaller families because not only do they have a higher opportunity cost of time, but also they can teach their children more effectively. High levels of human capital cause low fertility and
high investment in human capital. Other factors that constitute human capital and affect development are health services, social services and good governance.

Health services include all the necessary need of a citizen when he/she is ill. Health services can be reflected by several indicators such as life expectancy and infant mortality. Barro and Sala-i-Martin (1995, Ch.12), among many others, have also included life expectancy and infant mortality in the growth regressions as a proxy of tangible human capital, complementing the intangible human capital measures derived from school inputs or cognitive tests considered; their finding is that life expectancy has a strong, positive relation with growth. This means that Health services which help an individual to operate at his/her full capacity increases overall productivity and hence growth and development.

When there is good governance, there will be social services and also, human capital will be increased thereby leading to better standards of living. But Nigeria, a country that relies only on oil revenues lacks good governance. Barton (2003) points out that due to lack of good governance in Nigeria, expenditure outstripped revenue, large internal budget deficits mounted and grandiose external debts appeared. He also added that a general lack of accountability and transparency, two critical factors for maintaining good governance was lacking in Nigeria. These problems also eroded overall credibility and drastically undermined investor confidence. Nigeria’s international image is rather poor. In a credit-risk rating published in the Economist in1994, Nigeria was ranked third to last, after Iraq and Russia (The Economist, 1994).

2.2 Gaps in Literature

Researchers and scholars with varying background, orientation and motivation have examined the problem of fuel subsidy over the years. Among such authors are the IMF (2013), PPPRA (2012), Onyeizugbe, and Onwuka (2012), NEITI (2011), Majekodunmi (2013), the World Bank, among others. They agree that subsidies exist when government
assist consumers to obtain commodities below the prevailing market price or the producers (and marketers) sell below the cost of production. Extant literature also agree that fuel subsidy programme is neither unique to developing countries, new nor peculiar to Nigeria as it enjoys a widespread application across the world. In addition, available literature indicates that subsidies are introduced for a number of economic reasons. They include alleviating energy poverty and improving equity, increasing domestic supply, national resource wealth redistribution, correction of externalities and controlling inflation. Nevertheless, research shows that fuel subsidy regimes Nigeria has been fraught with many complexities that have beclouded its intended effects on the masses (Ehinomen and Adeleke, 2012). This has led to conflicting figures on the cost of subsidizing fuel in Nigeria, the actual volume of domestic consumption as well as the actual beneficiaries. While the government believes that the process appears to benefit the marketers, the masses contend that discontinuing the process would bring more hardship and pain on the people as changes in the prices of petroleum products in Nigeria tend to have a ripple effect on the prices of goods and services. Indeed, available literature shows that the proponents of subsidy removal such as World Bank (2012) IMF (2013), Grendao (2012) and Kemp (2011) contend that the downstream activities of the oil industry should be completely deregulated to allow private sector and entrepreneurs’ full participation in the distribution of the products so as to drive effectiveness in the sector.

Notwithstanding, it is apparent from the above review that the concomitant effects of fuel price increment, probes and protests in relation to national development buttressed by living standards, revenue accounting and economic stability, appear to be lacking in incremental systematic treatment of their relatedness, complexity and utility maximization in public choice analysis. This study therefore, fills this gap in literature. The study seeks to determine if the incremental increases in the pump price of fuel undermine living standards in Nigeria. The study will also establish if the fuel subsidy probe improved national revenue
accounting. More so, it will also show if the mass protests that accompanied fuel price increases undermined economic stability in the country.
CHAPTER THREE
Methodology

3.1 Theoretical Framework

This study examines subsidy and national development in Nigeria between 1999 and 2012. It is a period of democratization in the country in which political leadership and decision makers are assumed to act on the public interests. Therefore, public choice theory as its theoretical framework of analysis.

Public choice applies the theories and methods of economics to the analysis of political situations and behaviours, an area that was once the exclusive province of political scientists and sociologists. Public choice originated as a distinctive field of specialization a half century ago in the works of its founding fathers, Keneth Arrow, Duncan Black, Gordon Tullock, Anthony Downs, William Niskanen, Mancur Olson, and William Riker. Public choice has revolutionized the study of democratic decision-making processes.

Buchanan and Tullock (1962) defined public choice as “politics without romance.” According to them, the wishful thinking public choice theory displaced presumes that participants in the political sphere aspire to promote the common good. Shughart (2008) notes that in the conventional “public interest” view, public officials are portrayed as benevolent “public servants” who faithfully carry out the “will of the people.” In tending to the public’s business, voters, politicians, and policymakers are supposed somehow to rise above their own parochial concerns.

In modelling the behavior of individuals as driven by the goal of utility maximization—economics terminology for a personal sense of well-being—economists do not deny that people care about their families, friends, and community. But public choice, like the economic model of rational behavior on which it rests, assumes that people are guided chiefly by their own self-interests and, more important, that the motivations of people in the political process are no different from those of people in other spheres of life or market.
They are the same human beings, after all. As such, voters “vote their pocketbooks,” supporting candidates and ballot propositions they think will make them personally better off; bureaucrats strive to advance their own careers; and politicians seek election or re-election to office. Public choice, in other words, simply transfers the rational actor model of economic theory to the realm of politics.

Rowley (2004) states that two insights follow immediately from economists’ study of collective choice processes. First, the individual becomes the fundamental unit of analysis. Public choice rejects the construction of organic decision-making units, such as “the people,” “the community,” or “society.” Groups do not make choices; only individuals do. The problem then becomes how to model the ways in which the diverse and often conflicting preferences of self-interested individuals get expressed and collated when decisions are made collectively. Second, public and private choice processes differ, not because the motivations of actors are different, but because of stark differences in the incentives and constraints that channel the pursuit of self-interest in the two settings.

It has been recognized at least since the time of the Marquis de Condorcet (1785) that voting among three or more candidates or alternatives may fail to select the majority’s most preferred outcome or may be prone to vote “cycles” producing no clear winner. Indeed, Arrow’s (1963) “impossibility theorem” shows that there is no mechanism for making collective choices, other than dictatorship, that translates the preferences of diverse individuals into a well-behaved social utility function. Nor has any electoral rule been found whose results cannot be manipulated either by individuals voting insincerely—that is, casting their ballots strategically for less-preferred candidates or issues in order to block even worse outcomes—or by an agenda setter who controls the order in which votes are taken.

Public choice scholars, such as Gary Anderson, Mark Crain, William Shughart, and Robert Tollison, have not neglected the study of the other major institutions of democratic
governance: the president or chief executive officer and the “independent” judiciary. They model the occupants of these positions as self-interested people who, by exercising the power to veto bills, on the one hand, and by ruling on the constitutionality of laws, on the other, add stability to democratic decision-making processes and increase the durability of the favors granted to special-interest groups and, hence, the amounts the groups are willing to pay for them.

One key conclusion of public choice is that changing the identities of the people who hold public office will not produce major changes in policy outcomes. “In framing a government which is to be administered by men over men, the great difficulty lies in this: you must first enable the government to control the governed; and in the next place oblige it to control itself” (Federalist, no. 51).

**Application of the Theory**

Public choice theory is useful to the study of subsidy and national development in Nigeria because it appears to capture the motivation and interests of the contending parties on the subsidy policy in the country. While the political class, represented by the ruling class holds discontinuing the subsidy policy will ensure efficiency in the management of national oil revenue and promote infrastructure development. The masses on the other side of the divide believe that such policy amounts to estranging it further from the benefits from the nation’s oil resources and thus subjugate it further. Public theory captures the emotional leaning of all actors concerned even though there appears to be no empirical evidence to determine which alternative best serves the national interests. Therefore the theory enables the researcher to examine, without aligning to any emotional persuasion, the effects of incremental increases in the pump prices of fuel, fuel subsidy probes and the mass protests that accompany fuel price increases on standards of living, national revenue accounting and the economic stability of Nigeria, respectively.
Indeed, public choice theory captures the roles and reasoning of actors involved in the fuel subsidy process in Nigeria including the government (and its officials), civil society organizations, the organized labour and the general masses. In addition, the tenets of public choice theory also provide valuable insight into the dynamic of the various probes that delved into the subsidy regime, thereby helping to determine the assumption that fuel subsidy probe improved national revenue accounting in Nigeria. Finally, public choice theory would be of immense value in testing the hypothesis that the mass protests that accompany fuel price increases undermined the economic stability of Nigeria, by unearthing the economic implications of the subsidy removal and the immediate reactions that accompanied the price hike.

3.2 Hypotheses

The study is based on the following hypotheses:

1. Incremental increases in the pump price of fuel undermined the living standard of Nigerians;
2. Fuel subsidy probe improved national revenue accounting in Nigeria;
3. The mass protests that accompanied fuel price increases undermined the economic stability of Nigeria.

3.3 Research Design

Polit and Hungler (1999) described the research design as a blueprint, or outline, for conducting the study in such a way that maximum control will be exercised over factors that could interfere with the validity of the research result. The research design is the researcher's overall plan for obtaining answers to the research questions guiding the study. Burns and Groove (2001:223) state that designing a study helps the researchers to plan, and implement the study in a way that will help them obtain the intended results, thus increasing the chances of obtaining information that could be associated with the real situation.
Therefore, research design is a plan which guides a researcher and prevents him/her from veering off-course in the process of collecting, presenting analyzing and interpreting data. It is logical model of proof that allows the researcher to draw inferences concerning causal relations among the variables under investigation. It also defines the domain of generalizability, that is, whether obtained interpretation can be generalized to a larger population or to different situations, (Nnabugwu 2006). Research design has been defined in different ways, but essentially, it is a scheme of attack, a plan and a strategy designed for systematically solving research problems of interest to the researcher within his relevant circumstance (Okonkwo, 2013).

Research designs also differ, depending on the research question. The application of a research design depends on the type of research question asked. This study, is therefore, based on the ex-post facto research design in which hypotheses testing involves observing the dependent and independent variables at the same time because the effects or action involved have taken place before investigation. Kerlinger (1997) sees the ex-post factor design as a form of descriptive research design in which the independent variable has already occurred and in which the investigator starts with the observation of a dependent variable. The researcher then examines the independent variable in retrospect to determine its relationship and effects on the dependent variable. Cohen and Manion (1980) observed that the ex-post facto research design are used in studies where the interests is on the possible cause-and-effect relationship. This is done by observing an existing condition and searching back in time for possible causal factor. The ex-post factor research design is represented as follows:

\[ O1 \dots \dots \dots X \dots \dots \dots O2 \]

With this research design, we can test the hypotheses to ascertain if incremental increases in the pump price of fuel \( O1 \) undermine the living standard of Nigerians; if fuel subsidy probe
improved on national revenue accounting and if the mass protests that accompany fuel price increases (O1) undermine the economic stability of Nigeria, can be achieved.

3.4 Methods of Data Collection

Method has been defined as any means by which knowledge may be acquired or technique by which data could be systematically dealt with, including its gathering, analysis and presentation. Method may be logical or empirical, qualitative or quantitative. “A method is logical when it deals with logical facts, and empirical when the facts are susceptible either to observation or to empirical verification” (Igwe, 2002:262).

This study is based on the qualitative data generation technique. Essentially, there are three major sources of data for qualitative research studies. These are interviews, observations and documents. The data collection used is determined by the question of the study and by determining which source best provides best data to achieve the goal of the study and answer the research questions (Meriam, 2002). Cozby and Bates (2012) notes that qualitative research focuses on people acting in the natural sense and describing their action accordingly. In essence, qualitative research emphasis collecting in-depth information on a relatively few individuals within a very limited setting. Therefore, data for this study are sourced mainly from documents. The strength of document as data sources of data lies with the fact that they already exist in the concrete form; not intruding on the disposition of people.

Thus, qualitative method aims to gather an in-depth understanding of human behaviour and the reasons such behaviour occur. Qualitative research essentially relies on both secondary and primary source of data. This study will rely on secondary source materials for our analysis. “Secondary sources rely on information pieced from documents. These documents may be published and unpublished materials on the activities of public and private organizations which constitute important source of data for qualitative political
analysis” (Obasi, 1999:172). This type of data could be obtained easily even without the concept of the original owner or the generator of such documents. The advantages of secondary sources “are that it is economical, the cooperation of the individual about whom information is being sought is not required, thus, creating an analytical basis for establishing trend of events”. (Sellitz, 1997:317). The qualitative method like every other scientific method of analysis seeks to explain the events of nature in a reproducible way. An explanatory thought experiment or hypothesis is put forward as predictions are made.

For the purpose of generating data to test our hypotheses in this study, we shall use the observation method of documentary sources. By document, we mean any written material (whether hand written, typed or printed) that was already in existence, produced for some other purposes than the benefit of the researcher (Nwana cited in Obasi: 1999). Hence the documentary method is used in this study to mean a method of gleaning, extracting, examining, analysing and interpreting information as well as reading meaning into these pieces of information so as to be able to draw inference from the available evidence in order to reach a conclusion (Obasi 1999). What the foregoing implies is that documentary method makes the recourse to the secondary sources of data inevitable. By secondary sources of data, we mean data gathered or authored by another, usually data from available data, archives, either in form of documents or survey results and books (Ikeagwu 1998). To this end, this study will be based on documentary analysis of secondary sources of data. The advantage of secondary data is that it saves time and money through purpose and random selection of recorded materials in order to investigate the problem and test the hypotheses. There is also the possibility of using the work of others to broaden the base from which scientific generalization can be made.

The justification behind the use of content analysis of documents is that it allows research on areas where the researcher cannot have access to the respondents and thus, cannot
study topics which concern with dispositions and decisions among government officials, this goes on to rule out the possibility of using survey methods like questionnaire, interview or observation methods. Irrespective of the above arguments, interviews and questionnaires can still be conducted and administered by the researcher. But the actors may decline response or falsify it.

Reliable and expressive documents are capable of bringing the significant information, which cannot be obtained through other methods. The issue is that where reliable documents exist, generalizations appear more reliable than those emanating from the limited data of other instruments. Finally, another justification is that this method will assist us to collect data stored on files, government archives, libraries, bookshelves/shops, the internet and other documents.

3.5 Methods of Data Analysis

To ensure the reliability and validity of our data, our point of departure for this study lies in the use of content analysis of document as propounded by Berlson. According to Festinger (1982), content analysis is a research technique for the objective, systematic and qualitative description of the manifest content of communication. The central objective of content analysis is to convert recorded raw phenomena into data, which can be treated in a scientific manner to build up a body of knowledge. There are four features, which a scientific data must display, namely objectivity, replicability, quantification and generality. And these could be achieved through careful use of content analysis. Content analysis as a research method is a systematic and objective means of describing and quantifying phenomena (Sandelowski, 1995). It is also known as a method of analysing documents. Content analysis allows the researcher to test theoretical issues to enhance understanding of the data. Through content analysis, it is possible to distil words into fewer content-related categories. It is assumed that when classified into the same categories, words, phrases and the like share the
same meaning (Cavanagh 1997). Content analysis is a research method for making replicable and valid inferences from data to their context, with the purpose of providing knowledge, new insights, a representation of facts and a practical guide to action (Krippendorff 1980). The aim is to attain a condensed and broad description of the phenomenon, and the outcome of the analysis is concepts or categories describing the phenomenon.

Furthermore, analytic induction is often used by qualitative researchers in their effort to generalize about social behavior, concepts are developed intuitively from the data and are then defined, refined and their implications deduced from the data. According to Igwe (2002:367), “qualitative relates to aspects of enquiry that are more philosophical and argumentative, like the quantitative, it also deals with fact, but in this case, logical instead of empirical fact”.

This analytical technique served in testing the research hypotheses, relating to subsidy and national development, and establish if the incremental increases in the pump price of fuel undermine the living standard of Nigerians; fuel subsidy probe improved on national revenue accounting and if the mass protests that accompany fuel price increases undermine the economic stability of Nigeria, can be achieved.
### 3.5 LOGICAL DATA FRAMEWORK (L.D.F)

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<td></td>
<td>Y National Revenue Accounting</td>
<td>-Proper disclosure of crude oil proceeds -Remittance of revenue to appropriate institutions or government agencies -Transparency by government agencies</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Does the mass protests that accompany fuel price increases undermine the economic stability of Nigeria?</td>
<td>The mass protests that accompany fuel price increases undermined the economic stability of Nigeria.</td>
<td>X Mass protests</td>
<td>-Sit-at-home by the organized labour -Closure of markets and business activities -Protests, demonstration and rallies by citizens and civil society organizations in January 2012</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Y Economic Stability</td>
<td>Production and exchange of goods and services, banking services, shipping services, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
CHAPTER FOUR
Fuel Subsidy and Living Standards in Nigeria

This chapter aims to determine if the incremental increase in the pump price of fuel undermine the living standard of Nigerians within the public choice framework. To this end, it will examine the petroleum industry in Nigeria, fuel consumption, subsidy and fuel pricing, and fuel subsidy and living standards in Nigeria to determine the effects the incremental increase in the pump price of fuel on the living standard of Nigerians.

Fuel subsidy is arguably among the most contentious issue in Nigeria. Any discussions on the issue evokes strong emotion across all strata of the Nigerian society. This is due to the importance of fuel and other petroleum products in modern society. It is crucial for improved quality of life, provision of goods and services and development. More so, petroleum products serve a number of purpose, including generation of electricity, lighting, and transport and other industrial and commercial purposes. The future of any society is dependent on its ability to have access to the energy that it needs. Thus, the government and the masses in Nigeria take the issue of petroleum pricing very seriously.

The word “subsidy” first burst in to the consciousness of Nigerians in 1987 when the Babangida regime became the very first to popularize it with the announcement of the removal of 80% of subsidy on premium motor spirit (PMS-petrol). That decision led to the increase in the price of fuel, which inevitably escalated inflation in all sectors of the economy. Not unexpectedly, protests and demonstrations erupted in cities across the country, calling on the regime to reverse itself. In retrospect, when President Ibrahim Babangida initiated the oil subsidy withdrawal, he announced that savings from the cut would be used to develop other sectors of the economy that would ultimately improve the lives of the people. Nigerians did not see that happen. The regime rather went down in history as the greatest propagator of institutionalized corruption and grand deception in Nigerian public governance.
Thereafter, “subsidy removal”, became the passphrase ready to be deployed by government in a hunt for quick cash once the country goes “broke”.

By the time President Olusegun Obasanjo assumed office under a democratic dispensation in 1999, the state of the refineries had considerably worsened and importation of petrol, diesel, and other petroleum products increased in tempo. And so did corruption. All manner of shady deals, all of which were never beyond the presidency and the NNPC, prevailed. Oil and Gas business became an all-comers job. All kinds of quacks with links to the presidency and the hierarchy of the NNPC, most of them sympathizers of the ruling party, some with offices no more than just brief cases, joined the widening rank of the so called fuel importers. This was truly the beginning of the era of the so called “cabal” which tightened its grip on the jugular of the petroleum sector in subsequent years.

Amid all this, Obasanjo still did his bit to turn the screw on the national misery by surpassing his predecessors in the removal of oil subsidy. One of the first things he did as President was to scrap the PTF on the grounds that it was illegal. He spent eight years as civilian President and withdrew subsidy on fuel on six different occasions, each time unilaterally, in complete disregard to the principle of constitutional governance. On each of these occasions, his action was greeted with outrage, followed by nationwide workers' strike and protests, and demonstrations by civil society groups, which invariably turned violent and recorded fatalities. In addition, no sooner had Jonathan become president after the April 2011 election than words began to spread that plans were on to withdraw the subsidy on oil. At first, Nigerians could hardly believe it. The government pointed that it was forced to embark on a full deregulation of the petroleum sector because it could not afford to continue paying huge amount in subsidizing petroleum products. It contended that the 17subsidy which rose from N260 billion in 2010 to N1.3 trillion in 2011 is enjoyed only by a group of oil importers it called the “cabal”, and not the people for whom it is meant. It also linked the complete
withdrawal of the subsidy to the survival of the economy. It estimated an annual income of $8 billion once the subsidy removal kicked off and declared that the economy would “collapse” if this step was not taken. While the government contend that the removal of fuel subsidy will enable it channel more funds to critical areas of the economy like job creation, infrastructure development, thereby eradicating poverty, the masses argued that it amounted to depriving them their only benefits from the government and impoverishing them further.

4.1 The Petroleum Industry

The petroleum industry is the largest industry in Nigeria. CPPA (2011) suggests it has assumed a primate position in the Nigerian economy accounting for about 40 % of its Gross Domestic Product (GDP) and well over 80 % of Nigeria's foreign exchange earnings. Since the British discovered oil in the Niger Delta in the late 1950s, the oil industry has been marred by political and economic strife largely due to a long history of complicity of multinational corporations. Ironically the petroleum industry has contributed little to economic growth. African Economic Outlook (2011) reports that real GDP growth is projected to remain robust at 6.9% in 2011 and at 6.7% in 2012. It further observed that the strong growth in output recorded in 2010 was supported by the expansion in oil production following relative peace in the Niger Delta region, but noted that the key driver of growth remained the non-oil sector. Non-oil growth averaged 8.3% in 2010 and accounted for 84.8% of total GDP. The main growth drivers in the non-oil sector were telecommunications, general commerce, manufacturing, agriculture and services.

The Nigerian economy is dependent on its petroleum resources which supplies 95% of its foreign exchange earnings (Bendi, 2012). According to Adelabu (2012) the upstream oil industry is Nigeria’s lifeblood: it has created unnoticed multi-billionaires while the downstream activities are responsible for the constant economic-related crises: particularly the recent fuel price hike crisis. Nigeria's oil reserves are estimated at 36.220x 109 billion
barrels which amounts to 2.69% of world reserve (Explore, 2011). These reserves make Nigeria the tenth most petroleum-rich nation, and the most affluent in Africa. Index Mundi (2011) reported that in mid-2001 Nigeria’s production averaged around 2.455 million barrels per day (mbpd) which, however according to CBN (2011) dropped slightly to 2.24 mbpd in the last quarter of 2011. Allocation to domestic consumption rose from 150.370mbpd (Index Mundi, 2011) in 2002 to about 164.25mbpd in 2011 (CBN, 2011).

Nearly all of the country's primary reserves are concentrated in and around the Niger Delta, but offshore rigs are also prominent in the well-endowed coastal region. Nigeria is one of the few major oil-producing nations still capable of increasing its oil output. Similarly, natural gas reserves are about $5.215 \times 10^{12}$ m$^3$. The gas reserves are three times as substantial as the crude oil reserves. The main drivers of gas utilization projects in Nigeria had been the government's desire to create more wealth and diversify the economy of the country. A combination of new government incentives and pressure from the environment ministry to end flaring, coupled with rising domestic industrial demand for gas have now encouraged operators to go into gas projects. At least 20 different gas projects were being processed for delivery between 2003 and 2008, with Nigeria’s biggest oil producer Shell handling about a dozen.

Adesina (2012) notes that the National Gas Company (NGC) currently supplies gas for power generation, as source of fuel or as feedstock to cement plants, fertilizer plants, glass manufacturing industries, food and beverage manufacturing industries, etc. and the demand is increasing. In 2012 Nigeria has DSO supply plan comprising existing (1292mmscf/day), many ongoing gas projects (1030mmscf/day) and a few major new gas development projects (210mmscf/d) which are about to take off (Adesina, 2012). The biggest natural gas initiative is the Nigerian Liquefied Natural Gas Company, which is operated jointly by several companies and the state. It began exploration and production in 1999 (mBendi, 2012).
Chevron is also attempting to create the Escravos Gas Utilization project which will be capable of producing 160 million standard ft³ (4.528 million m³) of gas per day: this, however, has been delayed from 2010 until 2013 (ERA/FEN, 2004; Rigsworld, 2012). Bendí (2012) reported that in the 2011 BP Statistical Energy Survey that Nigeria had 2010 natural gas production of 33.63 billion cubic metres, a change of 35.6% versus 2009 and equivalent to 1.05% of the world total. The West African Gas Pipeline which is to allow for transportation of natural gas to Benin Republic, Ghana, Togo, and Cote d'Ivoire has encountered numerous setbacks. The majority of Nigeria's natural gas is flared off and it is estimated that Nigeria loses US$2.5bn annually.

Nigeria's total petroleum refining capacity is 445,000 barrels per day (70,700 m³/d), however, only 240,000 bbl/d (38,000 m³/d) was allotted during the 1990s. Subsequently crude oil production for refineries was reduced further to as little as 75,000 bbl/d (11,900 m³/d) during the regime of Sanni Abacha. Because the country's four refineries are not working at installed capacity, Nigeria depends on fuel imports to meet domestic demand -- a move that has necessitated subsidy, the withdrawal of which has precipitated fuel protest (Afrique en ligne, 2012).

On Thursday 30 August a new refinery, Orient Petroleum Refinery, was officially commissioned in Aguleri-Otu, in Anambra State. It is to commence operation in a few months’ time at 55,000 bpd (Enyim et al, 2012). However, there is a gestation period of about twelve months for the products of the refinery to reach the market

4.2 Fuel Consumption in Nigeria

Urban household and industrial energy consumption is derived mainly from petroleum products: premium motor spirit (petrol), automotive gas oil (AGO) diesel, liquefied petroleum gas, kerosene and Jet fuel. Other products of importance are fuel oil, lubricating oil, brake fluid and petroleum jelly. There is a need to ensure availability of
natural resources to cope with the increasing population. This is particularly true of the urban areas which have become densely populated as a consequence of the rural-urban migration and the attendant increase in the demand for petroleum products in these areas. Consumption of petroleum products grew tremendously from mid-1980s reflecting the rapid growth in the number of automobiles, industries, households, intensified rural-urban migration, economic and political developments. The bulk of products consumption has been petrol, diesel, dual purpose kerosene and bitumen/asphalt. Together, they account for more than 60.0 per cent of the total consumption of petroleum products. Petrol and diesel are the major fuels utilised in the road transportation sector as well as for small to medium sized electricity generating plants for power supply in homes and locations detached from PHCN, as well as standby power sources in industries.

Specifically, petrol is used in vehicles, small electricity generating plants, drives for compressors, etc, while diesel is used largely on heavier engines. Household kerosene is mostly used in homes for cooking (Arowosoge and Faleyimu, 2011; Maduka, 2011) and in industries as base material to produce insecticides and other pest control products (Eddleston, 2000; Onwioduokit and Adenuga, 2000). Generally, the demand for petroleum products has continually been on the increase. Most of the demand for the products used to be supplied by the domestic refineries.

However, owing to the poor conditions of three of the four refineries, there has been shortages which had to be augmented with importation; but which condition deteriorated further over time. For instance, such importation was put at 3.4 million metric tonnes in 1993, 2.9 million metric tonnes in 1994, 2.2 million metric tonnes in 1995, 3.9 million metric tonnes in 1996 and 2.1 million metric tonnes in 1997, respectively.
Table 1: Crude Oil Production, Export and Domestic Consumption (Selected Year) 1999 – 2011 (000 Barrels).

<table>
<thead>
<tr>
<th>YEAR</th>
<th>PRODUCTION</th>
<th>EXPORT</th>
<th>CONSUMPTION</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Quantity</td>
<td>Change %</td>
<td>Quantity</td>
</tr>
<tr>
<td>1999</td>
<td>2,129.86</td>
<td>-1.10 %</td>
<td>1,834.20</td>
</tr>
<tr>
<td>2000</td>
<td>2,165.00</td>
<td>1.65 %</td>
<td>2,069.18</td>
</tr>
<tr>
<td>2001</td>
<td>2,256.16</td>
<td>4.21 %</td>
<td>2,034.10</td>
</tr>
<tr>
<td>2002</td>
<td>2,117.86</td>
<td>-6.13 %</td>
<td>1,893.20</td>
</tr>
<tr>
<td>2004</td>
<td>2,328.96</td>
<td>2.37 %</td>
<td>2,176.10</td>
</tr>
<tr>
<td>2005</td>
<td>2,627.44</td>
<td>12.82 %</td>
<td>2,260.33</td>
</tr>
<tr>
<td>2006</td>
<td>2,439.86</td>
<td>-7.14 %</td>
<td>2,190.28</td>
</tr>
<tr>
<td>2007</td>
<td>2,349.64</td>
<td>-3.70 %</td>
<td>2,120.22</td>
</tr>
<tr>
<td>2008</td>
<td>2,165.44</td>
<td>-7.84 %</td>
<td>1,931.94</td>
</tr>
<tr>
<td>2009</td>
<td>2,208.31</td>
<td>1.98 %</td>
<td>2,051.18</td>
</tr>
<tr>
<td>2010</td>
<td>2,455.26</td>
<td>11.18 %</td>
<td>NA</td>
</tr>
<tr>
<td>2011</td>
<td>2,525.29</td>
<td>2.85 %</td>
<td>NA</td>
</tr>
</tbody>
</table>


It is estimated that demand and consumption of petroleum in Nigeria grows at a rate of 12.8% annually (Specstech, 2010). There are four refineries, with a combined installed refining capacity of 445,000 barrels per day (bpd) (Odularu, 2008). These four refineries are:

i. The first Port Harcourt Refinery was commissioned in 1965 with an installed capacity of 35,000 bpd and later expanded to 60,000 bpd.

ii. The Warri Refinery was commissioned in 1978 with an installed refining capacity of 100,000 bpd, and upgraded to 125,000 bpd in 1986.

iii. The Kaduna Refinery was commissioned in 1980 with an installed refining capacity of 100,000 bpd, and upgraded to 110,000 bpd in 1986.

iv. The second Port Harcourt Refinery was commissioned in 1989 with 150,000 bpd processing capacity, and designed to fulfil the dual role of supplying the domestic market and exporting its surplus.
There is also an 'Old' Port Harcourt Refinery with negligible production. The Port Harcourt and Warri Refineries both operate at only 30% capacity while the Kaduna Refinery is defunct.

Uche (2012) reported that estimated daily demand for petroleum products in Nigeria is put at 30 million litres of petrol (PMS); 10 million litres of kerosene (DPK); 18 million litres of diesel (AGO); and 780 metric tons (1.4 million litres) of cooking gas (LPG). The estimated amount of crude oil required daily for domestic refining that would satisfy the demand for petroleum products in Nigeria adequately, should be about 530,000 barrels per day (bbl/d).

In 2010, 757 metric tonnes, MT, of petroleum products were refined by all the refineries. These included 53,223.4 MT of automotive gas oil, AGO; 7,567 MT of liquefied petroleum gas, LPG; and 19,967 MT of PMS. Amazingly, 8.1 million MT of petroleum products were imported into the country in the same year. Conflicting reports indicated that the Ministry of Petroleum Resources is quoting Nigeria’s daily fuel consumption to be 52 million litres, NNPC submits 35 million litres, Department of Petroleum Resources (DPR) presents 43 million litres, PPPRA is quoting 24 million litres, lastly the Finance Minister submits 40 million litres (Uguru 2012). A progressive increase can be observed in the various reports based on the operational status of the respective agency and thus the level of ghost consumption can be determined (Table 2).

<table>
<thead>
<tr>
<th>S/No.</th>
<th>Agency</th>
<th>Daily Consumption Quoted quantity (10⁶ Litres)</th>
<th>Differences</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PPPRA</td>
<td>24</td>
<td>-</td>
</tr>
<tr>
<td>2</td>
<td>NNPC</td>
<td>35</td>
<td>11</td>
</tr>
<tr>
<td>3</td>
<td>Min of Finance</td>
<td>40</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>DPR</td>
<td>43</td>
<td>3</td>
</tr>
<tr>
<td>5</td>
<td>Min of Petroleum Resource</td>
<td>52</td>
<td>9</td>
</tr>
</tbody>
</table>

The only anomaly in the stratification in Table 2 is the placement of the Federal Ministry of Finance (MoF) as if it has to report to DPR; it is likely that the DPR has to tidy up MoF’s ghost consumption. From Table 2 the actual consumption of fuel, including leakages to neighbouring countries is likely to be in the neighbourhood of 20 million litres/day.

4.3 Subsidy and Fuel Pricing in Nigeria

What is generally known as petroleum subsidy is actually paid from the Petroleum Support Fund (PSF). This PSF is administered by the PPPRA under Published Guidelines which came into effect in January, 2006. The Petroleum Support Fund (PSF) is developed to serve numerous purposes, including:

1. To serve as a pool of fund provided in the budget and contributed to by the three tiers of government (Local Government Areas, States and Federal Government) to stabilize the domestic prices of petroleum products against the volatility in the international crude and products prices.
2. To be a supplementation with the accruals during the period of over-recovery; (over recovery here refers to the period at which the Petroleum Products Price Regulatory Agency, (PPPRA) recommended ex-depot price is higher than the landing cost of petroleum products).

The Petroleum Support Fund (PSF) contains guidelines that aims to ensure efficiency and prudence in the importation, distribution, marketing and availability of petroleum products in Nigeria at government regulated prices. This is intended to ensure equitable distribution of petroleum products to Nigerians at affordable price. These guidelines are classified into Principles, Responsibilities of Stake holders/Operators and Eligibility for drawing from the Fund.

**PPPRA PRICING TEMPLATE (PRICE BUILD-UP COMPONENTS):**

1. Product Cost ($/MT): This is the monthly moving average cost of refined petroleum products (PMS, AGO, DPK) as quoted on **PlattOilgram. The reference spot market is North West Europe (NWE) and the transaction is CIF Cargoes (Cost, Insurance & Freight) basis for AGO and DPK, FOB Barges (Free on Board) basis for PMS. The NWE market is adopted because of its liquidity and transparency. Platt is the leading global provider of energy and metals information, and the world’s foremost source of price assessments in the physical energy markets. Its Oilgram Price Reports is the
daily report that covers markets changes, market fundamental and factors driving prices.

2. Conversion Rate: The conversion rate from Metric Tons to Litres based on the Specific Gravity of AGO is 1164; DPK is 1232 and PMS is 1341. The conversion factors may be altered depending on the Specific Gravity of the products approved by the DPR.

3. Exchange Rate: This is the average exchange rate of Naira to a Dollar as quoted by Central Bank of Nigeria (CBN) on daily basis.

4. Freight: This is the average clean tanker freight rate (World Scale (WS) 100) as quoted on Platts. It is the Cost of transporting 30, 000mt (30kt) of product from NWE reference market to West Africa (WAF) coast (Lagos/Bonny offshore).

5. Lightering Expenses: Ship-to-Ship (Transhipments)/Local Freight charge is the cost incurred on the trans-shipment of imported petroleum products from the Mother Vessel into Daughter Vessel to allow for the onward movement of the product into the Jetty. This charge includes receipt losses of 0.3% in the process of products movement from the high sea to the Jetty and then to the depot and the NIMASA inspection charge. Also included in the Lightering Expenses is the Shuttle vessel’s Chattering Rate from Offshore Lagos/Bonny to the different jetties in the country. Transhipment (STS) process is as a result of peculiar draught situation and inadequate berthing facilities at major Ports/Jetties – Apapa, Calabar and Port Harcourt. It should be noted that vessels discharging at different Jetties undergo STS at the offshore either Lagos or Bonny except Folawiyo and Atlas Cove Jetties.

6. Nigeria Port Authority (NPA) Charge: It is the cargo dues (harbor handling charge) charged by the NPA for use of Port facilities. The charge includes VAT and Agency expenses. The NPA charge is based on the quantity of products and the length of the ship – Length Overall (LOA).

7. Financing: It refers to stock finance (cost of fund) for the imported product. It includes the cargo financing based on the International London Inter bank Offered Rates (LIBOR) rates covering 21 days and the Nigerian Inter bank Offered Rate (NIBOR) for 9 days. The financing of the component of subsidy claims being paid through the PSF covering 45 days is also added based on the prevailing NIBOR rates. The LIBOR is normally between 30 – 90 days e.g. 30-day, 60-day and 90-day LIBOR.

8. Jetty Depot Thru. Put: This is the tariff paid for use of facilities at the Jetty by the Marketers to move products to the storage depots.

9. Pipeline Charge Product Pipeline Margin is for pipeline charges. The Charge is based on N.50/Litre fixed charge for pipeline length not less than 10km and variable charge subject to a maximum charge of N1.50 for 1000 km pipeline length (only NNPC is entitled to claim the charge when product is moved between Atlas Cove and Mosimi, Satellite town, Ibadan).
10. Storage charge Storage Margin is for depot operations covering storage charges and other services rendered by the depot owners.

11. Landing Cost It is the cost of imported products delivered into the Jetty depots. It is made up of components highlighted above (1, 4, 5, 6, 7, 8 and 10).

12. Distribution Margins: These include Retailers, Dealers, Transporters margins, Bridging fund and Administrative charge as approved by the Government.

13. Taxes: These include highway maintenance, government, import and fuel taxes. It has the overall objective of revenue generation, social infrastructure investment. It also servicing and efficient fuel usage. Presently importation of PMS under the PFS Scheme attracts zero taxes.

14. Retail Price: This is the expected pump price of petroleum products at retail outlets. It is made up of landing cost of imported product plus reasonable distribution margins.

However, it is observed that pump prices of the products are expected to be uniform because of equalization and bridging claims paid by the Petroleum Equalization Fund. Oil subsidy has moved from being an implicit subsidy (akin to the situation in the Abacha regime when PMS sold for N11.00/litre and a declared N4.00/Litre profit was ploughed into the Petroleum [Special] Trust Fund PTF; due to release of crude oil to NNPC at non-market price {local crude extraction cost}) to explicit cost when the Federal Government has to directly pay the subsidy amount to importers; based on international crude oil price.

The Petroleum Product Pricing Regulatory Agency (PPPRA) argued that the actual cost of landing a litre of petrol in the country is N144.70 as indicated in Figure 1. Calculated against then prevailing pump price of N65 before 2012, the government claimed to subsidize each litre with N79.70. For the sake of emphasis, it is reasonable to recreate a hypothetical process of getting petrol to the filling stations. When crude oil is extracted from numerous oil field in Nigeria, the Joint Venture Partners take their entitlement (45% for Shell and 40% for other Oil Majors) while the rest is handed over to the relevant Nigerian Agency. This agency sells the Nigerian share of crude at prevailing international market prices. With this sale concluded, the buyer takes the cargo through the Ocean abroad to be refined. The buyer
would have had to pay at least custom charges in Nigeria, and would also pay the cost of freighting the crude. Once in the country of destination, the same businessman will have to pay additional custom charges, and once again cost of freight to the refinery where the crude is processed into petrol and other bye products. At this point in the chain, tax is paid in the country of refining, workers are paid and a profit margin added. The same product now refined into petrol is purchased and again freighted from the refining country, through the ocean and into Nigeria at huge cost. The cost of this cumbersome and unnecessary process the government claims amounts to N144.70 per litre, and it is from this amount that its subsidy is calculated. Nigeria is the only member country of OPEC that exports crude oil and imports a substantial part of the refined petroleum products used domestically.

**Figure 1: Components of Fuel Price**

![Components of Fuel Price](source)


As a result, fuel subsidy has increased significantly over the years, especially with rising share of imports in domestic supply (Adenikinju, 2009). For instance in 2006 subsidy...
was N261.1 billion (US$2.03 billion) or 1.4% of GDP. In 2007 subsidy was 278.9 billion (US$2.3 billion) or 1.3% of GDP. Similarly, in 2008 subsidy level nearly tripled to N633.2 billion (US$5.37 billion) due mainly to rising oil price and depreciating exchange rate.

Thus, between 2006 and 2008, government subsidy payments to NNPC and other marketers of petroleum products was in the range of N1, 173.2 billion (US$9.7 billion). Subsidy also has to do with petroleum price equalisation across the country by reimbursing a marketer’s transportation differentials for petroleum products’ movement from depots to their sales outlets (filling station), in order to ensure that products are sold at uniform pump price throughout the country.

Subsidy payments in the 3-year period on imports exceed total capital allocation to priority sectors in 2009 budget (N952.9 billion or US$6.57 billion) made up of: security $0.62 billion; Niger Delta $0.68 billion; critical infrastructure $3.20 billion; human capital development $1.11 billion; and land reform & food security $0.96 billion (Adenikinju, 2009). Of significance is the need to understand the shooting up of the subsidy payments from the initial N150 billion in 2006 to a whopping N1.9 trillion five years after, not to mention outstanding subsidy payment claims in excess of N500 billion.

Table 3: Summary of Subsidy Payments between 2009 and 2011

<table>
<thead>
<tr>
<th>Product/Entity</th>
<th>2009 N’000</th>
<th>2010 N’000</th>
<th>2011 N’000</th>
<th>Total N’000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Other Marketers through PPPRA</td>
<td>Audited</td>
<td>Audited</td>
<td>Pre-Audit</td>
<td></td>
</tr>
<tr>
<td>Premium Motor Spirit</td>
<td>158,898,484</td>
<td>278,055,311</td>
<td>1,115,581,732</td>
<td>1,552,535,527</td>
</tr>
<tr>
<td>Kerosene</td>
<td>48,900,201</td>
<td>-</td>
<td>-</td>
<td>48,900,201</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>207,798,685</strong></td>
<td><strong>278,055,311</strong></td>
<td><strong>1,115,581,732</strong></td>
<td><strong>1,601,435,728</strong></td>
</tr>
<tr>
<td>NNPC</td>
<td>198,110,212</td>
<td>416,459,361</td>
<td>785,808,668</td>
<td>1,400,478,241</td>
</tr>
<tr>
<td><strong>Sub-total</strong></td>
<td><strong>198,110,212</strong></td>
<td><strong>416,459,361</strong></td>
<td><strong>785,808,668</strong></td>
<td><strong>1,400,478,241</strong></td>
</tr>
<tr>
<td>Grand Total</td>
<td>405,908,897</td>
<td>694,514,672</td>
<td>1,901,490,400</td>
<td>3,001,913,969</td>
</tr>
</tbody>
</table>

The overall subsidy payments increased by 71 percent from N406 billion in 2009 to N695 billion in 2010 and jumped by 174 percent to N1.90 trillion in 2011. The subsidy payments made through NNPC increased by 110 percent from N198 billion in 2009 to N416 billion in 2010 and 89 percent to N786 billion in 2011 while subsidy paid through PPPRA increased by 75 percent from N208 billion in 2009 to N278 billion in 2010 and also increased astronomically by 301 percent to N1.12 trillion in 2011. Abiola (2012) is of the view that the problem arose from government’s failure with managing local refineries. Nevertheless, fuel subsidy in Nigeria has resulted in:

i. Substantial losses of revenue and an exponential growth in domestic oil consumption;
ii. Existence of dilapidated supply and distribution infrastructures due to lackadaisical attitude towards maintenance;
iii. reluctance of private investors to invest in refineries;
iv. sporadic fuel shortages at fuel stations; and v. smuggling and adulteration of products

Attempts to remove subsidies have generated oppositions from consumers already used to cheap energy prices due to presumptions that any price increase will fuel inflation and reduce economic welfare. However it is to be recognised that fuel price in relation to the per capita personal income (Table 4) is a very high rate to the populace.

Table 4: Fuel Price Compared with Other Economic Indexes for Selected Countries

<table>
<thead>
<tr>
<th>Rank By Fuel Price</th>
<th>Countries</th>
<th>Fuel Price</th>
<th>Per Capita Income  (2011)</th>
<th>Population living under $1.25 per day</th>
<th>Gini Index World Bank</th>
<th>Fuel Price as ratio of per diem</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Annual (US$)</td>
<td>Daily (per diem)</td>
<td></td>
<td></td>
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<td>38,918</td>
<td>106.62</td>
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<td>88</td>
<td>Pakistan</td>
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<td>3.24</td>
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<td>95</td>
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<td>115</td>
<td>China</td>
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<td>5,439</td>
<td>14.90</td>
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<tr>
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<td>Russia</td>
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<td>35.63</td>
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<tr>
<td>129</td>
<td>Nigeria</td>
<td>0.87</td>
<td>1,509</td>
<td>4.13</td>
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<td>Egypt</td>
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<td>57,102</td>
<td>156.44</td>
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India’s high fuel price rate of 10.05% in relation to its per diem results from the high population as well as economic development orientation; crude oil makes up close to 33% of its total imports. Ghana is next at 7.53%; although recent discovery of a sizable reserve of crude oil is conservatively estimated in the 450-550 million barrel range. Ghana education and economy are more structured towards economic development and are people oriented. This is likely to reduce the rate as the economy advances. At 7.43% Nigeria’s leadership has ceded prosperity to the elite class: Nigeria's proven oil reserves are estimated at 36.220x 109 bbl. Even erstwhile apartheid South Africa has consideration for its citizenry at 2.80%. Should Nigeria allow market forces to take its place what justification does an elected government have to sell crude to local refineries at world market rate? If unnecessary import and demurrage costs are removed, fuel price in Nigeria would be a very small proportion of what the nation is paying. Such costs are:

i. crude transportation to Europe, America or where-so-ever the power players decide to keep their loots;

ii. Costs of refining; which would take in the wage level of the refining country that is definitely in multiples of the Nigerian wage system;

iii. Cost of transportation of refined products back to Nigeria;

iv. the PPMC scandalously built-in charges highlighted by Akpieye (2012); and

v. the ghost consumption built in by the respective agencies in the petroleum sub-sector
<table>
<thead>
<tr>
<th>Year</th>
<th>Price/litre</th>
<th>Fluctuation</th>
<th>Increase(%)</th>
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<td>-</td>
<td>-</td>
<td>-</td>
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<td>20k</td>
<td>Increase</td>
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<td>30k</td>
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<td>1988</td>
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<td>1990</td>
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<td>Increase</td>
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<td>Increase</td>
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<td>2009</td>
<td>N65</td>
<td>Decrease</td>
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<tr>
<td>2012</td>
<td>N97.00</td>
<td>Increase</td>
<td>49.23</td>
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Nigeria, OPEC’s sixth largest crude oil producer, with her abundant natural resources still imports and pays international prices for fuel which base raw materials Nigeria is abundantly blessed with. This is due to widespread corruption. In 2005 Workers’ Alternative wrote “The history of fuel price increases in Nigeria tends to repeat itself, although not exactly in the same way, but seems to follow the same old script. It first starts with rumours of the impending increase. Then you hear the same old story about how the NNPC and the nation are about to die due to the subsidy on fuel, then we hear that everybody is against it. We hear that the highest decision-making bodies in the land, the Senate and House of Representatives are all against the increase. They even claim that there are motions against
increment. We hear that our labour leaders are all against it. After all this, the prices jump up and hell breaks loose. The lives of the masses are further worsened and the pain is intensified.” In the ensuing protests lives are lost (Workers’ Alternative, 2005) and scarcity of fuel results; giving rise to black marketers that are difficult to keep off the streets from Kaduna North and northwards.

Table 5 above shows the history of fuel subsidy removal in Nigeria from 1976 till date. As can be observed from the two figures, the petroleum subsidy changes have been on increase. The federal government through NNPC spends N400million daily, to subsidise import. As part of deregulation policy, federal government stopped the sale of crude oil to NNPC at the preferential cost of $18 per barrel; which is based on local extraction cost. NNPC now buys at the prevailing international price, since its refineries are down; thus, NNPC exports and uses the proceeds to import refined fuel for local consumption. The people are saddled with continuous increase in the cost of locally consumed fuel. NNPC, major and independent marketers have become importers of petroleum products; thereby, leaving pricing at the mercy of market forces.

The Petroleum Products Pricing Regulatory Agency PPPRA has a mandate to reposition Nigeria's downstream sub-sector for improved efficiency and transparency. A Petroleum Support Fund PSF was established. The scheme was announced by the then President in the 2005 Independence Day speech to eliminate the effect of volatility in international crude oil and products and stabilise domestic prices. The scheme commenced operations in 2006. In principle, the PSF is funded by the three tiers of Government to stabilize the domestic prices of petroleum products against volatility in international Crude oil and Products Prices. However, from inception payment into the Fund has been derived borne by either the Federal Government Budget or through the Domestic Excess Crude Account.
A pricing principle known as Import Parity is adopted using Platts published products prices and freight rates as the only way transparency and accountability can be assured. The PSF mode of payment is based on either under or over recovery of products cost. Under recovery is when the Landing cost of products is more than the approved ex-depot price. During the period of under recovery, marketers are paid the difference in the landing cost of products and the government approved ex-depot price. Over recovery on products occurs when the landing cost of products is less than the approved ex-depot price; marketers are then expected to pay back into the Fund (FGN, 2008).

The procedures and modalities for the administration of the PSF scheme involves the following stakeholders (i) Department of Petroleum Resources (DPR), (ii) Independent Inspectors, (iii) Federal Ministry of Finance (FMF)/Office of the Accountant-General of the Federation, (iv) PPPRA Audit Consultants, (v) PPPRA, (vi) Nigerian Customs Service (vii) Nigerian Port Authority (NPA), and (viii) Facilities/Depot Owners in the establishment and certification of quality and quantity (import and supply) of products, monitoring of the distribution chain and enforcement of approved prices. The Central Bank is the custodian of the Fund and confirms payment while the Nigeria Navy is charged with the responsibility of Issuance of clearance for the vessel to enter the Nigerian waters.

The two recommendations of PPPRA in the report as the way forward:

i. All Marketers including the NNPC should be paid from the Fund to create a level playing field for all participants in the Scheme; and

ii. Monthly remittance into the Fund with the CBN would make the process of payment neater and reduce the finance cost element. It will also enhance confidence in the Scheme should have raised an eyebrow from the Federal Ministry of Finance particularly as there were no expectations from the stakeholders but bothering only on funding. There is a paradox that none of the stakeholders, except the Federal Government and its funding agencies, is deficient in the import and supply chain.
In the face of subsidy, uniform prices are achieved by reimbursing a marketer’s transportation differentials for petroleum products’ movement from depots to their sales outlets (filling station), in order to ensure that products are sold at uniform pump prices throughout the country. Prior to 1973, petroleum products prices varied with locations in Nigeria to the extent of transportation costs incurred in delivering products from the major sources of supply. However, with the introduction of uniform pricing regime in the country effective from October 1973, that ceased to be.

Basic necessities like food items, clothing, building materials, vehicle spare parts, etc. vary in prices across the country without protests. Before the advent of Warri and Kaduna refineries and the countrywide network of pipelines and associated depots between 1978 and 1980, there were suffocating and crippling shortages of petroleum products because available local refining capacity was well below national demands for petroleum products and infrastructural facilities for distribution were grossly inadequate. The huge shortfalls were amply provided for from imports without any cash grants from the Federal Government. The novel scheme that was introduced then by the NNPC was the Offshore Processing Scheme:

By 2011, available information confirms that compensating oil marketing companies for sale of products at uniform prices throughout the country and the importation of petroleum products to make for the shortfalls arising from the poor state of local refineries is costing the Federal, State Governments and Nigerians the whopping, mind boggling sum of N1.3 trillion per annum! It is claimed that this amount is almost the National budget for capital expenditure.

4.4 Fuel Subsidy and Living Standards in Nigeria

The Nigerian energy economy is a paradox. Given its natural endowments -The world’s 14th largest producer of crude oil (index mundi) with 10th largest proven reserves and possessing the world’s 8th largest proven natural gas reserves. The country has 4
refineries with an installed production capacity of 445,000 barrels of fuel per day. The country has a relatively small industrial base and demand for fuel is driven mainly by domestic use and transportation. There is a clear divide between urban and rural demand patterns. In rural communities, biomass sources of energy, firewood and burnt charcoal are still the main sources of domestic cooking fuel. In urban communities gas and electric devices are mostly used. Energy supply and consumption is projected to raise dramatically as more electricity plants come on stream. In the main, these new electricity generating plants will be gas fired. Gasoline, kerosene and diesel oil are still the main determinants in the Nigerian energy consumption mix with small amounts of refined products are exported sporadically from her domestic refineries.

As a net importer of fuel products (80%) Nigerian consumers are subject to price regimes in the international markets. Domestically fuel supply is a monopoly of the NNPC and its subsidiaries. The NNPC, licenses importers and distributors, fixes local pump prices, owns fuel stations and depots and administers payments of subsidies to distributors. The NNPC therefore acts as a regulator, a distributor, producer and competitor in the retail markets. With this arrangement in place, the Nigerian energy markets can be classified a regulated monopoly with the added distinction that the regulator is also competitor in the market. Various arguments have been advanced for keeping this regime intact, most prominent of which is the need to protect the Nigerian consumer from the vagaries of international markets and to prevent exploitation by private sector actors. The demand and supply situation is therefore subject to three major influences. A monopoly effect, a subsidy effect and a price fixing effect acting independently and in concert to produce a truly complex and confusing economic picture. Issues such as corruption are treated as additional taxes on the consumer.
Fuel in Nigeria is an inelastic product both from the demand and supply side, which means that it is very difficult for consumers to find alternatives to the use of gasoline, kerosene or diesel in their daily lives. Electric trains, solar heaters and cookers are non-existent in Nigeria. Cooking gas is supplied in cylinders and not available or affordable to the rural dwellers and the poor who make up 70% of the population. The various taxes and subsidies further produce a dead weight loss to the economy, which is difficult to quantify and identify. The average Nigerian is not concerned about the price of commodities. He is concerned about his goods and services being capable of getting him his own needs. Nigerian economic statistics reveal a puzzling contrast between rapid economic growth and quite minimal welfare improvements for much of the population. Annual growth rates that average over 7% in official data during the last decade place Nigeria among the fastest growing economies in the world. This growth has been concentrated particularly in trade and agriculture, which would suggest substantial welfare benefits for many Nigerians. Nevertheless, improvements in social welfare indicators have been much slower than would be expected in the context of this growth. Poverty reduction and job creation have not kept pace with population growth, implying social distress for an increasing number of Nigerians. Progress toward the fulfilment of many of the Millennium Development Goals has been slow, and the country ranked 153 out of 186 countries in the 2013 United Nations Human Development Index.

Over the last decade, Nigeria has registered consistently high official GDP growth rates and experienced unprecedented momentum in prudent macroeconomic management, economic stability, democracy, and reform. A few areas of the country, most particularly Lagos State, have achieved visible and inspiring progress in development and service delivery. A more prudent fiscal stance since mid-2011 has restored countercyclical fiscal policy in the country and helped boost investor confidence in Nigeria. This is reflected in the
current balance of payments surplus and reserve accumulation. Some ambitious reforms are being pursued, particularly in the key areas of Power and Agriculture. An increasing number of State-level Governments are also showing determination to accelerate the pace of development on their territories.

While Nigeria is currently in an advantageous position for accelerating economic development, the country still faces a number of major challenges. Despite the high economic growth reported in official statistics, Nigeria has yet to find a formula for translating its resource wealth into significant welfare improvements for the population. Job creation and poverty reduction are not keeping pace with population growth, implying that the number of underemployed and impoverished Nigerians continues to grow. With a median age of 14 and population growth at close to 3%, the very stability of the country depends on a major acceleration in the creation of jobs, opportunities, and basic social services for the population. Nigeria’s progress toward the MDGs has been largely disappointing, with indicators in many areas resembling those in the poorest countries in Africa. With a fiscal reserve still less than US$ 10 billion, the macroeconomic picture in Nigeria is also still quite vulnerable to an oil price shock.

While official statistics place Nigeria among the fastest growing economies in the world, with growth concentrated in the pro-poor areas of small scale agriculture and trade, more direct indicators of social welfare of the population would appear to tell another story. Estimated poverty rates declined only marginally between 2003-2004 and 2009-2010, implying that, given growth in the population, the number of Nigerians living in poverty is increasing significantly. Progress toward a number of the other Millennium Development Goals in Nigeria has also been disappointing, and Nigeria was ranked 153 out of 186 countries in the 2013 United Nations Human Development Index. Unemployment rates have
been steadily increasing and younger Nigerians are encountering increasing difficulty in finding gainful employment.

The national poverty rate (headcount) declined only slightly between 2004 and 2010. Table 2 gives poverty (headcount) rates as measured using data from comprehensive household surveys conducted in 2003-2004 and 2009-2010. The official poverty line in Nigeria is drawn on the basis of income sufficient for per capita consumption of 3000 calories a day plus other essential non-food items. The first estimates show the estimated percentage of the population living below the poverty line by this definition. The second estimates employ the accepted international practice (adult equivalent approach) of weighing children in households less than adults due to the fact that children generally need to consume fewer calories. This correction serves to reduce estimated poverty rates.

**Table 6: Nigerian Poverty Rates (% of population)**

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<th>2013-2014</th>
<th>2009-2010</th>
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<td><strong>Per capita</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Poverty rate</td>
<td>64.2</td>
<td>62.6</td>
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<tr>
<td>Urban rate</td>
<td>52.2</td>
<td>51.2</td>
</tr>
<tr>
<td>Rural rate</td>
<td>73.4</td>
<td>69</td>
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<tr>
<td><strong>Adult equivalence</strong></td>
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<td>Poverty rate</td>
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<tr>
<td>Rural rate</td>
<td>57.4</td>
<td>52.9</td>
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</table>

*Source: National Bureau of Statistics, Bank calculations*

As indicated in Table 2, standards of living, particularly poverty rates remain high in Nigeria, particularly in rural areas where they derive the least benefits of subsidies. These rates declined between 2003-2004 and 2009-2010, although not nearly as fast as would be expected from the pace of economic growth in the country. While the officially reported growth rates of GDP well exceed population growth in the country, the pace of poverty reduction does not. This implies that the number of poor Nigerians living below the poverty line has grown measurably.
The data above, therefore, suggests that subsidy has not enhanced the living standards of Nigerians. This is reflected on the evidence that the poverty situation in the country appears to have worsened about the same time there have been significant increases on the amount been expended on petroleum subsided in Nigeria. Consequently, the analysis supports the hypothesis that the incremental increases in the pump price of fuel undermined the living standard of Nigerians.
CHAPTER FIVE
Fuel Subsidy Probe and Revenue Accounting in Nigeria

Fuel subsidy probe and national revenue accounting in Nigeria is the focus of this section. The study analyses the reports of the House Ad-hoc committee on petroleum subsidy, Petroleum Revenue Special Task Force and the forensic and physical audit of the NNPC to establish its implications for national revenue accounting in Nigeria.

The round of controversy over the removal of fuel subsidy was sparked off in June 2011 at the instance of Nigeria Governors' Forum, which includes governors of the 36 federating states in Nigeria. The Forum visited President Jonathan in the wake of the national debate over the payment of the new N18,000 minimum wage ($120). The governors pleaded their inability to pay the new wage bill and suggested the removal of fuel subsidy to ensure that more money accrues to the Federation Account, which will in turn be shared among the three tiers being federal, state and local governments. However, the Chairman of the Forum, Governor Chubuike Amaechi of Rivers State later stated that contrary to the prevailing notion that the Governors' support for the removal of fuel subsidy is hinged on their inability to pay the new minimum wage, they wanted it removed because only a few people were benefitting from the subsidies. He added that 'with billions spent on fuel importation and we are not seeing the fuel, refineries are not in place … if we remove the subsidy, then people will establish refineries … the refineries will employ people and make fuel available.'

The debate over subsidies was further fuelled on the 4 of October 2011 when President Goodluck Jonathan forwarded to the National Assembly [Senate and House of Representatives] the 2012-2015 Medium Term Expenditure Framework, and the 2012 Fiscal Strategy Paper. Among other issues, the documents proposed to phase out what government called its subsidy on fuel beginning in 2012. According to the President, this will make available about N1.2 trillion - some of which will be available for use in creating safety nets.
for the poor who will be adversely affected by the removal of the subsidy, and also go into the establishment of 'critical infrastructure'. In a similar effort, the Minister of Finance, Dr. Ngozi Okonjo Iweala explained that removing the subsidy is 'a good direction to go'; with Petroleum Minister Allison Madueke adding that continued fuel subsidy amounted to a significant 5drain to national resources.

By January 2012, there were revelations that amount expended on fuel subsidies in 2011 was much higher than what the government was keen to admit. While it has been estimated that government expenditure for this purpose was about N561 billion in 2010, the figure at least tripled in 2011 even though there was no substantial increase in fuel consumption between the periods. This development along with the mass protest that greeted the increase in the pump price of fuel in January 2012, resulted in the adoption of an ad-hoc by the House of Representatives to probe the fuel subsidy regime in the country. In addition to the House probe, there were also effort by the Petroleum Revenue Special Task Force and the forensic and physical audit of the NNPC by KPMG in order to unravel developments in the petroleum industry.

5.1 House Ad-Hoc Committee on Petroleum Subsidy

Following the removal of subsidy on PMS on the 1st day of January, 2012 by the Federal government of Nigeria and the attendant spontaneous social and political upheavals that greeted the policy, the House of Representatives in an Emergency Session on the 8th of January, 2012 set up an Ad-hoc Committee to verify and determine the actual subsidy requirements and monitor the implementation of the subsidy regime in Nigeria. The Federal Government had informed the nation of its inability to continue to pump endless amount of money into the seemingly bottomless pit that was referred to as petroleum products subsidy. It explained that the annual subsidy payment was huge, endless and unsustainable. Nigerians were led to believe that the colossal payments made were solely on PMS and HHK actually
consumed by Nigerians. Government ascribed the quoted figures to upsurge in international crude price, high exchange rate, smuggling, increase in population and vehicles etc. However, a large section of the population faulted the premise of the Government subsidy figures, maintaining that unbridled corruption and an inefficient and wasteful process accounted for a large part of the payments. To avert a clear and present danger of descent into lawlessness, the leadership of the House of Representatives took the bold and decisive action of convening the first ever Emergency Session on a Sunday (8th January, 2012), and set up the Ad-hoc Committee to verify the actual subsidy requirements of the country.

The Committee decided that the scope of this investigation should be for three years 2009 -2011 for the following reasons:

- The actual budget expenditure on subsidy for both PMS and HHK was tolerable, being N261.1b in 2006, N278.8b in 2007 and N346.7b in 2008. 5 companies including NNPC were involved in 2006, 10 in 2007 and 19 in 2008 contrasted to 140 in 2011.
- Secondly, in line with accounting practice, the Committee decided to investigate three years activities of the scheme.
- The Committee could have chosen to limit the investigation to 2011 alone given the scale of escalation of subsidy in that year alone but decided to take three years to establish a trend.

The Ad-Hoc Committee held Public Hearings from 16th of January, 2012 to 9th of February, 2012, taking sworn testimonies from 130 witnesses, receiving information from several volunteers, and receiving in evidence over 3,000 volumes of documents.

The 10-member committee could not hide its anger at the ineptitude of the heads of government agencies. The Nigeria National Petroleum Corporation (NNPC), Department of Petroleum Resources (DPR), Pipeline and Products Marketing Company (PPMC), Petroleum Products Pricing and Regulatory Agency (PPPRA), Accountant General of the Federation (AGF), Central Bank of Nigerian (CBN) and the Ministry of Petroleum Resources at different times presented conflicting figures on subsidy, claims, actual daily consumption of products and could not say whether or not certain accounts existed.
In one case over N 220 billion ($1.4 billion) was discovered as overpayment to some oil marketers. In another instance, the CBN presented a subsidy amount of N1.75 trillion, ($11.6 billion) as against the N 1.9 trillion ($12.6 billion) quoted by the AGF. Both did not tally with the N 1.3 trillion or N 1.2trillion ($8.6 billion) the government presented as subsidy. When the minister of petroleum resources, Diezani Allison-Madueke appeared before the committee she indicated that Nigeria’s daily consumption of fuel was 35 million litres. But Reginald Stanley, Executive Secretary of PPPRA revealed that the volume of fuel actually imported was 59 million litres per day. What this means is that there is a gap of 24 million litres per day being funded by tax payers as subsidy that Nigerians do not benefit from. This amounted to approximately N 670 billion ($4.4 billion) in “extra” subsidy on petrol in the last one year. If this is backdated to the last three years, it means the country has lost trillions of naira to a clique that has held the country by the jugular over the years.

This clique runs a close-knit scam linking different government agencies. The Nigeria Customs Service (NCS) told the committee that the bulk of imported fuel did not follow due process. Deputy comptroller general of the NCS, Julius Nwagwu said no invoices were attached during clearance of fuel and “most of the importation of petrol has no documentation”. The committee learnt that the NNPC did not make any documentation available to the NCS, and several meetings were held between the Ministry of Finance and the NCS where the latter was directed not to ask for documentations. The ministry specifically wrote to the NCS, warning them not to ask for documents “because this will cause crisis”. Besides the committee heard how the NNPC never bartered the mother vessels carrying imported fuel at Nigerian ports, contrary to the provisions of extant laws. The manifests covering these imports often bear offshore Cotonou in Benin republic, or offshore Lome in Togo. They never get to the Nigerian ports. Rather, smaller vessels pick these
products from the mother vessels and come to the Nigerian ports to report to the customs in line with the provision of the enabling act of customs.

The customs representative told the committee that the NNPC failed to pay duty on imported PMS worth N 45 billion ($300 million) from 1999 to 2002 when the duty was formally suspended by the Federal Government. The chairman of Nigeria Extractive Industries Transparency Initiative (NEITI), Professor Assisi Asobie, corroborated the customs allegations when he said the management of the country's crude oil and importation of petroleum products by the NNPC is deficient in transparency and due process. He told the committee that subsidy payments ought to be made from the Central Bank through the petroleum fund but that has not been the case with the NNPC. Instead, NNPC estimates the subsidy entitlements and deducts the estimated amounts directly from the domestic crude proceeds before remitting the rest to the Federation Account.

During the audit of the oil and gas sector in 2006 and 2008, NEITI discovered inadequacies that complicated the problem of accurate determination of volume of imported petroleum products. Even now the measurement methods used by the PPMC and DPR are not in accordance with best practices. And when they do, they are not consistently applied and cannot be relied upon. NEITI also observed that the systems for recording the movements of refined products through the PPMC pipeline are outdated, paper-based and subject to error.

In response to claims that NNPC deducts subsidy entitlements from the domestic crude proceeds before paying to the Federation Accounts, NNPC, through its group Managing Director, Austin Oniwon, said the company only deducts what is authorized by PPPRA. According to Allison-Madueke, the deductions for subsidy by NNPC are legal, citing section 5(80) (3) of the 1999 constitution, as amended, which she says empowers NNPC to deduct from source. Regardless of their spirited defense, the committee was told that NNPC does business with companies already indicted for operating unethically. For
instance, the Kerosene Direct, a scheme that would take the product to the doorsteps of Nigerians was handled by a popular company found to have sold NNPC products in its tanks without authorization.

Members of the committee were shocked when the group Managing Director of NNPC told them that NNPC had “a commercial issue” with the company “and we have resolved them”. All the companies doing business with NNPC were invited to appear before the committee. At the sitting, it was discovered that any incompetent person can do business with NNPC so long as the “connection is right”. The story is told of how some importers resident in the United States got electronic message from NNPC top shots telling them to register a company in Nigeria if they were interested in importing fuel. They did and became a fuel importing company. There was also the case of a company that was originally commissioned for waste management but which had no problems transforming into an oil importing company even without experience, expertise and capacity. Nigeria bound PMS is actually hawked on the high seas like oranges on the streets. The CBN was exposed in a grand conspiracy of sabotaging the Nigerian economy by encouraging massive capital flight from the country. The committee heard that to benefit from subsidy, CBN regulations do not give room for vessels importing petrol to Nigeria to berth on Nigerian waters, be it offshore or onshore.

By implication, if a mother vessel berths on Nigerian waters, smaller vessels that go to lift products from her do so at their own risk because, in CBN’s view, that does not constitute import. It only becomes import when the mother vessel berths in Cotonou or Lome and the smaller vessels go there to lift the products back to the Nigerian ports. That is when the importer qualifies for payment denominated in dollars, the only currency acceptable to mother vessels. The irony is that while imported PMS does not originate from Cotonou or Lome, the documents that qualify to be clarified as import and guarantee payment of foreign
exchange, according to CBN regulations, must bear offshore Cotonou or offshore Lome. In view of this, the questions begging for answer are, why is it impossible for the mother vessels to berth offshore Lagos that is secured by the Nigerian government and has deeper ocean depth than republic of Benin and Togo? Why is it that a mother vessel that berths offshore Lagos would not be regarded as import and qualify for foreign exchange? And, if these mother vessels have no problem coming to Nigeria to lift crude oil as confirmed by Vitol, a company that imports kerosene for NNPC, why would they not be compelled to berth offshore Lagos to discharge their imports? Apart from the CBN conspiracy, the other reason mother vessels would not berth on Nigerian waters is the selfishness of Nigerian importers who avoid additional costs such as demurrage, port duties, and war risk insurance since Nigeria has been declared a war zone by some international bodies.

The committee and the public did not find it amusing that government officials who appeared so efficient and honest could suddenly become so evasive and untruthful when it suited them. For example, heads of some of the agencies made great efforts to remember whether or not there was subsidy on locally refined products. To the petroleum minister, it depended on several things; to the NNPC GMD, it was so complicated the layman would not understand how it works. As for the Executive Secretary of PPPRA, there is subsidy for locally refined products. But his counterpart in the DPR noted there was none. Even the status of the subsidy account remains as controversial as ever. The petroleum minister owned up that it is a virtual account; though she could not explain it. The CBN denied any such account with it. The NNPC on its part was also not aware of the existence of the account, while the PPRA said it was a technical account. The AGF confirmed one account without funds, and the finance minister affirmed that it truly existed but not with a bank.

The House committee investigation genuinely lived up to its billing. It was a mind-boggling expose and a well-rehearsed show of shame in which public officials engaged in
extensive cover-up of massive thefts in the petroleum industry with its crippling effect on the economy. Conveniently, even the NNPC boss and head of agencies under that institution, forgot actual facts and figures, like the price of kerosene in the open market. Neither were they certain about the number of NNPC mega stations in Lagos. Yet, it was not as if they were not aware, as both the Senate and House of Representatives committees had shown in their investigations, that some Nigerian importers pass locally refined products for imported fuel so as to claim billions of naira in subsidy. The mess in Nigeria’s oil sector is not just multi-faceted. It is deep.

In the course of the investigations the Ad-Hoc Committee was able to establish the following:

1. Contrary to statutory requirements and other guidelines under the Petroleum Support Fund (PSF) Scheme mandating agencies in the industry to keep reliable information database, there seemed to be a deliberate understanding among the agencies not to do so. This lack of record keeping contributed in no small measure to the decadence and rots the Committee found in the administration of the PSF. This is evident also in the budget preparatory process by MDAs where adequate data is not made available to the National Assembly. The Committee had to resort to forensic analysis and examination of varied and external sources (including the Lloyds List Intelligence) to verify simple transactions. In this regard, the PPPRA is strongly urged to publish henceforth, the PSF accounts on quarterly basis to ensure transparency and openness of the subsidy Scheme.

2. The committee found out that the subsidy regime, as operated between the period under review (2009 and 2011), were fraught with endemic corruption and entrenched inefficiency. Much of the amount claimed to have been paid as subsidy was actually not for consumed PMS. Government officials made nonsense of the PSF Guidelines due mainly to sleaze and, in some other cases, incompetence. It is therefore apparent that the insistence by top Government officials that the subsidy figures was for products consumed was a clear attempt to mislead the Nigerian people.

3. Thus, contrary to the earlier official figure of subsidy payment of N 1.3 Trillion, the Accountant-General of the Federation put forward a figure of N1.6 Trillion, the CBN N1.7 Trillion, while the Committee established subsidy payment of N2,587.087 Trillion as at 31st December, 2011, amounting to more than 900% over the appropriated sum of N245 Billion. This figure of N2, 587.087Trillion is based on the CBN figure of N844.944b paid to NNPC, in addition to another figure of N847.942b reflected as withdrawals by NNPC from the excess crude naira account, as well as the sum of N894.201b paid as subsidy to the Marketers. The figure of N847.942b quoted
above strongly suggests that NNPC might have been withdrawing from two sources especially when the double withdrawals were also reflected both in 2009 and in 2010.

4. However, it should be noted that as at the time the public hearing was concluded, there were outstanding claims by NNPC and the Marketers in excess of N270billion as subsidy payments for 2011. Whereas the mandate of the Committee was necessitated by the removal of subsidy, the Committee found out that subsidy payment on kerosene formed an Integral part of the total sum.

5. On its part, NNPC was found not to be accountable to anybody or authority. The Corporation, in 2011, processed payment of N310.4 Billion as 2009 – 2011 arrears of subsidy on Kerosene, contrary to a Presidential Directive which removed subsidy on Kerosene in 2009. The Corporation also processed for itself, direct deduction of subsidy payment from amounts it received from other operations such as joint venture before paying the balance to the Federation Account, thereby depleting the shares of States and Local Governments from the distributable pool. Worse still, the direct deduction in 2011 alone, which amounted to N847.942 Billion, was effected without any provision in the Appropriation Act.

6. While NNPC feasted on the Federation Account to bloat the subsidy payable, some of the marketers were involved in claiming subsidy on products not supplied. PPPRA laid this foundation by allocating volumes of products each quarter to the marketers which it knew were not in conformity with its own guidelines for participation.

7. The probe further revealed that certain marketers collected subsidy of over N230.184 Billion on PMS volume of 3,262,960,225 litres that from the records made available to us were not supplied. Apart from proliferation and non-designation of bank accounts for subsidy payment, PPPRA and the OAGF were unable to manage in a transparent manner the two accounts they chose to disclose. There were indications that PPPRA paid N158 Billion to itself in 2009 and N157 Billion in 2010. When confronted, the OAGF was unable to submit details of the bulk payments arrogated to PPPRA and the account from which the bulk sums were disbursed to the supposed beneficiaries.

8. Curiously too, the particular Accountant-General that served during the period 2009 was found to have made payments of equal instalments of N999 Million for a record 128 times within 24 hours on the 12th and 13th of January 2009, totaling N127.872 Billion. The confirmed payments from the CBN records were made to beneficiaries yet to be disclosed by the OAGF or identified by the Committee. We however discovered that only 36 Marketers were participants under the PSF Scheme during this period. Even if there were 128 marketers, it was inconceivable that all would have imported the same quantity of products to warrant equal payments.

9. In order to arrive at a probable figure of daily consumption of PMS, the Committee took the entire volume of 14,787,152,340 litres imported by marketers and NNPC in 2011 as recorded by PPPRA and then deducted what we suspected as over-invoiced volume of 3,262,960,225. Thus, the actual volume imported for year 2011 was 11,510,202,347. This manifested into an average daily PMS consumption of 31.5 million litres.
However, in 2012 marginal increment of 1.5 million litres a day is recommended in order to take care of unforeseen circumstances, bringing it to 33 million litres per day. And to maintain a strategic reserve, an additional average of seven (7) million litres per day (or 630 million litres per Quarter) for the first quarter of 2012 only is recommended. Thus, PPPRA is to use 40 million litres of PMS in the first quarter as its maximum ordering quantity per day. In subsequent quarters PMS daily ordering quantity should be 33 million litres per day. For Kerosene, the Committee recommends a daily ordering quantity of 9 million litres.

Table 7: Firms indicted for Obtaining Forex without Importing Petroleum Products

<table>
<thead>
<tr>
<th>s/N</th>
<th>Names of Marketers</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BUSINESS VENTURES NIG LTD</td>
<td>22,927,339.96</td>
<td>$</td>
</tr>
<tr>
<td>2</td>
<td>EAST HORIZON GAS CO. LTD</td>
<td>20,735,910.81</td>
<td>$</td>
</tr>
<tr>
<td>3</td>
<td>EMADEB ENERGY</td>
<td>6,606,694.30</td>
<td>$</td>
</tr>
<tr>
<td>4</td>
<td>POKAT NIG. LTD.</td>
<td>3,147,956.19</td>
<td>$</td>
</tr>
<tr>
<td>5</td>
<td>SYNOPSIS ENTERPRISES LTD</td>
<td>51,449,977.47</td>
<td>$</td>
</tr>
<tr>
<td>6</td>
<td>ZENON PET &amp; GAS LTD.</td>
<td>232,975,385.13</td>
<td>$</td>
</tr>
<tr>
<td>7</td>
<td>CARNIVAL ENERGY OIL LTD</td>
<td>51,089.57</td>
<td>$</td>
</tr>
<tr>
<td>8</td>
<td>CROWN LINES</td>
<td>4,756,274.94</td>
<td>$</td>
</tr>
<tr>
<td>9</td>
<td>ICE ENERGY PETROLEUM TRADING LTD</td>
<td>2,131,166.32</td>
<td>$</td>
</tr>
<tr>
<td>10</td>
<td>INDEX PETROLEUM AFRICA</td>
<td>6,438,849.64</td>
<td>$</td>
</tr>
<tr>
<td>11</td>
<td>RONAD OIL &amp; GAS W/A</td>
<td>4,813,272.00</td>
<td>$</td>
</tr>
<tr>
<td>12</td>
<td>SERENE GREENFIELD LTD</td>
<td>4,813,360.75</td>
<td>$</td>
</tr>
<tr>
<td>13</td>
<td>SUPREME &amp; MITCHELLES</td>
<td>16,947,000.00</td>
<td>$</td>
</tr>
<tr>
<td>14</td>
<td>TRIDAX ENERGY LTD</td>
<td>15,900,000.00</td>
<td>$</td>
</tr>
<tr>
<td>15</td>
<td>ZAMSON GLOBAL RES.</td>
<td>8,916,750.00</td>
<td>$</td>
</tr>
<tr>
<td></td>
<td><strong>Total</strong></td>
<td><strong>337,842,663.86</strong></td>
<td><strong>64,767,763.22</strong></td>
</tr>
</tbody>
</table>


Based on the facts, issues and investigative interactions, the Committee recommended that:

1. From the findings of the Committee the consumption level for 2011 is estimated at 31.5 million litres per day. However, in 2012 marginal increment of 1.5 million litres a day was recommended in order to take care of unforeseen circumstances, bringing it to 33 million litres per day. And to maintain a strategic reserve, an additional average of seven (7) million litres per day (or 630 million litres per Quarter) for the first quarter of 2012 only is recommended. Thus, PPPRA is to use 40 million litres of PMS in the first quarter as its maximum ordering quantity per day. In subsequent quarters PMS daily ordering quantity should be 33 million litres per day. For Kerosene, the Committee recommends a daily ordering quantity of 9 million litres.

2. With regards to the 445,000bpd allocation to NNPC to refine for local consumption, the Committee established that the allocation is sufficient to provide the nation with forty million litres per day for PMS and Ten million litres of HHK.

3. The NNPC should refund to the Federation Account, the sum of N310,414,963,613 (Three hundred and ten billion, four hundred and fourteen million, nine hundred and
sixty three thousand, six hundred and thirteen naira only) paid to it illegally as subsidy for kerosene contrary to the Presidential Directive of July 29th, 2009 withdrawing subsidy on the product.

4. The Committee also recommended that the NNPC should be unbundled to make its operations more efficient and transparent, and this we believe can also be achieved through the passage of a well drafted and comprehensive Petroleum Industry Bill. The Committee therefore urges the speedy drafting and submission of the bill to the National Assembly.

5. The Committee further recommend that the House do direct for the auditing of the NNPC to determine its solvency. This was as a result of plethora of claims of indebtedness and demands for payments by NNPC’s debtors which, if not well handled, will not only affect the entire economy of Nigeria, but also the supply and distribution of petroleum products.

6. It also urged the House should direct the NNPC to stop any form of deduction not captured in the Appropriation Act before remittance to the Federation Accounts, and the Corporation should submit its transactions to the operational Guidelines of the Subsidy Scheme.

7. NNPC Retail, Independent Petroleum Marketers Association of Nigeria (IPMAN) and Major Oil Marketers Association of Nigeria (MOMAN) should be the outlets for the distribution of Kerosene to ensure availability and affordability of the product to Nigerians.

8. The NNPC should also refund to the Federation Account the sum of NGN285.098 Billion being over-deductions as against PPPRA approvals for 2011. The Relevant Anti-Corruption Agencies should further investigate the Corporation for deductions for the years 2009 and 2010.

9. As postulated earlier in this report, data provided by NNPC and CBN tends to suggest that for 2009, 2010, and 2011, NNPC deducted subsidy payments from two different accounts. It is the recommendation of this Committee that Relevant Anti-Corruption Agencies conduct thorough investigations into this matter and where it is established that double withdrawals were made, the extra amounts should be paid back to the Treasury and those involved prosecuted.

5.2 Report on the Process and Forensic Review of NNPC

The summary of the report of the interim report of the Process and Forensic review of the Nigeria National Petroleum Corporation by KPMG is summarized in the tables below. The implications and recommendations thereof are also highlighted.
This implies that there have been inadequate management of data relating to revenue generated from the petroleum sector of the Nigerian economy. It addition, it implies that there have been illegal exploration of crude in Nigeria in violation of OPEC quotas.
Table 9: Process and Forensic Audit finding on Pricing

<table>
<thead>
<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
</tr>
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<tbody>
<tr>
<td>Review of Official Selling Price (OSP) computation by GED C&amp;I in addition to review by GED E&amp;P. This appears to be a legacy issue as GED C&amp;I was formerly the GGM of COMD.</td>
<td>Duplication of review could result in long process cycle.</td>
<td>Review existing crude oil pricing process to ensure a complete, consistent and systematic approach for determining OSP.</td>
</tr>
<tr>
<td>Currently, determination of Official Selling Price (OSP) is performed by using different variables (Dated Brent - DB, differentials - D and premium - P) i.e. OSP= DTB+D+P. A model was developed but is currently not being utilized based on its lack of robustness.</td>
<td>Lack of a standard model could result in an incomplete evaluation of OSP variables such as freight costs, seasonal influences and operational challenges.</td>
<td>□ Implementation of a robust and scalable pricing model to ensure a complete, consistent and systematic approach for determining OSP.</td>
</tr>
<tr>
<td>Variances in crude sales price especially with regards to domestic sales to PPMC. Crude sales to NNPC were at lower prices (lower than approved OSP) than to other off-takers which is not in compliance with Government's directive. - It appears that there is no formal documentation to support this decision/practice.</td>
<td>Sub-optimisation of crude sales revenue/ potential revenue loss by the Federation. □ Non-compliance with laid down policies and procedures. □ Potential conflict of interest with COMD acting as agent to Government and being under NNPC who is also its customer.</td>
<td>□ Review and update policies on crude sales to ensure that external off-takers and PPMC are invoiced at a uniform price</td>
</tr>
<tr>
<td>NNPC is invoiced in US$ for domestic crude allocations but is expected to remit the equivalent Naira value to the Federation Account. However we observed that exchange rates used by NNPC were lower than the average exchange rates published by the CBN during the review period. - Exchange rate variances for 2007, 2008 and 2009 were estimated at N25.7 bn, N33.8 bn and N26.7 bn respectively. (using CBN rates for the month of transaction) - NNPC claimed they obtained the exchange rates from CBN via phone but there was no document to substantiate the claim.</td>
<td>□ Significant underpayment of domestic crude cost to the Federation Account.</td>
<td>Enforce policy to ensure NNPC’s exchange rates are consistent with CBN’s published rates. □ Supporting documents regarding applicable exchange rates should be obtained from CBN and filed appropriately for record purpose.</td>
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</table>

According to the report, there have been lack of consistency in the pricing of crude oil in the country, which results in under payment of proceeds to the government.
Table 10: Process and Forensic Audit finding on Issues/Renew Term Contract

<table>
<thead>
<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
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<tbody>
<tr>
<td>The practice of renewing crude sales contracts on an annual basis is not in line with leading practices</td>
<td>□ This practice could result in discretionary renewal of contracts</td>
<td>Extend contract duration and implementation process of evaluation Supplier’s performance on an annual basis</td>
</tr>
<tr>
<td>Evaluation criteria for renewal of contracts are not clearly stated in the contract document: - Renewal of contract was said to be based on performance of off-takers. However, the basis and process for determining performance is not clearly defined. - In 2009, when there was a need to reduce the number of off-takers from 28 to 21 due to supply constraints, the basis for shortlisting the off takers appears to be based on discretion as we were not provided with any documentation to support the selection process.</td>
<td>Selection of off-takers might not be transparent and objective. □ The selection exercise could be based on individual discretion and wrong assumptions/ criteria</td>
<td>□ Evaluation criteria and key performance measures should be clearly defined and documented in crude sales contract. □ Standard forms should be used for evaluation of off-takers performance with inputs from all relevant parties – Finance, Operations, COMD e.t.c.</td>
</tr>
<tr>
<td>We observed some instances where crude oil was allocated to off-takers who were not on the approved list: - Ovlas Trading (2,852,316 barrels and 906,269 barrels in 2007 and 2008 respectively) - Petrojam (2,818,914 barrels in 2007) - Oil Fields (950,166 barrels in 2007) - Zenon (906,000 barrels in 2008)</td>
<td>□ Crude might be sold to non-credible off-takers. □ Relevant guarantees (e.g. LCs) and safeguards might not implemented.</td>
<td>□ Implement additional controls to ensure adherence to policy. - List of approved off-takers should be reviewed before the execution of crude oil sales agreement/ contract by relevant officers in NNPC. - Off-takers should be certified to be on the approved list before loading clearance is processed and approved for off-takers’ vessels.</td>
</tr>
</tbody>
</table>

More so, the report further noted that practice of issuance and renewal of contracts by the NNPC on annual basis undermines international best practices and results in the abuse of the process through discriminatory issuance of contracts.

Table 11: Process and Forensic Audit finding on Process and Reconcile Collections

<table>
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<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
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<tbody>
<tr>
<td>We observed that crude oil sales and collections are not promptly captured on the accounting system. Typically, these transactions are captured in the accounting system after the transaction have been approved at FAAC meeting which is typically two (2) months in arrears.</td>
<td>□ Inaccurate sales and collection information on the financial systems and multiple data sources as data is predominantly managed outside the system. □ Tracking and ageing of receivables would be performed manually. Late detection of errors and absence of relevant audit trail. Root cause analysis of adjustment not adequately determined/resolved.</td>
<td>Review billing and revenue accounting processes to enable real time processing of transactions.</td>
</tr>
</tbody>
</table>
This shows that root cause analysis of adjustment are not adequately determined/resolved in the process of collecting and reconciling revenues and receives. There is therefore a need to explore possibility of system generated invoices.

Similarly, from the review of the cycle time for the remittance of domestic crude cost into the Federation Account, sweeping of funds took an average of 110 – 120 days as against the 90 day credit line offered to NNPC. As a result, the government might be deprived of timely utilisation of funds. Non-compliance with contractual agreements and unauthorised extension of credit to NNPC is also rampant on the process. Indeed, there is need to review and update remittance process to ensure timely remittance of funds.

**Table 12: Process and Forensic Audit finding on Product sales**

<table>
<thead>
<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
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<tbody>
<tr>
<td>The process of selecting Suppliers for importation of products is documented but the documented procedures are not adhered to. We observed that the Evaluation Committee only recommends prices for the importation of petroleum products while actual allocation of importation contracts (especially volumes) appear to be at Management’s discretion.</td>
<td>☐ The risk exists that the product importation process could be prone to abuse. ☐ The limited role of the Committee in the contracting/ bid process for products import hampers the transparency and objectivity of the process.</td>
<td>☐ Management needs to empower Evaluation Committee to evaluate and determine shortlist for approval based on predefined and approved criteria. ☐ Review and update policies and procedures for issuance of importation supply contracts. - Clearly define criteria for allocation to ensure transparency and objectivity. - Selection should be based on defined criteria.</td>
</tr>
<tr>
<td>Evaluation of quotes/ bids from suppliers appears to be a redundant process because agreed product import prices are based on projected in-house estimate irrespective of prices quoted by suppliers.</td>
<td>☐ Credible suppliers might decline to supply petroleum products if import prices are not competitive.</td>
<td>☐ Review process for determining product import prices and utilize a more robust/ flexible model to ensure prices are competitive and enable Supplier recover investment.</td>
</tr>
</tbody>
</table>

In the light of this development, there is increased possibility that suppliers might bring in adulterated petroleum products based on uncompetitive prices. This often leads to explosion which result in high material, financial and human lost for the nation.
### Table 13: Process and Forensic Audit finding on Issue/ Renew Importation Supply Contracts

<table>
<thead>
<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-compliance with approved policies/ procedures. We observed that contracts for the importation of petroleum products were awarded to companies/ suppliers not listed in the approved prequalification list used for the fourth quarter 2008 importation tender. - Astana Oil Corporation Limited - Natural Energy - Oando</td>
<td>□ Potential risk that contract could be awarded to Suppliers who do not meet defined requirements. □ Inability of Suppliers to meet contractual obligations.</td>
<td>□ Review process and implement relevant mitigating controls - Only Suppliers on approved list should be invited to tender. - Evaluation Committee should review bids received and only evaluate bids from approved Suppliers. - Approval of importation supply contracts and payments should include a compliance review to ensure only approved Suppliers are utilised. Any exception should be duly documented and approved by the GMD. - Conduct of periodic independent reviews by Audit to ensure adherence to policies and procedures.</td>
</tr>
</tbody>
</table>

This perhaps, accounts for the high number of participants in the subsidy regime and the high occurrence of scams in the process as revealed by the findings of the House Ad-hoc committee on fuel subsidy. It has undermined the credibility and essence of fuel subsidy policy in the country.

### Table 14: Process and Forensic Audit finding on Monitor and Receive Product Imports

<table>
<thead>
<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
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</thead>
<tbody>
<tr>
<td>Delays in discharge of product results in significant demurrage payments. - Based on our analysis of product importation profiles between January 2008 and June 2010, average demurrage days were estimated at 31 days.</td>
<td>□ Demurrage payments are made by NNPC; - We observed that NNPC was liable to pay an aggregate demurrage of $198 million during the review period translating to an average of $6.6 million per month.</td>
<td>□ Review and update planning process for receipt of product imports to enable more efficient planning of cargoes and minimise delays. □ Explore long term solutions to resolve jetty facilities constraints: - Upgrade of jetty facilities products specifically with regards drafts. - Improved local production of petroleum products</td>
</tr>
<tr>
<td>Late payment to Suppliers of imported petroleum products: - The importation contract stipulates the settlement of supplier’s invoice 45 days after submission of Notice of Readiness (NOR) to NNPC. However, actual payment to Suppliers ranges between 220 and 240 days after the receipt of NOR. - The late payment was attributed to cash flow issues as a result of the Corporation’s inability to recover costs incurred on product importation.</td>
<td>□ NNPC is liable to pay interest charges as a result of late settlement of invoices from suppliers. The current interest charges from 45 days after NOR is LIBOR + 1%. -</td>
<td>□ Ensure proactive capture of invoices on the system to recognise obligation and enable effective payment planning. □ Ensure aggressive and complete collection of crude oil sales to improve cash flow. □ Review import process and pricing to ensure products are imported in a cost effective manner and costs are fully recovered by crude sales revenue.</td>
</tr>
</tbody>
</table>
The inability of regulators to properly monitor import process has probably led to the inflation of receipts. This development along with the delay in inspecting imported products has resulted in additional cost to the economy as a result of demurrage. This increases cost of sales and negatively impacts NNPC”s ability to recover cost under the current pricing regime.

Table 15: Process and Forensic Audit finding on Refine Crude Oil

<table>
<thead>
<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
</tr>
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<tr>
<td>Low capacity utilization of the refineries: - Capacity utilization for the four refineries in 2008 and 2009 are estimated at 25.3% and 11.2% respectively. - The low capacity utilisation was attributed to partial/ complete shutdown of processing plants at the refineries as well as pipeline vandalism.</td>
<td>□ Continued dependence on imported petroleum products to supplement local production. □ High refinery overheads with low profitability.</td>
<td>□ Turn-around-maintenance of refinery processing plants to improve capacity. □ Ensure continuous monitoring/ surveillance of pipelines to reduce the frequency of occurrence of pipeline vandalism</td>
</tr>
<tr>
<td>Non-integration of inventory, procurement and accounting systems: - Currently, crude oil receipt as well as the production, verification and evacuation of refined petroleum products are managed on MS Excel.</td>
<td>□ Lack of end-to-end reconciliation of inventory to product sales. □ Inaccurate inventory records resulting in misstatement of financial records.</td>
<td>□ Deploy an inventory management system that supports the refineries” supply chain processes. - Currently, NNPC is in the process of implementing an ERP solution (SAP) which is expected to address the challenges being faced with non-integrated/ stand- alone systems. - There is a need to ensure that functional requirements meet and address the issues currently faced before the implementation can be successful.</td>
</tr>
<tr>
<td>The processing fee currently earned by the refineries for processing crude oil into petroleum products is not sufficient to meet the total operating cost of the refineries. - Our analysis of the financials of WRPC and KRPC between 2006 and 2008 revealed that the revenue earned from processing fee was significantly lower than the operating costs resulting in losses for the two refineries during the review period. - We also observed that the processing fee is determined by a committee constituted by the GED, Finance and Accounts and the last review was carried out in 2005. However, the basis for determining the processing fee rates does not appear to be in line with current realities.</td>
<td>□ Inability of refineries to generate sufficient revenues to meet financial obligations and operating cost. □ The refineries are not autonomous as they continue to depend on the Corporate Headquarters for funding. However, long term funding by Corporate Headquarters is not sustainable.</td>
<td>□ Need to conduct a detailed review of the refineries operations to determine solutions to boost capacity, improve operating efficiency/ effectiveness and reduce operating cost and non-performing assets. □ Review processing fee to ensure optimal pricing and enable better recovery of operating cost.</td>
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It has increased the possibility of manual errors. More so, late or non-detection of inventory losses/reconciliation issues has the tendency to deprive the nation’s treasury of huge revenue accruing from the sale of crude oil and locally refined products.

Table 16: Determine and Process Subsidy

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<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
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<tbody>
<tr>
<td>Subsidy claims should be remitted to NNPC from PSF by the Federal Ministry of Finance (FMF) based on claims approved by PPPRA. However, NNPC’s practice is to remit to the Federation Account, amount payable for domestic crude less subsidy claims. It then requests the FMF to pay the subsidy amount due to it (from PSF) into the Federation Account being the balance of the cost of domestic crude.</td>
<td>Actual remittance of proceeds of domestic crude sales to the Federation Account might be less than expected.</td>
<td>□ Regularise and formalise guidelines for the administration of PSF. □ The Federal Government should formally communicate approval of remittance of crude sales net of subsidy to NNPC, PPPRA, FMF and CBN.</td>
</tr>
<tr>
<td>There are instances of delays in receipt of subsidy advice from PPPRA resulting in the estimation of subsidy claims by NNPC which results in over/under-deduction from proceeds of domestic crude sales. - For example, N25bn was deducted as subsidy estimate for September 2009 from domestic crude sales proceeds while PPPRA approved a subsidy of N23.8bn. - N35bn was also deducted as subsidy estimate for November 2009 but PPPRA approved a subsidy of N21.3bn. - Over-deduction for these two months amounted to N14.9bn. However, only N4.2bn was swept into the Federation Account by NNPC as adjustment for subsidy claimable in the two months.</td>
<td>Under-remittance of domestic crude sales proceeds into the Federation Account. - Based on our analysis, subsidy over-deduction for 2007, 2008 and 2009 was estimated at N2.0bn, N10.3bn and 16.2bn respectively. □ High risk of loss of subsidy adjustments trail specifically in instances of under-remittance.</td>
<td>□ Define and re-enforce deadlines for submission of subsidy advice by PPPRA. □ Deduction from the proceeds of domestic crude sales by NNPC should be solely based on amount advised by PPPRA.</td>
</tr>
</tbody>
</table>

As a result, there is the likelihood of under-remittance of domestic crude sales proceeds into the Federation Account. - Based on our analysis, subsidy over-deduction for 2007, 2008 and 2009 was estimated at N2.0bn, N10.3bn and 16.2bn respectively.
Table 17: Process and Forensic Audit finding on Transport Products from Refinery/ Atlas Cove to Depots

<table>
<thead>
<tr>
<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
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<tbody>
<tr>
<td>Sub optimal utilisation of depot storage facilities. - DPK tanks (storage capacity of 18,000 cubic meters) at the various PPMC Depots within System 2B (Mosimi Area) have not been utilised for the past three years as DPK has not been supplied through this system. However, the tanks are said to be in good condition.</td>
<td>□ Risk of ineffective distribution of products. □ Possibility of incurring additional cost from leasing of third party storage facilities.</td>
<td>□ Review existing facilities and explore opportunities to ensure full optimisation of storage facilities. □ Implement procedures for ensuring the periodic review of facilities with a view to ensure optimal utilization</td>
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<tr>
<td>Product losses due to incessant pipeline vandalism continue to hinder the transportation of petroleum products. - Petroleum products losses through pipeline vandalism stood at 110.38 metric tones in 2009 and the monetary value was estimated at N8.1 bn.</td>
<td>□ Delays in product distribution due to pipeline shutdown/ downtime which could impact product availability. □ Additional cost will be incurred on pipeline repair. □ Increased cost of transportation of products using trucks.</td>
<td>□ Ensure continuous monitoring/ surveillance of pipelines to reduce the frequency of occurrence of pipeline vandalism. □ Deploy technology to ensure proactive detection of pipeline leakages.</td>
</tr>
<tr>
<td>Lack of an integrated inventory management system to capture and monitor inventory across all depot locations. - Data on product transfer, reception and discharge across the various depot/ jetties are captured on MS Excel.</td>
<td>□ Increased possibility of manual errors. □ Late or non detection of inventory losses/ reconciliation issues. □ Inaccurate inventory records resulting in misstatement of financial records.</td>
<td>□ Ensure timely reconciliation of product receipt to discharge and physical balance. This should also include reconciliation to original letter of award/ contract. □ Deploy an integrated inventory management system to minimise errors and enable easy reconciliation of inventory data. - Currently, NNPC is in the process of implementing an ERP solution (SAP) which is expected to address the challenges being faced with non-integrated/ stand- alone systems. - There is a need to ensure that functional requirements meet and address the issues currently faced before the implementation can be successful.</td>
</tr>
<tr>
<td>We observed discrepancies in the volume of petroleum product import receipt at Atlas Cove Jetty in June 2010. While MTD reported a volume of 193,160 MT, Mosimi Area Office quoted a volume of 184,989 MT for the same transaction. - Further evaluation of reports presented by MTD and Mosimi Area Office revealed that MTD’s figures were misstated.</td>
<td>□ Incomplete and inaccurate recording/ reporting of product receipts.</td>
<td>□ Ensure inventory receipts are reviewed by appropriate level of staff before reports are forwarded to Management. □ Deploy an integrated inventory management system to minimise errors and enable easy reconciliation of inventory data.</td>
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This probably accounted for the inadequate supply of products across the nation while the nation continued to pay for the supposed importation.

### Table 18: Process and Forensic Audit finding on Market and Sell Products

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<th>Findings</th>
<th>Implications</th>
<th>Recommendations</th>
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<tr>
<td>Basis for allocation of products to coastal Marketers is not clearly defined and appears to be at Management’s discretion.</td>
<td>□ The risk exists that product allocation to coastal marketers could be prone to abuse.</td>
<td>□ Review coastal sales process and ensure allocation criteria are clearly defined.</td>
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<tr>
<td>Sub-optimal utilisation of Management’s time: - Allocation of products to various coastal marketers is currently being handled by the MD. PPMC.</td>
<td>□ Ineffective utilisation of Management’s time.</td>
<td>□ Review process and implement relevant controls to mitigate inherent risks arising from execution of tasks by other personnel. □ Redefine responsibilities to free up Management’s time for more strategic activities. □ Define and document basis for allocation of products to coastal Marketers.</td>
</tr>
<tr>
<td>Ineffective implementation of credit management procedures resulting in outstanding receivables from credit marketers. - Based on our review of consolidated debtors’ age analysis report for Marketers, overdue debts as at 22nd August 2010 are estimated at N1.36 bn and N5.5bn for Independents and Major Marketers respectively.</td>
<td>□ Delays in collection negatively impacts cash flow and ability to meet financial obligations.</td>
<td>□ Review and update guidelines with regards credit management: - Evaluation of credit marketers. - Establishment and periodic review of credit limits. - Monitoring of credit limit. □ Implement aggressive debt collection methods to collect outstanding debts.</td>
</tr>
<tr>
<td>We observed that there are no defined guidelines for provisioning of bad debts from products sales which is not in line with leading and generally acceptable accounting principles.</td>
<td>□ Misstatement of information provided in the financial reports.</td>
<td>□ Update accounting policies to include provisioning and write-off of doubtful debts. Policies should clearly state provision rate, duration, write-off, e.t.c.</td>
</tr>
<tr>
<td>Delays in capturing sales transactions on the Sun Accounting System: - As at August 2010, we observed that transaction entries relating to payment and product lifting by Coastal Marketers for June and July 2010 have not been captured onto the system.</td>
<td>□ Inaccurate financial records. □ Long cycle time for preparation of management reports due to reconciliation. □ Increased and cumbersome reconciliation.</td>
<td>□ Redesign process to ensure real time capture of transactions on the accounting system. □ Define and implement timelines for posting of transactions as KPIs for process operators. □ Explore opportunities to generate system invoices/receipt.</td>
</tr>
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</table>

Lack of objectivity and transparency in the allocation process and could result in increased likelihood of dispute over receivables and high risk of bad debt resulting in lost revenue.
In a nutshell, the forensic and process audit of the NNPC indicate gross anomaly in all aspects of the petroleum industry including product sales, processing of customer invoice, marketing and products sales, transportation of products from refinery/ atlas cove to depots, determine and process subsidy, refining of crude oil, monitoring and receiving of product imports, the issuance/ renew importation supply contracts, issuance/renew term contract, products pricing and other processes related to crude oil revenue in Nigeria, thereby depriving the nation of huge revenue and undermined the transparency of the petroleum sector in the country.

5.3 The Petroleum Revenue Special Task Force

The Minister of Petroleum Resources, driven by the need to strengthen the institutions responsible for Petroleum Revenue Management, commissioned the Petroleum Revenue Special Task force (PRSTF) on 28 February 2012. The goal of the Task Force was to support the programme of the Federal Government of Nigeria in enhancing optimization, probity and accountability in the operations of the Petroleum Industry. As part of this agenda and the issues arising from the various fiscal regimes existing in the sector, there arose an urgent need
to establish the streams of revenue flows from the Petroleum sector to the Federal Republic of Nigeria and design systems and processes which would enhance the accountability of each agency or entity.

The assignment of the Special Task Force is contained in its Terms of Reference and covers the entire Petroleum Value Chain. Accordingly, the Task Force set out to confirm if existing systems, laws, processes and functions across the value chain provide reasonable assurance that revenues from the Petroleum Industry are captured, complete, recorded intact, properly accounted for and that revenue due is demanded and collected. At the inauguration of the Petroleum Revenue Special Task Force, the following Terms of Reference (ToR) were communicated:

1. To work with consultants and experts to determine and verify all petroleum upstream and downstream revenues (taxes, royalties, etc) due and payable to Federal Government of Nigeria;

2. To take all necessary steps to collect all debts due and owing; to obtain agreements and enforce payment terms by all oil industry operators;

3. To design a cross debt matrix between all Agencies and Parastatals of the Ministry of Petroleum Resources;

4. To develop an automated platform to enable effective tracking, monitoring and online validation of income and debt drivers of all Parastatals and Agencies in the Federal Ministry of Petroleum Resources;

5. To work with world-class consultants to integrate systems and technology across the production chain to determine and monitor crude oil production and exports, ensuring at all times, the integrity of payments to the Federal Government of Nigeria; and

6. To submit monthly reports for ministerial review and further action.

After its inauguration, members of the PRSTF have approached the assignment with seeming determination. In carrying out its ToR, one of the initial activities performed by the PRSTF was to obtain both written and verbal presentations from the various stakeholder groups within the Petroleum Industry. This was to enable the Task Force to understand the
challenges faced and the type of reforms that are required. This was all carried out with a view to determining and optimising the nation's revenue streams from all sectors within the industry.

The Task Force members also visited and reviewed selected agencies and operators, supported by the Consultants, for the period spanning 1 January 2005 to 31 December 2011 in line with the Statute of Limitations. Two workshops were also held to aid information gathering process with respect to key issues of Metering and Measurement in the Oil & Gas Sector Value Chain, and Security in the Oil and Gas Sector.

Apart from several plenary meetings to receive briefings, analyse gathered information and deliberate on findings, the Task Force also operated through constituted two (2) ad-hoc subcommittees to conduct a detailed review of NNPC's and DPR's roles in petroleum revenue management. Five (5) standing subcommittees were also formed and conducted detailed assessments followed with recommendations in specific areas relevant to the overall ToR. Specifically in pursuance of ToR 2, the Task Force through the Security and Enforcement Subcommittee also liaised with relevant agencies to validate the status of outstanding debts identified in the course of the forensic review, and to demand payments where deemed necessary.

The Task Force in pursuance of ToR 1 and 2 conducted activities to determine and verify all Petroleum Upstream and Downstream Revenues due and payable to Nigeria; and took all necessary steps to collect all debts due and owing. It was determined that the main petroleum revenues due to the national treasury in respect of oil and gas activities in Nigeria are: Domestic Crude Oil Sales, Equity Crude Oil Sales, Gas Sales, Refined Petroleum Products sales, Profits from NNPC subsidiaries, Petroleum Profits Tax, Company Income Tax, Signature Bonus, Concession Rentals, Royalties from Oil and Gas, Gas Flare Penalties, and Miscellaneous Oil Revenues.
The Task Force’s key findings are presented below according to these revenue streams.

1. **Proceeds from the sale of Domestic Crude Oil:**

   As at 31 December 2011, N843 million was due to the Federation in respect of Domestic Crude Oil allocations. The amounts outstanding as at 31 December 2011 represent amounts due for the months of September 2011 to December 2011. In view of the 90-day credit period, the outstanding amount as at 31 December 2011 was not due for payment. The Task Force received representations from the NNPC and other relevant agencies on the Corporation's practice of deducting amounts for subsidy-related expenses prior to remittance of these revenues. In the course of the Task Force's work, we did not receive sufficient justification for the practice which does not accord with the law, with particular reference to the Constitution.

   More so, the committee noted that the review of the records received for 2002 to 2011 showed an inconsistent pattern in the implementation of the policy to allocate 445,000bpd allocation to NNPC, with variances found for the ten years reviewed. It also compared the average price per barrel payable by NNPC for Domestic Crude with the average weekly prices for Nigeria Bonny Light, Forcados, obtained from the Energy Information Administration (EIA). The review revealed that over a 10 year period (2002 - 2011), the State may have been short paid by an estimated sum of US$ 5 billion, although it was understood from discussions with NNPC officials that the pricing of domestic crude oil was based on international prices. Enquiries from NNPC revealed that up until October 2003, NNPC was granted fixed price regimes which explain the wide disparity in prices in the earlier years.

   The Task Force found that the exchange rates used in arriving at the Naira equivalent of the amounts payable differed from the CBN rates for six (6) of the ten (10) years reviewed. The potential underpayment of amounts payable to the Federation Account over the 10-year period is estimated at N86.6 billion. Also, the Task Force's review of the domestic crude
utilisation showed that the percentage not refined in-country ranged from between 50% to 88% over the 10 year period.

2. Proceeds from Equity Crude Oil Sales:

Equity Crude represents government's share of crude oil production (excluding domestic crude) obtained mainly from three (3) arrangements: Joint Operating Agreements (JOA) with IOCs, Production Sharing Contracts (PSC) and Service Contracts. Equity Crude Oil proceeds are remitted into the Federation account as export proceeds, DPR accounts as Royalties and FIRS accounts as Petroleum Profit Tax.

The Task Force observed that there is no single point accountability for the income and expenditure streams of upstream petroleum operations, compounded by the current structure of NNPC such as multiple roles executed through NAPIMS and its COMD.

A decline was also observed in national investments that would increase the nation's proven reserves. Accordingly, despite the increase in crude oil production in Nigeria over the years, the nation's entitlement has decreased as a result of various alternative funding arrangements for its upstream investments.

The Task Force found that legislation governing the industry and agreements with third parties are outdated, do not reflect current economic or legal realities; or include ambiguous clauses. Also, there are some provisions within the legislation that could significantly improve government's revenue that the government is yet to take advantage of. Examples include a provision to ensure that the share of the Government of the Federation in the additional revenue shall be adjusted under the Production Sharing Contracts if the price of crude oil at any time exceeds $20 per barrel; and the requirement for a periodic review of provisions in specified time frames.

It was also observed that some traders lifted crude oil although they were not listed on the approved master list of customers who had a valid contract and were selected through an
annual bidding process. The Task Force research also found that quite a number of traders did not demonstrate renowned expertise in the business of crude oil trading.

Furthermore, the Task Force found that the use of crude oil traders was contrary to the global trend wherein national oil companies develop their own trading arms, such as the various NNPC trading subsidiaries which currently have limited capacity. The Task Force identified various concerns in this area with Nigeria being the world's only major oil producer that sells 100 percent of its crude to private commodities traders, rather than directly to refineries.

Various submissions to the Task Force demonstrated the potential for lost margins to middlemen, manipulation of pricing, suboptimal returns and market fraud as emanating from this policy and practice. A review of NAPIMS's audited financial statements as at 31 December 2009 showed that Joint Venture cash calls payable was N459.568 billion. Since 2006, government has not allocated enough funds to cover these amounts and NNPC has entered into a range of borrowing arrangements referred to as Alternative Financing Arrangements with the costs of financing this debt (estimated at around 8%) continuously mounting. This cycle will continue to increase in the coming years unless a systemic solution is found.

As JV partners there is a need for the effective management and oversight of oil companies' operating costs which affects revenues accruable to Nigeria. There is also a clear training, technology and human capacity gap between NAPIMS staff and their counterparts in the private oil and gas sector.

3. **Proceeds from the Sale of the National Entitlement (Gas):**

The Task Force aided by the Consultants identified a total of N137,572 billion ($946,878 million) due to the Federation from SNEPCO representing the proceeds of gas
sales from the Bonga oil field; according to the NNPC (NAPIMS) Financial Statements for the year ended 31 December 2009.

For Liquefied Natural Gas, the price observed at which the feedstock gas is sold to NLNG seems too generous, compared to prices obtainable on the international market. The estimated cumulative of the deficit between value obtainable on the international market and what is currently being obtained from NLNG, over the 10 year period, amounts to approximately US$29 billion.

4. **Proceeds from Sale of Petroleum Products:**

From the Task Force's review, NNPC is owed N27billion including current debt, total overdue, disputed debt and total debt outstanding, by the major marketers of petroleum products. The report also found that amounts payable to suppliers of petroleum products, as at 31 December 2011 amounts to approximately US$3.6 billion, of which US$2.7 billion represents amounts outstanding for over 365 days. The Task Force also observed that pipeline product loss has steadily increased over the years.

5. **NNPC and Subsidiaries:**

From review of the latest available audited financial statements (2009) it was noted that NNPC has sixteen (16) subsidiaries. The financial performance of the Corporation and its subsidiaries in 2009 shows the Group had a deficit of approximately N298billion for the period. Various reviews conducted by the Task Force showed that the NNPC does not receive the required capital to grow its assets or meet operating costs. NNPC has therefore increasingly relied on the FGN for lines of credit, and deduction of oil revenue due to the Federation Account. In our review, the legal basis for this practice was unclear.

6. **Signature Bonus:**

The Task Force found that discretionary decision-making in the award of oil blocks can result in revenue losses for Nigeria. The report further showed that the management of
past bid rounds has resulted in lower demand and fewer qualified bidders, uncompleted deals weakened government returns, and lower development of acreage.

The DPR provided the task force with information indicating that 67 licenses were awarded between 1 January 2005 and 31 December 2011; with an outstanding balance of $566 million unpaid in signature bonuses. For the 7 discretionary allocations reviewed, the Task Force found $183 million outstanding and due to the nation's treasury. In addition, the taskforce noted they were informed that of the total $749 million outstanding in signature bonuses, $321 million was legally disputed.

7. **Concession Rentals:**

The Task Force found that $2.9 million represents outstanding amounts to be collected by the DPR from the various concessionaires. However, it reported inconsistencies in records provided by DPR in respect of information and schedules regarding the list of concessions.

8. **Royalties (Crude Oil and Gas):**

The Task Force found that $3.027 billion was outstanding from the operators for crude oil royalties as at 31 December 2011 per the DPR's records. Of this amount, the DPR had stipulated that ADDAX is liable to pay $1.5 billion royalties under the 2003 fiscal regime and there is currently a dispute between Addax and NNPC on the one hand, and the DPR on the other. In the course of the review, the Task Force also encountered differences in records of payments made to the CBN vis-a-vis DPR records, and lack of independent gas production and sales data.

9. **Gas Flare Penalties:**

The Task Force found that the DPR is currently unable to independently track and measure gas volumes produced and flared and depends largely on the information provided by the operators. We also observed that the periodic reconciliation meetings with the
operators to address the gas flare volumes were delayed with only 6 completed of 36 at the
time of our review.

The total revenue from gas flaring during the review period was $175 million with the
balance outstanding as unpaid was approximately $58 million indicating that $115 million had
been received by the DPR. However a review of CBN records by the taskforce showed that
$137 million was received between 1 January 2005 and 31 December 2011. The DPR was not
able to reconcile the $115 million to the $137 million. Lastly, operators have not compiled
with the recent Ministerial directive signed on 15 August 2011 increasing the gas penalty fee
from N10.00 to $3.50. The operators have continued to flare gas at the rate of N10 and
records at the DPR reveal that none of the companies have paid any gas penalty fee in 2012.

10. Miscellaneous Oil Revenues:

The Task Force was unable to obtain a comprehensive miscellaneous oil revenue
schedule from the officials of the DPR, although a review of CBN's records provided some
information albeit with unexplained variances. The amounts due in respect of the various fees
relating to the miscellaneous oil revenues are also not reflective of the current economic
realities.

Revenue Losses in the Nigerian Petroleum Industry

The Task Force identified sources of revenue losses in the industry, with a view to
identify opportunity areas for major reform in boosting resources obtainable from the sector
for national development. These include the following.

1. Crude Oil Theft and Associated Revenue Losses:

Hydrocarbon theft was found by the Task Force as being a major and chronic source
of revenue loss to Nigeria. Theft of crude oil and refined petroleum products may be reaching
emergency levels in Nigeria.
The Task Force observed various estimates by International Oil Companies and Government officials of the scale and volume of crude theft which ranged from 6 to 30 percent of production. While the Task Force does not endorse any of the numbers it received, we note that it could actually be as high as 250,000 barrels per day closer to 10% of daily productions amounting to as high as N1 trillion annually. This issue therefore requires immediate attention.

2. Lost Refined Products and Associated Revenue Losses

The Task Force did not provide comprehensive figures documenting volumes of refined products stolen or spilled. NNPC reports that thieves stole 3.2 million metric tons of products from its pipeline network between 2001 and 2010 and that about 40 percent of products currently channelled through pipelines are lost to theft and sabotage. PPMC also recorded 4,468 product pipeline breaks in 2011, 98 percent of them from sabotage; and values the products stolen from its pipeline network between 2001 and 2010 at N178 billion.

3. NNPC Withholdings for Costs Associated With Theft and Sabotage

NNPC withholds oil revenues from the Federation Account to cover costs associated with theft and pipeline sabotage.

4. Pioneer Status granted to Indigenous Companies

The Task Force was informed that at least five companies: Allied Energy, Midwestern Oil & Gas, Brittania Oil Nigeria Limited, Suntrust Oil Company Nigeria Limited; and Niger Delta Petroleum Resources Limited2 have been granted pioneer status by the Nigerian Investment Promotion Commission (with others pending or undetected) for their exploration and production activities.

The Task Force noted that the granting of pioneer status to oil operators for an activity that is well established for over 40 years inappropriate. The loss of revenue from the grant of
pioneer status to oil operators is an avoidable loss and it is recommended that any such further consideration be stopped forthwith and the current ones set aside and or revoked.

1. **Collateral Social Costs of Theft**

   The Task Force also found that certain social costs emanated from crude oil theft and considered them important and requiring urgent attention. These include environmental pollution and its socioeconomic impacts, armed piracy, and lost investment in the sector leading to revenue losses.

   Based on the detailed review of outstanding debts owed to the Federation, the Task Force determined outstanding amounts for royalties, signature bonuses and concession rentals. Pursuant to an initial understanding of ToR 2 of the PRSTF, relevant government agencies were invited to assist in a debt collection drive, and invitation and demand letters were sent to over 47 oil companies allegedly indebted to the nation. We have recommended that government pursue debts further in any manner deemed appropriate.

   However during the debt reconciliation exercise, the sum of USD$5,830,261 was paid into the treasury of Government with evidence of payment, while several companies made undertakings to pay at later dates.

**Automation of the Nigerian Petroleum Industry**

   The Task Force identified Information Technology and business automation gaps, by carrying out Current Position Assessments of the stakeholders within the Oil and Gas production value chain, including government regulatory parastatals. The assessment scope covered three broad categories namely Core Business Systems, Reporting Capabilities and Automation Capabilities of these entities.

   Further, the findings showed that there were evident automation gaps in the oil and gas value chain specifically in key agencies under the Ministry of Petroleum Resources/Department of Petroleum Resources that are vested with the mandate to produce Oil and Gas,
licence, keep and update records, supervise petroleum industry operations and ensure payment of rent and royalties. Additionally, the PRSTF reviewed the state of metering and measurement in Nigeria's oil and gas value chain vis-a-vis best practices. The challenges identified with the current metering and measurement regime can be summarised as a lack of adequate vision and ownership required to articulate and drive a cohesive implementation of IT and Automation in MPR and DPR.

The Task Force identified the following specific challenges with the metering and measurement regime:

- Dependence on manual data gathering processes
- Low level infrastructure at remote locations
- Lack of regular and systemic well testing
- Inadequate data and IT infrastructure among industry players
- Inadequate MIS reporting and dashboard capabilities in existing systems
- Disparate systems with differing data, nomenclature among operators
- Diverse data requirements from Government agencies
- Multiple and strong stakeholders with divergent interests

The Task Force also found inconsistent oil and gas data across the petroleum industry. These inconsistencies in information were sighted across the major agencies and parastatals of the MPR as well as with the oil and gas operators themselves.

**Recommendations**

In order to address the findings and issues above, the Task Force developed the following recommendations which Government should implement to address the issues identified and their root causes.

1. **Strategic Management Recommendations**
   
   From a strategic viewpoint of the Task Force's review and the findings discussed above, the Task Force recommends the following:
   
   - Set up a process, independent of NNPC, to review the use of oil traders and NNPC's system for selling crude, on grounds of value for money and probity.
   - Undertake a strategic review of all NNPC subsidiaries before the PIB passes, with a view to privatizing, repositioning or scrapping non-performing, redundant or irrelevant business units.
• Require a full public report by NNPC of the amount, cost and terms of all cash call debts; improve reporting of this information to the National Assembly as part of the annual budget and oversight process.
• Pass an oil sector transparency law that requires all oil companies active in Nigeria to report all payments, costs and earnings for each license or transaction, and to publish all contracts and licenses.
• Create a special, properly-trained Oil and Gas Sector Financial Crimes Unit for law enforcement.
• Appoint a new NEITI Board, now long overdue. Members should be sector experts with a commitment to transparency, and civil society should appoint independent representatives.
• Establish an embedded and independent office of transformation for the sector with a fixed term and specific mandate to carry through recommendations and transformational reforms accepted by government.
• Implement an aggressive debt collection process for outstanding signature bonus payments; revoke blocks from non-paying firms; sanction those agencies that failed to collect.
• Conduct an independent process audit of all upstream cost control rules and mechanisms, including the use of cross-country price benchmarking.
• Amend the 1984 Special Tribunal (Miscellaneous Offenses) Act to strengthen the legal framework for oil theft and other sector crimes.
• Arrest and prosecute perpetrators and financiers of illegal bunkering rings.

2. Production
• Production data for fiscal purposes should be obtained at the flow stations where crude oil is stabilised and not at the terminals as is currently the practice.

3. Domestic Crude Sales
• No deductions should be made from the amounts payable to the Federation Account.
• Domestic crude oil should be sold at international competitive prices.
• FGN should block leakages in the conversion to finished goods process of NNPC.
• There should be full compliance by NNPC with prevailing CBN exchange rates for remittance of crude oil proceeds.
• The Federal Government should revisit the Domestic Crude Oil Business Model

4. Equity Crude Oil Sales
• Restructure NNPC for single point accountability for Petroleum Revenues
• National investment in the oil and gas upstream sector must be managed from a strategic focal point
• Ensure full compliance of all agencies and companies with existing legislation
• Regularise Crude Oil Lifting Under Contract
• Ensure open competitive selection process for crude oil sales
• Review the nominations process for all the Joint Ventures
• Ensure and institute proper review of all draft contractual agreements
• Adequate funding of the Federation’s investment obligations
• Create standard terms and conditions and uniform terms of contract agreements
• Proper and realistic budgets and approvals should be prepared annually
• Capacity Building should be embarked upon for NAPIMS in terms of optimal number and appropriate skills and training level of staff
• Ensure uniformity of the realisable prices used by all parties
• Carry out adequate review of the purchase or lease option for production equipment

5. Sale of the National Entitlement (Gas)
• Draw up master agreements for the development of all potential gas reserves in Nigeria
• FGN should ensure that written consents exist for gas for all assets
• FGN should intensify efforts to get the other LNG projects up and running
• FGN to carry out a comprehensive review of its NGL/LPG entitlements under the Agip and Shell Joint Ventures

6. Signature Bonus
• The FGN should expedite action with respect to the blocks in dispute in order to ensure that the $321million outstanding is collected.
• DPR should take further actions against the concessionaires that are yet to pay the amounts due ($167million) within the remit of the law.
• Proper record keeping should be enforced at the DPR

7. Concession Rentals
• DPR should take action and enforce collections of the amounts due of $2.9million within the remit of the law.
• The DPR should put in place measures to ensure consistency and accuracy of custodial information relating to oil and gas concessions

8. Royalties (Crude Oil and Gas)
• DPR should take action and enforce collections of the amounts due of $3.027billion from relevant operators within the remit of the law.
• DPR should make a demand for the outstanding Addax/NNPC Royalties payments of approximately $1.5billion on behalf of the Federal Republic of Nigeria and the consequences of default should immediately be visited on the contract and the relevant parties.
• DPR should instruct the CBN and operators to ensure the proper description of all revenue remittances in order to facilitate easy reconciliation.
• DPR should independently track and record gas production and sales data
• DPR should ensure that all reconciliation process with all the outstanding gas producing companies is concluded before the beginning of the next fiscal year.

9. Gas Flare Penalties
• DPR should independently track and record gas flare volumes
• The reconciliation process should be expedited for all operators to ensure timely collection of the gas flare penalty amounts due.
• DPR should take action and enforce collections of amounts due as gas flare penalties within the remit of the law.
• Enforce the new gas flare penalty directive as a disincentive to gas flaring.
• The FGN should put more effort in enforcing a zero gas flare policy by the beginning of the next fiscal year.

10. Miscellaneous Oil Revenues
• The DPR should employ the use of proper IT systems and databases to keep its records and ensure consistency and integrity of information across the organisation.
• The Fee and Licensing regimes for operating in the Oil and gas sector should be reviewed to reflect the current economic realities in the Oil and Gas industry

11. Removing the Source and Outlets of Revenue Losses
• Explore Fingerprinting of Nigeria Oil to enable tracking.
• Establishment of a transparent whistle blowing and information portal as an independent and transparent repository of information on petroleum revenue losses, sabotage, and illegal activity.
• Implement a deliberate policy on market ban of participants in crude oil theft
• The Fiscal Responsibility Act 2007 should be amended to criminalize withholding payment of petroleum revenue after due date and assessment and a notice of demand.

12. Automation of the Nigerian Petroleum Industry
1. Department of Petroleum Resources
   • The DPR should work with Galaxy Backbone and competent consultants to review ongoing projects, NDR and NPMS, and also develop a strategic IT blueprint for the organization.
   • DPR and MPR should commence the implementation of a portal that aggregates and presents in real time all relevant information about the operations and performance of the oil and gas industry.
   • An ERP Solution should be put in place to capture and automate the identified backend processes in DPR.
   • DPR, based on its mandate should build a Data Warehouse which would serve as a hub for gathering vital data about the industry and disseminating reports in various formats to government stakeholders. A framework and implementation roadmap to full automation of measurement and metering should be developed in a collective effort involving DPR and the operators with oversight from MPR.

2. Nigerian National Petroleum Corporation
   • The implementation of SAP should be expedited to fully automate key processes especially relating to revenue generation, processes feeding and pulling data to external parties.
   • The NNPC’s culture, end user work ethics and employee resistance to change all need to be managed extensively for the SAP implementation to be a full success.
   • The SAP implementation should be independently monitored from the Ministry to track and ensure that the strategic objectives are met.

3. Central Bank of Nigeria
   • A quick win solution would be to study and automate the NXP forms with a view to track shipments and track repatriation of export proceeds.
   • The existing CBN systems should be interfaced with other systems in the various relevant agencies in order to provide an overview of all revenue reporting and enable timely reconciliation between organizations.

1. Nigeria Customs Services (NCS)
   • The existing NCS system should be integrated with other systems in the various relevant agencies in order to provide an overview of all revenue reporting and enable timely reconciliation between organizations.

1. Full automation of the Petroleum Industry

5.4 Implications for National Revenue Accountability

The fact that the reports of the various committees and bodies that have investigated petroleum subsidy and the operations of the Nigerian oil industry, particularly the NNPC have not been implemented makes it difficult to understand its impact on national revenue accounting in Nigeria. This is because the recommendations of the House Ad-hoc Committee, for instance, was not adopted as it enmeshed in controversy.

Despite the revelation of deep rot and corruption in the management of petroleum resources in Nigeria against the backdrop of the fuel subsidy, revenue accounting in the
country is still immersed with controversy and allegations of corruption. On September 25, 2013, the then Governor of Central Bank of Nigeria (CBN), Sanusi Lamido Sanusi, wrote a letter to the President Goodluck Jonathan alleging suspicious on the accounts of NNPC. The central subject of that memorandum was “Non-Repatriation to the Federation Account by Nigerian National Petroleum Corporation (NNPC) of N49.8 Billion representing 76% of the value of Crude Oil lifting in 2012 and 2013”. Moreover, the letter also contains complaints about “Failure of NNPC to pay N22 billion Nigerian Export Supervision Scheme (NESS) Levy”, and “Other Related Matters”. On the whole, the CBN Governor raised several issues of urgent national importance which he wanted the President to intervene on and address. A close reading of the letter reveals about ten such issues.

The first is the exact quantity of crude oil lifted by the NNPC from January 2012 to July 2013. The second is its true monetary value. The third is the monetary value of the crude oil exports by the NNPC within the same period. The fourth is the quantum of revenue swept into the Federation Account by the NNPC in the same period. The fifth is the shortfalls in remittances by the NNPC to the Federation Account between January 2012 and July 2013. According to BusinessDay (2014), “these five issues are hard core economic questions which the President, to whom the memo was directly sent, should demand answers to, from the Minister of Petroleum Resources, the Accountant –General of the Federation and the Minister of Finance/Coordinating Minister for the Economy. They require a factual response, not a resort to diatribe, recriminations, or ad hominem verbal-stone throwing”.

The second set of issues were directed at the NNPC. Therefore, the first was a call by the CBN Governor for an investigation into the activities of Bureaux De Change (BDC) with a view to prosecuting them for violating Nigeria’s anti-money-laundering laws. Then, second, suggested an investigation of companies that sell private jets to Nigeria, accusing them of also violating Nigeria’s anti-money laundering laws. Third, Sanusi alleges, in a direct and
pointed manner, that the NNPC has refused to keep up with payment of its levies under the Nigerian Export Supervision Scheme (NESS); and that the NNPC currently owes the government a sum of N22 billion. Fourth, the letter raises an issue which bothers on reconciliation of physical volumetric data and revenue flow data pertaining to crude oil lifting and tax payments.

According to Sanusi (2013), between January 2012 and July 2013, NNPC crude oil lifting amounted to 46% of total lifting from Nigeria; yet remittances represented one third of taxes paid by the oil companies that exported the balance of 54%. That implies that the tax remitted by the NNPC should be commensurate with its oil lifting, and should therefore approach a proportion higher than 33.3% of the taxes paid by oil companies. The fifth issue raised in this category is also a reconciliation problem. The CBN believes that the quantum of revenue received and swept into the Federation Account, as Crude Oil sale proceeds, should normally be higher than the amount paid into the Federation Account as Petroleum Profit Tax and other related taxes and charges. It was therefore surprised that in 2012 and 2013, this normal trend was reversed. The Federation Account received, instead, a higher figure of US$28.51 billion as Petroleum Profit Tax and related taxes and charges and only US$10.13 billion as revenue from crude Oil sales. And in 2013 (January to July) taxes brought in US$16.65 billion, while crude oil sales yielded only US$5.39billion to the Federation Account.

The CBN levied two other serious allegations against the NNPC way beyond the accusations of non-repatriation of funds to the Federation Account and non-payment of NESS levy. The CBN charged the NNPC of acting in a manner that is tantamount to violation of certain constitutional provisions; and also of violating both the Foreign Exchange (Monitoring and Miscellaneous Provisions) Act No.17 of 1995; and the Pre-Shipment Inspection of Exports Act No. 10 of 1996.
It then proceeded to demand for some action to be taken by the President of the Federal Republic of Nigeria to address the problems raised in the memorandum. The first prayer by the CBN is that the President should require the NNPC to provide evidence for its disposal of all proceeds of crude oil sales “diverted from the CBN and the Federation Account”. The second is for the President to order an investigation into crude oil lifting and swap contract as well as the financial transactions of counter-parties for equity, fairness and transparency. The third is that the President should authorize the prosecution of suspects in money laundering transactions, including but not limited to BDCs who are unable to account for hundreds of millions of dollars.

The NNPC responded by stating that the allegation by the CBN was borne out of a misunderstanding, by the Governor of the Central Bank, of the workings of the oil and gas industry and the modality for remitting crude oil sales revenue to the Federation Account. It explained this modality pointing out that the Department of Petroleum Resources (DPR) and the Federal Inland Revenue Service were saddled with responsibility for royalty and petroleum profit tax, respectively. It then asserted that the major contributor into the federation from crude oil sales is royalty and PPT. This being the case, a significant proportion of the revenue generated from crude oil sales is expected to be paid into the federation account through the DPR and FIRS. The NNPC went even further to claim that it “is an established fact globally that royalty and PPT contribute over 75 per cent of the total government revenue (especially of the JV arrangements in all jurisdictions) derived from the proceeds of crude oil sales while the balance represents cost of production and profit oil”. The NNPC explained that the 24 per cent of the crude oil revenue receipts, which the published letter by the CBN Governor acknowledged as partial remittance represents the proceeds from the equity lifting which the NNPC was directly responsible for in line with global trends. The NNPC then stated categorically, with a note of finality, that the “alleged
unremitted 76 per cent [of total crude oil revenue] was paid through the agencies that are statutorily empowered to receive them for onward remittance into the federation account”. Further, the NNPC claimed that “the entire federation equity in JV is about 58 per cent, hence only such equity and revenue derived from crude oil sales belongs to the federation”. Curiously, in listing the upstream petroleum revenue flow streams, the NNPC was silent on domestic crude.

In order to understand the issues raised by the CBN and its implications for the economy, the response of the NNPC, it is pertinent to discuss oil revenue management in Nigeria. The broad issues pertain to the fundamental principles of petroleum revenue governance as reflected in the principles and criteria of the Extractive Industries Transparency Initiative (EITI) and the Precepts of the Natural Resource Charter (NRC).

The principal governance philosophy guiding good oil revenue management in countries implementing the EITI, or associated with the attempt to apply NRC precepts, is captured by the twin concepts of transparency and accountability.

Precept 2 of the Natural Resource Charter (NRC) deals with the governance principles of transparency and accountability. It assesses the extent to which a government is accountable to an informed public in its management of the nation’s natural resources. It states that a nation in which the quality of public information about natural resources is low and its timeliness is poor, it is difficult to hold government and companies to account. And in a nation where transparency is lacking and accountability weak, it is very hard to achieve sustainable development.

The relevant clauses of the EITI rules are Principles 4, 5, 8 and 9. These are reinforced by the very first of the six EITI Criteria. EITI Principle 4 speaks to recognition, by all EITI implementing countries, that a public understanding of government revenue and expenditure over time could help public debate and inform choice of appropriate options for sustainable
development. EITI Principle 5 is an emphasis on the importance attached by all EITI implementing countries to transparency by governments and companies in the extractive industries and the need to enhance public financial management and accountability. Principle 8 is an affirmation, by EITI implementing countries, of their belief in the principle and practice of accountability by government to all citizens for the stewardship of the revenue streams and public expenditure. And Principle 9 is a declaration that all EITI implementing countries are committed to encouraging high standards of transparency and accountability in public life, government operations and business. We should note that to be transparent is to be open, clear, unambiguous, precise, and simple. And to be accountable is to be answerable, responsible and liable.

The four EITI Principles highlighted above as part and parcel of global EITI Rules are reinforced, and clothed with both concreteness and mandatory force, by the first of the EITI Criteria. The first EITI Criterion, or Requirement, in EITI implementation is: Regular publication of all material oil, gas, and mining payments by companies to governments (“payments”) and all material revenues received by governments from oil, gas and mining companies (“revenues”) to a wide audience in a publicly accessible, comprehensive and comprehensible manner.

Nigeria subscribes to the NRC precepts and is an EITI implementing country; indeed, it is designated an EITI-Compliant country (2011-2016). It follows that the Nigerian people, government, ministries, departments and agencies subscribe to the EITI Principles (20 in all) and are bound by the EITI Criteria. Therefore, the throwing into the public domain of the data and information on revenues received by the Nigerian government from the oil and gas sector is in consonance with the spirit and philosophy of the EITI. No one should be embarrassed about the act, especially when one of the issues being canvassed is that the precise amount received should be determined and what is not paid into the Federation Account be
“repatriated” and paid into that account in accordance with the provisions of the 1999 Constitution of the Federal Republic of Nigeria (section 80) and other extant laws of Nigeria (BusinessDay, 2014).

Consequently, in the context of the implementation of the EITI in Nigeria, no data, on revenues received from the oil and gas companies as royalty, taxes, or other charges released by either one agency (be it the CBN or the NNPC) or by all of them acting together, even after reconciliation, can be regarded as accurate, authentic and final. Such figures need to be subjected to audits conducted in accordance with international standards and then made available to the NEITI independent auditors for reconciliation with figures from oil companies and for a thorough validation of the data and information. This is the whole point about the utility of Nigeria signing on to the EITI ten years ago.

The CBN, from the experience of the NEITI audits, appears to be the institution of government from which comprehensive data about upstream petroleum revenue streams can be obtained. Unfortunately, its records are not always accurate. Indeed, the CBN is ‘famous’ for its misclassification of data. According to the CBN, from January to December 2012 and from January to July 2013, total lifting of crude oil by the NNPC amounted to 594,024,107 (i.e. roughly 594.024 million) barrels. This, it claims, represents 46% of total lifting by all stakeholders, which it put at 1,287,742,641 (i.e. about 1.288 billion) barrels, during the period under review. If the data on lifting are correct, then NNPC’s proportion represents 46.129% of total lifting by all stakeholders, as stated. The trend of lifting by NNPC in the years immediately preceding the period under review would tend to give credence to the figures quoted by the CBN. According to NEITI Physical and Process Audits (2012), NNPC’s crude oil lifting, per annum, (that is, 12 months) in the years 2006-2011 was as follows:
Total Nigerian federation crude oil lifting or entitlement is received through the NNPC. For six years immediately preceding 2012, average proportion of the total lifting of crude oil that was taken by the NNPC, on behalf of the federation, was 46.52 per cent. That total consists of equity crude (arising from joint venture agreements); profit oil (arising from production sharing contracts); and domestic crude (meant for the refineries and domestic consumption but much of which NNPC actually exports and earns foreign exchange from).

The data supplied by the CBN is also lent some credibility by the historical trend in the structure of the revenue streams in the petroleum upstream subsector. The underlying assumption of the CBN position is that proceeds from oil and gas sales are usually much higher in value than the financial proceeds from royalty, petroleum profit tax and other charges. Therefore, when you have a situation where the value of the royalty, taxes and other charges is higher than the value of oil and gas sales, then there is need to interrogate the figures.

In addition, NEITI (2012) notes that Nigeria has received a total of US$269 billion from the oil sector between 1999 and 2008. Over the ten year period US$92 billion has been received from oil-specific taxes. US$5 billion from non-oil specific taxes from oil companies and US$172 billion has been received from the sale of government equity oil”. The term “equity oil” was used for simplicity to cover equity crude oil; profit oil; and domestic crude. The proportion of its contribution is 63.94 per cent; and that of the taxes is 36.06 per cent.

Yes, we know that in more recent years, the quantum of proceeds yielded through the Joint Venture Operations is diminishing while that from Production Sharing Contracts is increasing. The Federal Inland Revenue Service has also become more competent in the extraction of petroleum profit tax. Consequently, the value of PPT is rising relative to the value of Royalty. We know too that as a result of the more prominent position occupied by PSCs and Carry Agreements, the value of what goes to the operators as cost oil is rising while the value of equity crude may be decreasing vis a vis what accrues to the Federation as profit
oil. Thanks to unequal and unfair agreements and contracts between oil companies and the Nigerian federation. These developments are not, in my view, sufficient to completely reverse, in 2012 and 2013, the historical (1999-2011) trend in the structure of financial flows into the Federation Account delineated above. In 2011, a period of twelve months, the total amount swept into the Federation Account was US$63.139 billion. Of this amount, proceeds from oil and gas sales accounted for US$36.724 billion (58%), while royalty and taxes contributed US$36.724 billion (42%). Then in 2012-2013, a period of 19 months, there was a dramatic and drastic reversal: a mere US$15.528 billion from oil and gas sales out of a total of US$65.332 billion (or even the post-bellum revised figure of US$43 billion). Both the total amount and the proportions contributed by different revenue streams need to be interrogated, in the light of the historical trend observed.

The above evidence suggest the various probes and audit of the subsidy regime in Nigeria within the period on the study by the House of Ad-hoc Committee on Petroleum Subsidy, the forensic and physical audit of the NNPC and the Petroleum Revenue special taskforce has not improved national revenue accounting in the country. Revenue accounting in Nigeria, particularly oil revenue, is coloured with controversy and lack of transparency. In the light of this, we reject the hypothesis that fuel subsidy probe improved national revenue accounting in Nigeria.
CHAPTER SIX
Subsidy Removal Protest and the Nigerian Economy

The decision to increase fuel pump price in Nigeria on January 1, 2012 pitted the Nigerian masses, civil society groups and organized labour against the government. While the government regarded the decision as a measure to ramp up the economy, the masses interpreted it as a policy to further impoverish them. Therefore, this section of the study discusses the mass protest that accompanied the increase in the pump price of fuel on January 1, 2012 and its impact on the Nigerian economy in order to determine the hypothesis that the mass protests that accompany fuel price increases undermined the economic stability of Nigeria.

Nigeria literally went up in flames in the first two weeks of January 2012, following the shocking decision by the Nigerian Government to increase the pump price of premium motor spirit, popularly known as petrol. The strike called by the Nigeria Labour Congress (NLC) and Trade Union Congress (TUC) in addition to Civil Society Organisations was in reaction to the January 1, 2012 sudden withdrawal of petroleum subsidy by the Goodluck Ebele Jonathan government which instantly shot up the price of Premium Motor Spirit (PMS) from N65 per litre to between N141-N150, well over 100% increase. The economy went up in flames literally as prices and consumer goods and, in fact, practically every product or service went up.

In reaction to the unilateral decision, the labour unions and civil society organisation gave government a one week ultimatum to revert to the pre-January 1 2012 price. But the government had obviously made up its mind on the issue and therefore stuck to its guns. By January 9, 2012 labour made good its threat and called out all Nigerian workers and business persons to down tools. The strike was devastating in its impact. Mass protests were organized in Lagos, the epicentre of the Nigerian masses and other major cities and towns across the
nation, including Abuja. Even though the organizers had called for peaceful protests, it could not be said to be entirely peaceful as security agents overreacted here and there which led to the death of some persons.

According to Social Action (2012), in taking the decision to increase petrol pump price, the government displayed rare insensitivity towards the poor masses of Nigeria who struggle to eke out a living under very excruciating circumstances. Infrastructure remains in a terrible state of disrepair – electricity is practically non-existent; roads are in a pitiable state, potable water and basic facilities remain outside the reach of the ordinary Nigerians.

6.1 The Mass Protest

The sudden removal of fuel subsidy by the federal government on January 1, 2012 came at a time the Nigerian public doubted if a subsidy existed. The more conservative opinion felt the timing was wrong. It came at a time government said it was still consulting for a more lasting consensus on the issue. The rush to implement the subsidy removal was seen as an affront by Nigerians. Governance, after all, is about the people. A serious government ought to have taken into consideration the opinion of majority of its citizens. From all social indicators, Nigerians were already impoverished by the misrule of the political elite. Therefore, the spontaneous nationwide protests that followed what is widely seen as imposition of petroleum tax on the people were not unexpected. Across the country, from Lagos to Abuja, Benin, Ibadan, Port Harcourt, Calabar, Owerri, Warri, Asaba, Enugu, Abeokuta, Ilorin, Kaduna, Kano, Bernin-kebbi, Gombe and Lokoja, it was a boiling pot of anger.

Those who travelled for the Christmas and New Year holidays were yet to return to their bases when the price of petrol jumped from N65 to N141. Many cried and poured invectives on the government. Rising from an emergency labour and civil society meeting, Labour unions and their civil society partners told the federal government to revert to N65 or
face the wrath of the people. The federal government was given up to the 9 of January to revert or face nationwide strike and mass actions across the country. By the time the strike and street protests coordinated by labour and civil society groups began on January 9, the entire country was grounded.

For the first time in the history of protests in Nigeria, the people were united across religious and ethnic divides. This was one protest whose unanimity of purpose was applauded by all and sundry. Christians and Muslims, northerners and southerners marched together peacefully. In Kano state and elsewhere, tension between Christian and Muslim communities was no longer a factor as both communities collaborated and protected each other from harm during the protests. Christians formed a human shield around Muslims while they prayed. Muslims in turn, visited churches and assured Christians of solidarity and protection. Protest by Nigerians in diaspora were held in major cities around the world. In the UK, Canada, USA, Ghana, South Africa and other countries, Nigerians took to the streets to register their anger at a policy that ultimately imposed more hardship on their compatriots at home.

As the demonstrations began in Nigeria, government thought people would burn out in two days of the strike and get back to work. When they did not, President Jonathan and his officials resorted to blackmail, calling opposition politicians names and accusing them of plotting a regime change. When it became apparent that blackmail was of no effect, government became jittery and quickly invited labour for a fresh dialogue. In all, three meetings were held, with civil society coordinators of the protests represented. As the meetings failed to achieve compromise, the federal government unilaterally announced N97 as the new price of petrol, without the input of labour and civil society. A day after the announcement, without consultation with civil society partners, labour called off the strike.

Civil society was determined to continue the strike, and indeed resumed the protest in Lagos only for armed soldiers to be drafted to the city to stop them. In spite of the casualties
recorded across the country, the strike and mass actions proved to Nigerians and the whole world that civil society groups can indeed play a leading role in the process of rebuilding the country. Throughout the period of the protest they provided leadership, showed commitment and exhibited courage in their mobilization of the people towards the objective of the protest. It has been argued that the protests did not achieve the demand for a full reversal to N65 per litre, and that that indicates a failure of the actions. However, the major import of the protest actions may be that in a few days in January 2012, Nigeria had attained a level of mass mobilization and solidarity unprecedented in the history of the country.

**Figure 2: January 2012 Fuel Subsidy Protest in Nigeria**

![January 2012 Fuel Subsidy Protest in Nigeria](image)

Source: CNN iReport (2012)

Indeed, the protest induced a new consciousness in political leadership in Nigeria that citizens could no longer be taken for granted. No doubts, the strike and mass actions conferred on the citizens an aura of leadership they were scarcely associated with in the past. The success ascribed to the uprising would not have been recorded without the vigorous mobilization of citizens and civil society groups. When the strike was called off in a manner
that many people described as hasty, the public protested loudly and criticised organized labour for what was considered capitulation. On the other hand, with their robust participation in the protests, the CSOs more than underscored the essence of democracy. They have helped in deepening democratic governance through mobilizing the people to demand accountability and transparency from their leaders.

**Figure 3: Protestants in Lagos**

The size and intensity of the protest was unprecedented. The demands of the protesters though hinged on good governance, the strident call on the authorities to stop the rot in the petroleum sector was unmistakable. The message was clear: corruption, the monster which had bedeviled the oil sector for decades, must be confronted and crushed now. The government, badly shaken, could not afford to ignore their call. Minister of Petroleum Resources, Diezani Allison-Madueke promptly cobbled together some interim measure which, she hoped, would bring about serious reform in the sector.

### 6.2 Impacts of the Protests

It is difficult to precise qualify the economic cost of the mass protests that accompanied the increase in the pump price of petroleum products on January 1, 2012.
According to Social Action (2012), in terms of the costs of fuel subsidy crisis to the economy, many figures were presented by various interests but the National Bureau of Statistics which is a government agency states that the economy lost an estimated N207.4 billion during the strike. NBS (2012) contend that the biggest losses were incurred in the retail and the oil and gas sector at 42% and 14% respectively of the total loss in output during the period. Similarly Okonjo-Iweala (2012) put the loss at N300 billion based on the Nation’s Gross Domestic Product (GDP) while the Central Bank of Nigeria (2012) stated that up to N100 billion was lost daily while the strike lasted. Irrespective of the inability of the country’s GDP to meet the targeted aggregate growth rate, the fuel subsidy crisis no doubt has added additional strain and exacerbated the economic problem of the country.

Aside from the figures presented by the foregoing institutions, and in specific terms, it should be noteworthy that at the seaport where the strike was total, especially at the nation’s largest port; Apapa Port Complex and Tin Can Island, Lagos amongst others, every cargo-laden vessel incurred demurrage for everyday of the stoppage of operations (Social Action, 2012). Indeed, many importers were in distress and had to transfer the additional cost to consumers in the form of higher prices. The direct effect of the strike triggered an inflationary spiral that was hurtful to citizen, businesses and ultimately the national economy. Taking a glance at the service industry, Banks and Insurance companies were equally affected as they were closed to transaction, just as the aviation sector grounded to a halt.

Obayi (2012) suggested that financial institutions like several other corporate entities might at the end of their financial year miss their performance and profit targets or projections. It is also more worrisome as the corporate bodies cannot shirk their responsibility in paying employees’ emolument despite the fact that no productive work was done during the period of the strike. More so, Social Action (2012) reported that at the Murtala Mohammed International Airport, Lagos and Nnamdi Azikiwe International Airport, Abuja
the sight of hundreds of stranded air passengers buttressed the fact that at foreign airports, larger numbers of air travellers would have been unable to fly to Nigeria for sundry business. Therefore, many whose planned visits to Nigeria were connected with business investment and allied transactions were compelled to abandon such projects. In similar vein, some amongst those stranded were supposed to resume work or be at their duty post. For being absent from work especially those on essential services faced the risk of losing their jobs. In the course of the strike, the threat of stoppage of oil exploration and production operation as well as crude oil lifting and export at the terminals by the senior oil workers. (Petroleum and National Gas Senior Staff Association – PENGASSAN) would have been catastrophic for the nation if the union had carried out the threat. The oil and gas and the ports ranked as the government’s first and second biggest sources of revenue respectively. Unfortunately, for these sectors the crisis created strike– induced economic losses that could have assisted in counteracting the government’s projected gains from the additional revenue from the higher petrol price. Consequently, the scenario created room for the new pump price of N97 to be wrestling with inflationary trends.

Finally, small and medium scale business as well as market men and women bore the bunch of the mass action. This is indicated by the closure of markets in various cities and towns which meant that many could not carry out their business activities. Besides, many of these traders relied on daily sales to support their families and take care of their dependants.

The above analysis therefore, demonstrates that the mass protests that accompany fuel price increases undermined the economic stability of Nigeria. This is in line with the third hypothesis that the mass protests that accompany fuel price increases undermine the economic stability of Nigeria.
CHAPTER SEVEN
Summary, Conclusion and Recommendations

7.1 Summary

This research examined subsidy and national development, with focus on Nigeria’s experience from 1999 to 2014. This was informed by the debates that have trailed efforts aimed at discontinuing subsidy policy on petroleum products in Nigeria by successive government regimes in the country, particularly in the current administration of President Goodluck Jonathan, which has made it a priority. Consequently the study pursued the following objectives:

4. To determine if the incremental increases in the pump price of fuel undermine the living standard of Nigerians;
5. To ascertain if fuel subsidy probe improved on national revenue accounting in Nigeria; and
6. To establish if the mass protests that accompany fuel price increases undermined the economic stability of Nigeria

For easy comprehension, the research was presented in seven chapters. The first chapter focused on the preliminary issues of the study; including the background of the study, statement of the research problem, objectives of the study and its significance.

In pursuance of the study objectives, the research proceeded to conduct literature review in chapter two. To this effect, extant literature relating to subsidy and national development to ascertain the state of knowledge on petroleum subsidy and living standard of Nigerians, fuel subsidy probe and revenue accounting in Nigeria and the impacts of the mass protests that accompanied the fuel price increases on the economy of Nigeria. Consequently, the study examined the contributions of UNEP (2002), PPRA (2012), Nwachukwu and Chike (2013), Majekodunm (2013), Centre for Public Policy Alternatives (2012), Oyedele (2012),
Adebiyi (2011), CBN (2009), Ekine and Okidim (2013), Igbuzor (2013), Onyeizugbe and Onwuka, (2012), Plante (2013), Akinwumi and Agwaranze, (2005), Obayi, Eme and Eme (2012), Nwaoga and Casmir (2013), Kemp (2011), Nwosa, (2012), Coady, El-Said, Gillingham, Kpodar, Medas, and Newhouse (2006), and World Energy Outlook (2013) among others. It revealed that subsidies implies any measure that keeps prices consumers pay for a goods or products below market levels for consumers or for producers above market. More so, extant literature showed that subsidies serve a number of economic and social purposes, including alleviating energy poverty and improving equity, increasing domestic supply, national resource wealth redistribution, and correction of externalities and controlling inflation. Indeed, subsidies enjoy widespread use in several countries and several commodities such as petroleum products, food or farm inputs like fertilizer and machinery. Prices are regulated in Canada, Ghana and South Africa. In many OPEC countries, the pricing of crude is different from crude in the international market which explains the relatively lower prices of petroleum product in OPEC countries. Nevertheless, despite the many imports of fuel subsidy, many authors noted that the global economic recession and increasing incidence of corruption in subsidy process have led to a policy shift by many governments.

In Nigeria, government’s attempts to discontinue the subsidy policy has been met with resistance among from many citizens, leading to debates. Scholars have had conflicting views on the desirability or otherwise of the policy. Scholars like Coady, El-Said, Gillingham, Kpodar, Medas, and Newhouse (2006) and World Energy Outlook (20103) suggest that subsidies result in excessive demand of petroleum products, places more burden on the economy and encourages cross-border smuggling and corruption, benefiting mostly high income earners. Nonetheless, CBN (2009) contend that international experience indicates that results of subsidy removal have been mixed. In some countries subsidy removal as program enjoyed relative success with limited social stress. In
other cases the exercise was deemed a failure. There is a view that the Arab spring was caused by a build-up of tension from stresses caused by high food prices and extreme social inequality.

However, irrespective of the above contributions, there appeared to be neglect from previous studies on fuel subsidy and national development in Nigeria. This primarily is more so with the living standards of Nigerians; the impacts of the fuel subsidy probe on national revenue accounting as well as if the mass protest. Thus, the study sought to fill this gap by interrogating fuel subsidy and national development in order to establish if the incremental increases in the pump price of fuel undermine living standards in Nigeria; and if the fuel subsidy probe improved national revenue accounting. It also sought to determine if the mass protests that accompanied fuel price increases undermined economic stability in the country.

Furthermore, this was preceded by study methodology in chapter three. Accordingly, Public choice theory, which applies the theories and methods of economics to the analysis of political situations and behaviours was adopted as the theoretical framework for analysis. It assumes that people are guided chiefly by their own self-interests and, more important, that the motivations of people in the political process are no different from those of people in other spheres of life or market. They are the same human beings, after all. Public choice, in other words, simply transfers the rational actor model of economic theory to the realm of politics.

This study is based on the qualitative data generation technique. Cozby and Bates (2012) notes that qualitative research focuses on people acting in the natural sense and describing their action accordingly. In essence, qualitative research emphasis collecting in-depth information on a relatively few individuals within a very limited setting. Therefore, data for this study are sourced mainly from documents. The strength of document as data sources of data lies with the fact that they already exist in the concrete form; not intruding on the disposition of people. This was informed by the reasoning that reliable and expressive documents are capable of bringing the significant information, which cannot be obtained through other methods. Also another justification is that this method enabled us to collect data stored on files, government archives, libraries, bookshelves/shops, the internet and other
documents. Content analysis and analytic induction, which serves the purpose of providing knowledge, new insights, a representation of facts and a practical guide to action (Krippendorff 1980), were utilized as the technique for data analysis.

Fuel subsidy and living standards in Nigeria was the focus of chapter four. The petroleum industry, fuel consumption in Nigeria, subsidy and fuel pricing as well as fuel subsidy and living standards in Nigeria were interrogated to establish if incremental increases in the pump price of fuel undermined the living standard of Nigerians. The analysis shows that the petroleum industry is the largest industry in Nigeria assuming a cardinal position in the Nigerian economy. Petroleum accounts for over 40% of GDP in Nigeria and over 80% of her foreign earnings. Petroleum consumption in Nigeria is derived mainly from petroleum products such as premium motor spirit (petrol), automotive gas oil (AGO) diesel, liquefied petroleum gas, kerosene and Jet fuel for household and industrial utilization. In 2010, 757 metric tonnes (MT) of petroleum products were refined by all the refineries. These included 53,223.4 MT of automotive gas oil, AGO; 7,567 MT of liquefied petroleum gas, LPG; and 19,967 MT of PMS. Nonetheless, 8.1 million MT of petroleum products were imported into the country in the same year. Ministry of Petroleum, NNPC, DPR, PPPRA and Ministry of Finance put daily fuel consumption in Nigeria at 52 million, 35 million, 43 million litres, PPPRA 24 million litters and 40 million litres respectively (Olatunji and Kolawole, 2012; Uguru 2012). Petroleum subsidy is paid from the Petroleum Support Fund (PSF), which was developed to serve as a pool of fund provided in the budget and contributed to by the three tiers of government (Local Government Areas, States and Federal Government) to stabilize the domestic prices of petroleum products against the volatility in the international crude and products prices. It contains guidelines that aims to ensure efficiency and prudence in the importation, distribution, marketing and availability of petroleum products in Nigeria at government regulated prices. The Petroleum Product Pricing Regulatory Agency (PPGRA)
argued that the actual cost of landing a litre of petrol in the country is N144.70. Calculated
gainst prevailing pump price of N65 before 2012, the government claimed to subsidize each
litre with N79.70. As a result, fuel subsidy has increased significantly over the years,
especially with rising share of imports in domestic supply (Adenikinju, 2009). Thus, between
2006 and 2008, government subsidy payments to NNPC and other marketers of petroleum
products was in the range of N1, 173.2 billion (US$9.7 billion). Nigerian economic statistics
reveal a puzzling contrast between rapid economic growth and quite minimal welfare
improvements for much of the population. Annual growth rates that average over 7% in
official data during the last decade place Nigeria among the fastest growing economies in the
world. Nevertheless, improvements in social welfare indicators have been much slower than
would be expected in the context of this growth. Poverty reduction and job creation have not
kept pace with population growth, implying social distress for an increasing number of
Nigerians. Progress toward the fulfilment of many of the Millennium Development Goals has
been slow, and the country ranked 153 out of 186 countries in the 2013 United Nations
Human Development Index. Thus, the findings suggests that subsidy has not enhanced the
living standards of Nigerians.

In chapter five, fuel subsidy probe and revenue accounting in Nigeria was examined
to ascertain if fuel subsidy probe improved on national revenue accounting in Nigeria. It
examined reports submitted by the House Ad-hoc committee, Petroleum Revenue Special
Task Force and the forensic and physical audit of the NNPC by KPMG. The probe by the
House Adhoc Committee on Petroleum subsidy, led by Hon. Farouk Lawal established that
contrary to statutory requirements and other guidelines under the Petroleum Support Fund
(PSF) Scheme mandating agencies in the industry to keep reliable information data base,
there seemed to be a deliberate understanding among the agencies not to do so. This lack of
record keeping contributed in no small measure to the decadence and rots in the
administration of the PSF. It also revealed that the subsidy regime, as operated between the period under review (2009 and 2011), were fraught with endemic corruption and entrenched inefficiency. Much of the amount claimed to have been paid as subsidy was actually not for consumed PMS. Government officials made nonsense of the PSF Guidelines due mainly to sleaze and, in some other cases, incompetence. It is therefore apparent that the insistence by top Government officials that the subsidy figures was for products consumed was a clear attempt to mislead the Nigerian people. Therefore, contrary to official figure of subsidy payment of N1.3 Trillion, the Accountant-General of the Federation put forward a figure of N1.6 Trillion, the CBN N1.7 Trillion, while the Committee established subsidy payment of N2,587.087 Trillion as at 31st December, 2011, amounting to more than 900% over the appropriated sum of N245 Billion. This figure of N2, 587.087Trillion is based on the CBN figure of N844.944b paid to NNPC, in addition to another figure of N847.942b reflected as withdrawals by NNPC from the excess crude naira account, as well as the sum of N894.201b paid as subsidy to the Marketers.

KPMG similarly observed that exchange rates used by NNPC were lower than the average exchange rates published by the CBN during the review period. Exchange rate variances for 2007, 2008 and 2009 were estimated at N25.7 bn, N33.8 bn and N26.7 bn respectively. The report further observed that the Evaluation Committee only recommends prices for the importation of petroleum products while actual allocation of importation contracts (especially volumes) appear to be at Management’s discretion. Delays in discharge of product results in significant demurrage payments. More so it reported instances of delays in receipt of subsidy advice from PPPRA resulting in the estimation of subsidy claims by NNPC which results in over/ under-deduction from proceeds of domestic crude sales. The report of petroleum revenue special taskforce led by Nuhu Ribadu also showed inconsistencies in the management of petroleum revenue in Nigeria. It noted that the review
of the records received for 2002 to 2011 showed an inconsistent pattern in the implementation of the policy to allocate 445,000bpd allocation to NNPC, with variances found for the ten years reviewed. It also compared the average price per barrel payable by NNPC for Domestic Crude with the average weekly prices for Nigeria Bonny Light, Forcados, obtained from the Energy Information Administration (EIA). The review revealed that over a 10 year period (2002 - 2011), the State may have been short paid by an estimated sum of US$ 5 billion, although it was understood from discussions with NNPC officials that the pricing of domestic crude oil was based on international prices. Despite the revelation of deep rot and corruption in the management of petroleum resources in Nigeria against the backdrop of the fuel subsidy probes, revenue accounting in the country is still immersed with controversy and allegations of corruption.

Finally, chapter six focused on mass protests and economic stability in Nigeria to establish if the mass protests that accompany fuel price increases undermined the economic stability of Nigeria. The increase in the pump price of fuel from N65 to N140 per litre in January 1, 2012 led to public anger and protests. By the time the strike and street protests coordinated by labour and civil society groups began on January 9, the entire country was grounded. The size and intensity of the protest was unprecedented. It is difficult to precise qualify the economic cost of the mass protests that accompanied the increase in the pump price of petroleum products on January 1, 2012. According to Social Action (2012), in terms of the costs of fuel subsidy crisis to the economy, many figures were presented by various interests but the National Bureau of Statistics which is a government agency states that the economy lost an estimated N207.4 billion during the strike. NBS (2012) contend that the biggest losses were incurred in the retail and the oil and gas sector at 42% and 14% respectively of the total loss in output during the period. Similarly Okonjo-Iweala (2012) put the loss at N300 billion based on the Nation’s Gross Domestic Product (GDP) while the
Central Bank of Nigeria (2012) stated that up to N100 billion was lost daily while the strike lasted. Irrespective of the inability of the country’s GDP to meet the targeted aggregate growth rate, the fuel subsidy crisis no doubt has added additional strain and exacerbated the economic problem of the country. It therefore implies that the mass protests that accompany fuel price increases undermined the economic stability of Nigeria.

7.2 Conclusion

The study shows that in spite the import attached petroleum subsidy in Nigeria and the government’s argument that discontinuing the policy will enhance the living standard of the masses, the incremental increases in the pump price of fuel undermined the living standard of Nigerians. Consequently, the hypothesis that the incremental increases in the pump price of fuel undermined the living standard of Nigerians is accepted. The point that the living standards of Nigerians have remained relatively poor and static, marked by high rate of unemployment, decaying social infrastructure high mortality rates when there have been 14 upward fuel price adjustments between 1999 and 2012 gives credence to this reasoning.

More so, while probes by the Ad hoc committee on Petroleum Subsidy, the special taskforce on petroleum revenue and the report on the process and forensic audit of NNPC highlighted the rots and the extent of mismanagement of petroleum revenue in Nigeria, particularly the fuel subsidy process, subsidy probe has improved on national revenue accounting in Nigeria. In the light of this, the hypothesis that fuel subsidy probe improved on national revenue accounting in Nigeria is rejected. This is strengthened by the CBN’s allegation of non-remittance of funds to the federation account by the NNPC amounting to the tune of N49.8 Billion representing 76% of the value of Crude Oil lifting in 2012 and 2013.

In addition, the research demonstrated that the mass protests that accompany fuel price increases undermined the economic stability of Nigeria. The hypothesis that the mass
protests that accompany fuel price increases undermined the economic stability of Nigeria is validated by the study. The mass protests brought to a halt all economic activities relating to transportation, banking, shipping and trading in most Nigerian cities. Central Bank of Nigeria (2012), stated that up to N100 billion was lost daily while the strike lasted. Irrespective of the inability of the country’s GDP to meet the targeted aggregate growth rate, the fuel subsidy crisis no doubt has added additional strain and exacerbated the economic problem of the country.

7.3 Recommendations

Based on the findings, the study provides the following recommendations:

1. The need for government agencies to keep adequate records and meet regularly to review and reconciled subsidy payments made by them.

2. In order to curb the malpractices of the marketers under the PSF scheme, the Federal Government is advised to appoint independent inspectors to undertake the inspection of product importation and storage in a bid to administer a fraud free discharge process of petroleum products.

3. In addition, government should embark on programs that would create more jobs to ameliorate the negative effects on poor and vulnerable groups in the face of increases in pump price of fuel.

4. Finally, the federal government should back the fuel subsidy with good agenda to ensure the success of the exercise. 
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