

ADVOCACY ISSUES ON ENERGY SUBSIDY IN NIGERIA

By

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PURPOSE OF PRESENTATION

- **To describe the energy subsidy regime in Nigeria and the context of their operations.**
- **To identify the advocacy issues and propose the way forward.**

OUTLINE OF PRESENTATION

1. Introduction

2. Energy Subsidy in Nigeria

3. The Facts

4. Advocacy Issues

5. The Way Forward

1. INTRODUCTION

- Energy is crucial in modern day for improved quality of life, provision of goods and services and development.
- Oil and natural gas are the most important sources of energy in the world today.
- Energy can improve quality of life through provision of services such as air conditioning, fans, lighting, transport, cooking etc.
- Energy can be used to provide goods and services such as refrigeration of food, vaccines etc

...INTRODUCTION

- Energy can be used to promote development through manufacturing.
- The future of any society is dependent on its ability to have access to the energy that it needs.
- Every government and people must therefore take issues of energy very seriously.

2. ENERGY SUBSIDY IN NIGERIA

- 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)

...ENERGY SUBSIDY IN NIGERIA

- 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.

3. THE FACTS

- In 2010, PMS subsidy cost was \$673 billion but in 2011, it was \$2.17 billion (Corruption?)
- In 2009, a directive from the President to NNPC to discontinue subsidy was ignored. NNPC claimed N310 billion.
- The Multi-Year Tarrif Order for electricity differentiate the tarrifs into 5 broad categories: residential, commercial, industrial, special and street lighting.

...THE FACTS

- 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.

...THE FACTS

- 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.
- 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 21/1/13)

...THE FACTS

- Gowon, 1973: 6k to 8.45k (40.8%), Murtala, 1976: 8.45k to 9k (0.59%), Obasanjo, October 1, 1978: 9k to 15.3k (70%), Shagari, April 20, 1982: 15.3k to 20k (30.71%), Babangida, March 31 1986: 20k to 39.5k (97.5%) Babangida, April 10 1988: 39.5k to 42k (6.33%) Babangida, January 1, 1989: 42k to 60k Private vehicles. Babangida, December 19, 1989: moved to uniform price of 60k (42.86%) Babangida, March 6, 1991: 60k to 70k (16.67%), Shonekan, November 8, 1993: 70k to N5 (614%) Abacha, November 22, 1993: petrol price drops from N5 to N3.25k (-35%) Abacha, October 2, 1994: N3.25k to N15 (361.54%) Abacha, October 4, 1994: price drops from N15 to N11 (-26.67%) Abubakar, December, 20, 1998: N11 to N25 (127.27%) Abubakar, January 6, 1999: N25 to N20 (-20%) Obasanjo, June 1, 2000: N20 to N30 (50%) Obasanjo, June 8, 2000: Petrol price reduced to N22 (-10%) Obasanjo, January 1, 2002: N22 to N26 (18.18%) Obasanjo, June to October, 2003: N26 to N42 (23.08%) Obasanjo, May 29, 2004: N50 (19.05%) Obasanjo, August 25, 2004: N65 (30%) Obasanjo, May 27, 2007: N75 (15.38%) Yar'Adua, June 2007: N65 (-15.38%) Jonathan, January 1, 2012: between N138 to N250 (112.31 to 284.62%).

4. ADVOCACY ISSUES

- 1. Poverty:** Using the rate of US \$1 per day, poverty in Nigeria increased from 27.2 percent in 1980 to 54.4 percent in 2004 and then to 69 percent in 2010.
- 2. Corruption:** Nigeria is subsidising corruption which must be dealt with before we can determine the actual subsidy.
- 3. Impunity:** Individuals and corporate organisations breach laws and regulations with impunity. Who certified the subsidy thieves before payment?

...ADVOCACY ISSUES

4. **Producer subsidies:** that will support domestic production can also help in reducing unemployment and stimulating domestic economy.
5. **Environmental Issues:** The impact of subsidy on the environment is complex. On the one hand, oil product subsidies can incentivize the consumption of fuel and increase green house gas emissions. On the other hand, use of kerosene may increase air quality in household level compared to wood and coal.

...ADVOCACY ISSUES

- 6. Targeted subsidy for the Poor:** The average Nigeria spends 55.4 percent (in Urban) and 72 percent (in Rural Areas) on food. Targeted subsidy for the poor in Nigeria is inevitable.
- 7. Government continued intervention is key:** Subsidies will continue to be necessary in times of high oil prices and other economic shocks.

5. THE WAY FORWARD

- International experience tells us that pricing of energy products is a continuous process requiring continuous government input. (China, Indonesia, Jordan, South Africa and Turkey).
- Subsidy cannot be completely eliminated in a society where there is high level of poverty. Mechanism must be put in place to compensate social groups and businesses.

...THE WAY FORWARD

- Producer subsidies should be considered to boost domestic production.
- Differential pricing of domestic crude different from price of crude in international market.
- Local manufacturing of petroleum products should be given priority.
- Transparent and accountable governance is key to the management of any subsidy regime.

• **THANK YOU**