



ROADMAP TO EFFICIENT PRICE REGULATION

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PRESENTATION OUTLINE

- ❖ What constitutes the downstream sector?
- ❖ History of Regulation?
- ❖ Issues that necessitates deregulation
- ❖ Chronological History of PPPRA
- ❖ Opportunities of Petroleum Fuel Subsidy
- ❖ Key achievements with respect to Deregulation
- ❖ Challenges of Petroleum Fuel Subsidy
- ❖ Reforms Initiatives Implemented by the Agency since December, 2011.
- ❖ Potential Benefits of a Deregulated Downstream
- ❖ Option for Overcoming Deregulation Challenges



NIGERIA'S DOWNSTREAM SECTOR

The key activities of the downstream petroleum sector include:

- Refining of petroleum products
- Transportation of products &
- Supply and distribution of products

The Nigeria's downstream sector comprises:

- Domestic Refining Capacity:
 - Four (4) refineries with combined refining capacity of 445,000 bpd located in Port Harcourt, Warri & Kaduna.



NIGERIA'S DOWNSTREAM SECTOR...II

▶ **The Distribution Network:**

▶ **NNPC:**

- ▶ Integrated product pipeline system – 4300 km
- ▶ Crude oil pipeline network – 700 km
- ▶ Pumping/Booster stations – 20
- ▶ Product storage depots – 23
- ▶ LPG storage depots – 9
- ▶ Terminal/Jetties - 5

▶ **DAPPMA:**

- ▶ Product storage depots – 38

▶ **MAJORS:**

- ▶ Product storage depots – 12
- ▶ Aviation Turbine Kerosene (ATK) depots (Lagos & Abuja) – 12
- ▶ Lubricant Blending Plant – 7
- ▶ Liquefied Petroleum Gas (LPG) & Aerosol – 5

▶ **TOTAL RETAIL OUTLETS: 27,000**



HISTORY OF REGULATION...

- Petroleum related activities commenced in 1905 with the entry of Socony (now Mobil) into the downstream sector as a marketer of Kerosene.
- Other companies did not join in the business of petroleum products marketing until about half a century later: - Agip, Esso, Shell, Total and Texaco (Chevron).
- Products supply was sourced through importation and transported by rail to inland depots to meet domestic demand.
- The first refinery was built in Port Harcourt by Shell-BP in 1965 with a capacity of 60,000 bpd.



HISTORY OF REGULATION..II

- The BP refinery was able to meet the domestic requirement of petroleum products, but by 1973 the nation started witnessing supply shortages.
- This and the call by OPEC to take control of the Industry, prompted government to intervene and the industry gradually became regulated with products being sold at uniform prices nationwide.



ISSUES WITH REGULATION OF THE NIGERIA'S DOWNSTREAM SECTOR

- i. Non-functional and low capacity utilization of refineries resulting in inadequate supply from local refineries.
 - The existing four local refineries (445,000 bpd capacity) only contributed about **4% - 20%** in the past five years to the national PMS consumption.
- ii. The increasing annual subsidy burden remains unsustainable.
 - Over N2 Trillion was expended on products subsidy in 2011 alone (55% more than the 2011 Capital Budget Expenditure).
 - However, Fuel subsidies are not reaching intended beneficiaries i.e. higher income households consume more quantities of petroleum products than lower income household.



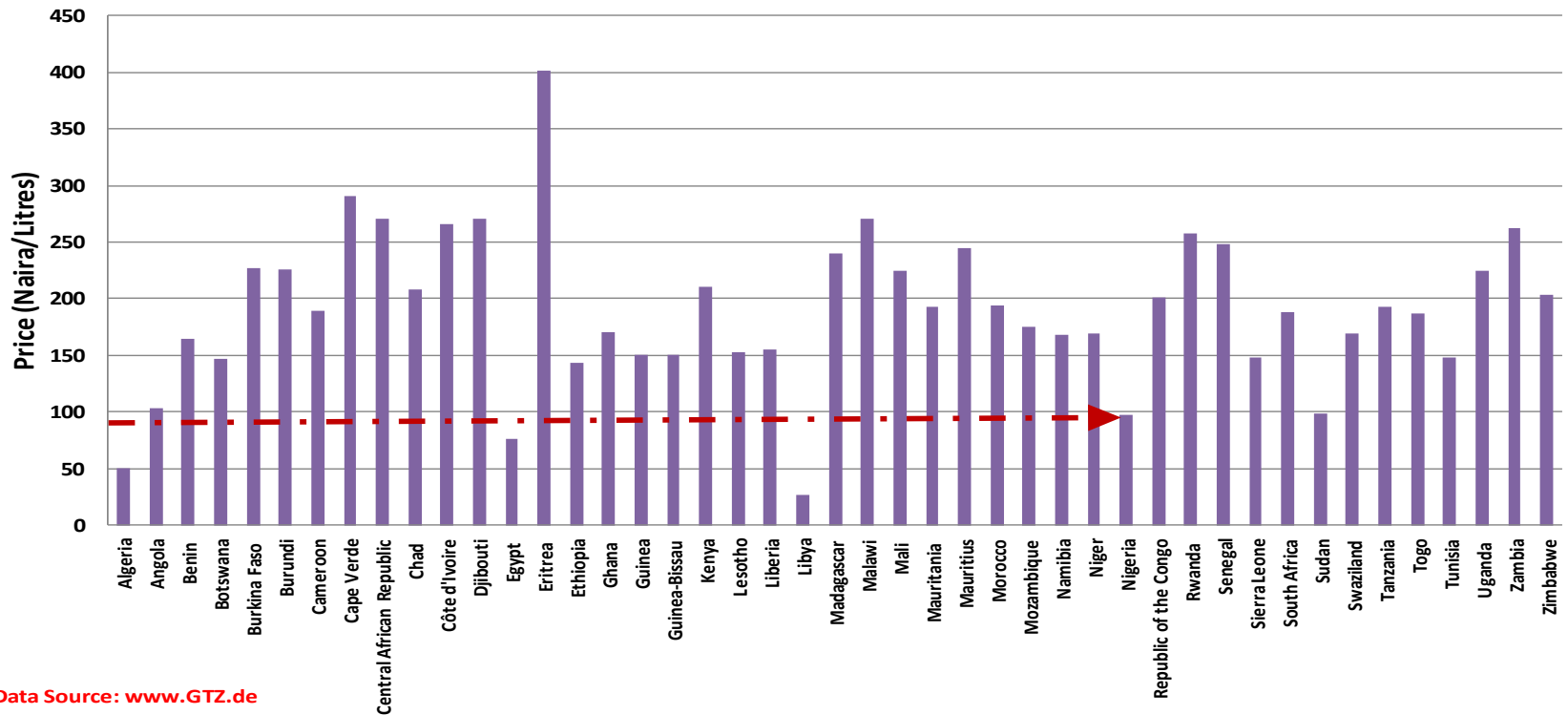
ISSUES WITH REGULATION OF THE NIGERIA'S DOWNSTREAM SECTOR..III

- In addition, huge price disparity from neighbouring countries, where prices are higher has encouraged smuggling of petroleum products across borders. Smuggled Nigeria's fuel in those countries are referred to as '*Federal fuel*'.
 - According to CBN, up to 29% of its foreign exchange sales was used in January 2009 to finance the petroleum products imports.
- iii. Similarly, over dependence on road haulage for transportation of petroleum products also encourages wasteful fuel consumption and destroys the Nation's road infrastructure.



ISSUES WITH REGULATION OF THE NIGERIA'S DOWNSTREAM SECTOR..IV: **Gasoline Price in Some African Countries:**

**Gasoline Price in Some African Countries
(Naira/Litre)**

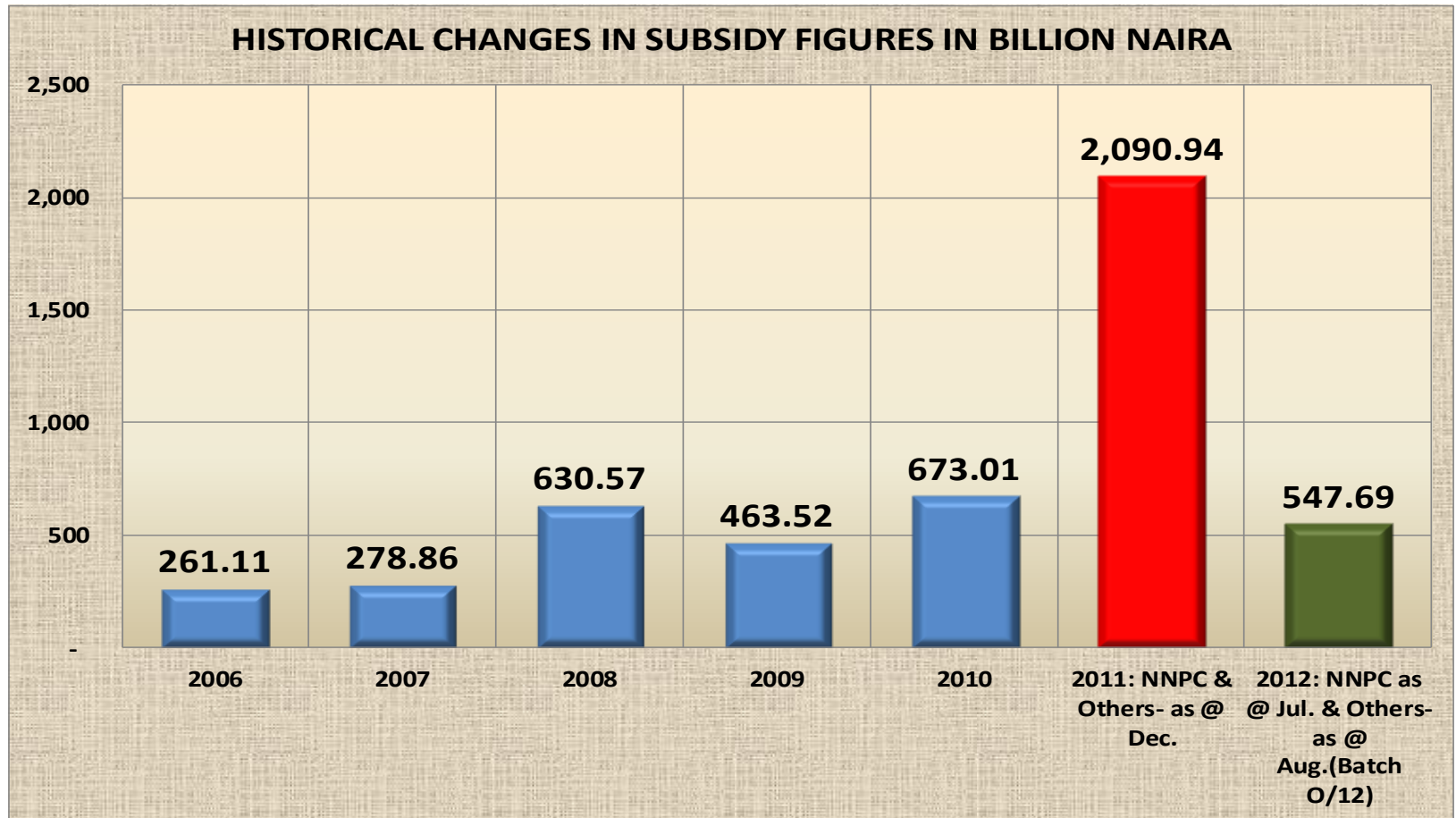


Data Source: www.GTZ.de



ISSUES WITH REGULATION OF THE NIGERIA'S DOWNSTREAM SECTOR..V:

Historical Annual Subsidy:





PPPRA: HISTORICAL PERSPECTIVE

In October 2000, the Federal Government established a Special Committee to review all aspect of petroleum products supply and distribution in Nigeria with the following key Terms of Reference:

- To recommend 'Phased reforms and price adjustments which will achieve the necessary self financing and sustainable system and prevent the trauma and economic disruption usually associated with adjustments to petroleum pricing'.
- The immediate establishment of Petroleum Products Pricing Regulatory Committee (PPPRC) which will superintend the various phases of the proposal embodied in the report. The membership of the Committee consists of all the stakeholders in the downstream industry.

The Committee later transformed to the PPPRA by virtue of an Act of the National Assembly.



PPPRA: HISTORICAL PERSPECTIVE..II

The PPPRC through Act No. 8 of May 2003 metamorphosed into PPPRA. The Act empowers the Agency to carry out the following key functions:

- Determining the pricing policy of petroleum products;
- Regulating the supply and distribution of petroleum products;
- Moderating volatility in petroleum products prices, while ensuring reasonable returns to operators;
- Maintaining constant surveillance over all key indices relevant to pricing policy and periodically approving benchmark prices for all products;



PPPRA: HISTORICAL PERSPECTIVE..III

- Establishing an information and data bank through liaison with all relevant agencies to facilitate the making of informed and realistic decisions on pricing policies;
- Identifying macro-economic factors with relationship to prices of petroleum products and advising Government on all appropriate strategies for dealing with them;

The government in line with the mandates of the Agency directed the PPPRA in 2006 to administer the Petroleum Support Fund (PSF) also known as the Fuel Subsidy Scheme.



OPPORTUNITIES OF PETROLEUM FUEL SUBSIDY

In spite of some negative perception about petroleum fuel subsidy especially by major developed global economies, there are abounding opportunities namely:

- i. Serves as incentives to increasing investment inflow based on guaranteed full cost recovery or restitution through the Petroleum Support Fund Scheme.
- ii. Allows effective control over transportation cost as there are no mass transit system.
- iii. Affords the government the opportunity to effectively monitor and protect the developing economy against vagaries of the international petroleum market.
- iv. Encourages effective regulatory controls to prevent consumers from being shortchanged.
- v. Facilitates the development of healthy competition among operators.



CHALLENGES OF PETROLEUM FUEL SUBSIDY...

1. Inappropriate products pricing and price distortions:

Long years of inappropriate products pricing has led to:

- Incessant pipeline vandalism
- Product smuggling
- Black marketeering and
- Acute fuel shortage resulting in long queues at filling station
- Inability of the operators to recover cost

2. Abuse of Fuel Subsidy through various malpractices by operators:

- ✓ The administration of subsidy scheme demands stricter regulatory controls to prevent emergence of various abuses by operators.



CHALLENGES OF PETROLEUM FUEL SUBSIDY...II

3. Encourages waste of limited government revenue available for social services e.g. infrastructures, education, health services etc.
4. The mechanism for administering the fuel subsidy does not guarantee it reaching the lower income section of the economy for which it is intended.
5. Encourages cross border smuggling of petroleum products which cost less in neighboring countries. This is known as arbitrage.



REFORM INITIATIVES BY THE AGENCY

The Agency in December, 2011 having observed anomalies and challenges in the administration of the Subsidy Scheme commenced phases of reforms to bring sanity into the Scheme. These include:

- Restricted participation to only owners of coastal discharge/depot facilities (reduced from 128 to 42 initially and to 38 presently).
- Conducted Management and staff re-deployments and organizational structure re-alignment.
- Commenced the automation of operations by launching the ICT Master Plan Consultancy Project and the Minimum ICT Infrastructure Upgrade stop gap project.



REFORM INITIATIVES BY THE AGENCY...II

- Implementation of Independent Inspectors provision of the PSF Guidelines.
- Introduction of 3-3-2 structure for the engaged Independent Inspectors (3 Inspectors to validate Vessel Arrival; 3 to validate Vessel discharge into shore tanks; 2 Inspectors to validate truck-outs from the storage Depot that received from the vessel.
- Taking physical control of discharge valves at Depots to prevent possible back loading.
- Obtaining NNPC commitment to comply with all PPPRA requirements for PSF processing just like all the other Marketers.
- Requires Banks to validate sales with bank statements for 3rd Party discharges.



REFORM INITIATIVES BY THE AGENCY...III

- Rejecting “homogenized cargo” from multiple vessels with no defined origins.
- Ban on cargo from storage tanks in West African coasts except from refineries to eliminate round tripping if any.
- Introduction and enforcement of the submission of the following documents as a pre-condition for processing of subsidy claims under the PSF Scheme:
 - i. Letters of credit
 - ii. Form M
 - iii. Proforma Invoice
 - iv. Certificate of Origin of the Cargo
 - v. Bill of Lading of the Mother Vessel (Original Non-negotiable Copy)
 - vi. Certificate of Quantity of the Mother Vessel
 - vii. Certificate of Quality of the Mother Vessel
 - viii. On-board Arrival Quantity
 - ix. Cumulative STS Report
 - x. Remain on Board (ROB) Quantity after each Ship-to-Ship (STS) Transfer
 - xi. Final ROB or Empty Tank Certificate of Mother Vessel



REFORM INITIATIVES BY THE AGENCY...IV

- All discharges must be accompanied by a complete “family tree”.
- International Product Suppliers and Local Bankers dealing with Marketers have been notified, that they will be held accountable for discrepancies that are traced back to them. Hence the Suppliers are required to confirm (Attestation) independently to PPPRA, the quantity supplied to each Marketer.
- Subscribed to Lloyd’s List Intelligence Tanker Channel/ SeaSearcher (R) services and Reuters Eikon tracking System. A tracking service to validate movement and location of vessels.
- First-in-history stock taking exercise on 1st Jan 2012 and on 16th Jan 2012 which saved the nation billions of Naira (about N54 billion).



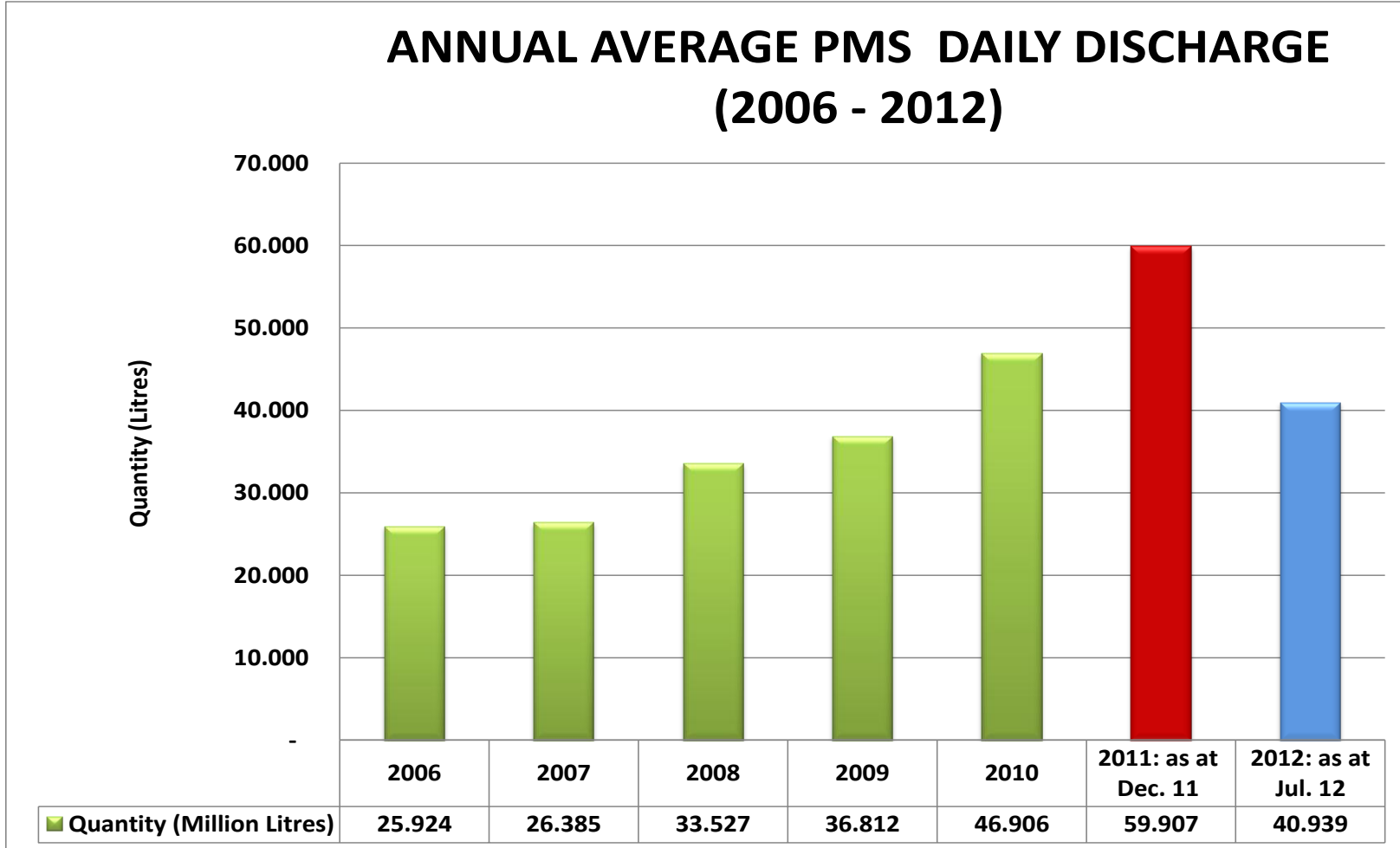
REFORM INITIATIVES BY THE AGENCY...V

- Consultants engaged to review the Petroleum Products Pricing Template. Daily and periodic publications on PPPRA website and magazines and other general media. Acceptability of import-parity-price-model-based PPPRA pricing-template which was developed to cover the interests of all stake holders.
- Programming of LAYCANs to ensure budget compliance. Total Quarterly volume permitted to all Marketers remains within budget limits.
- Conducted Monthly Import Performance review meetings. Resolved Marketers' complaints through effective mediation. Marketers' confidence to import was restored in the light of subsidy removal debate and budget approval uncertainties. Stability of product supply to the nation.
- KYS: Know Your Supplier exercise will take-off in Q1 2012



REFORM INITIATIVES BY THE AGENCY...VI

ANNUAL AVERAGE PMS DAILY DISCHARGE (2006 - 2012)





COMPARATIVE ANALYSES OF PMS SUBSIDY PAYMENTS & QUANTITY SUPPLIED: JANUARY – APRIL, 2011 & 2012...

The Reforms Initiatives put in place since December, 2011 in line with Mr. President's Transformation Agenda are yielding positive results in terms of amounts of subsidy paid and quantities supplied.

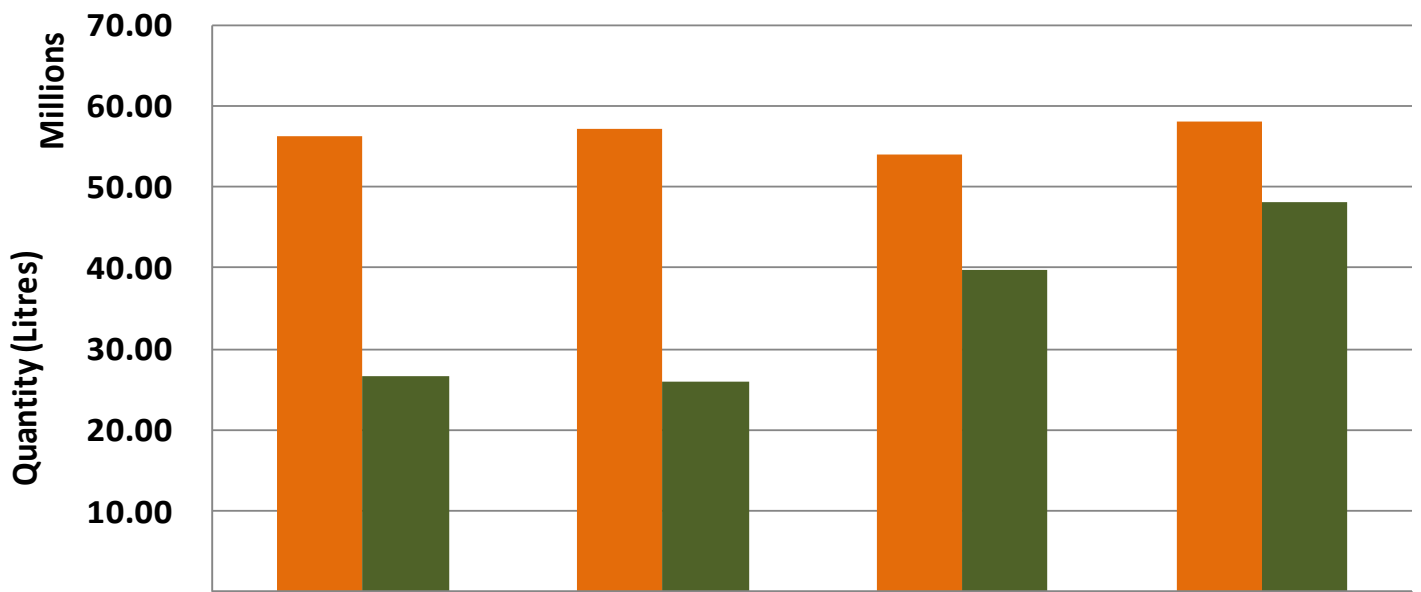
In terms of Quantity, the average daily provisional PMS Supply of **35.14 million litres per day** was recorded as at April 2012. This is **41.34%** lower than the PMS daily supply of **59.91 million litres per day for the year 2011**.

Similarly, as at April 2012 a total sum of **N128.21 billion** was verified as PMS subsidy claims. However as at April 2011, a total sum of **N433.75 billion** was paid as PMS subsidy indicating a higher percentage of **70.44%**.



COMPARATIVE ANALYSES OF PMS SUBSIDY PAYMENTS & QUANTITY SUPPLIED: JANUARY – APRIL, 2011 & 2012..II

**COMPARATIVE ANALYSIS OF QUANTITY SUPPLIED UNDER THE PETROLEUM SUPPORT FUND (PSF) SCHEME :
JANUARY - APRIL, 2011 Vs JANUARY - APRIL, 2012**

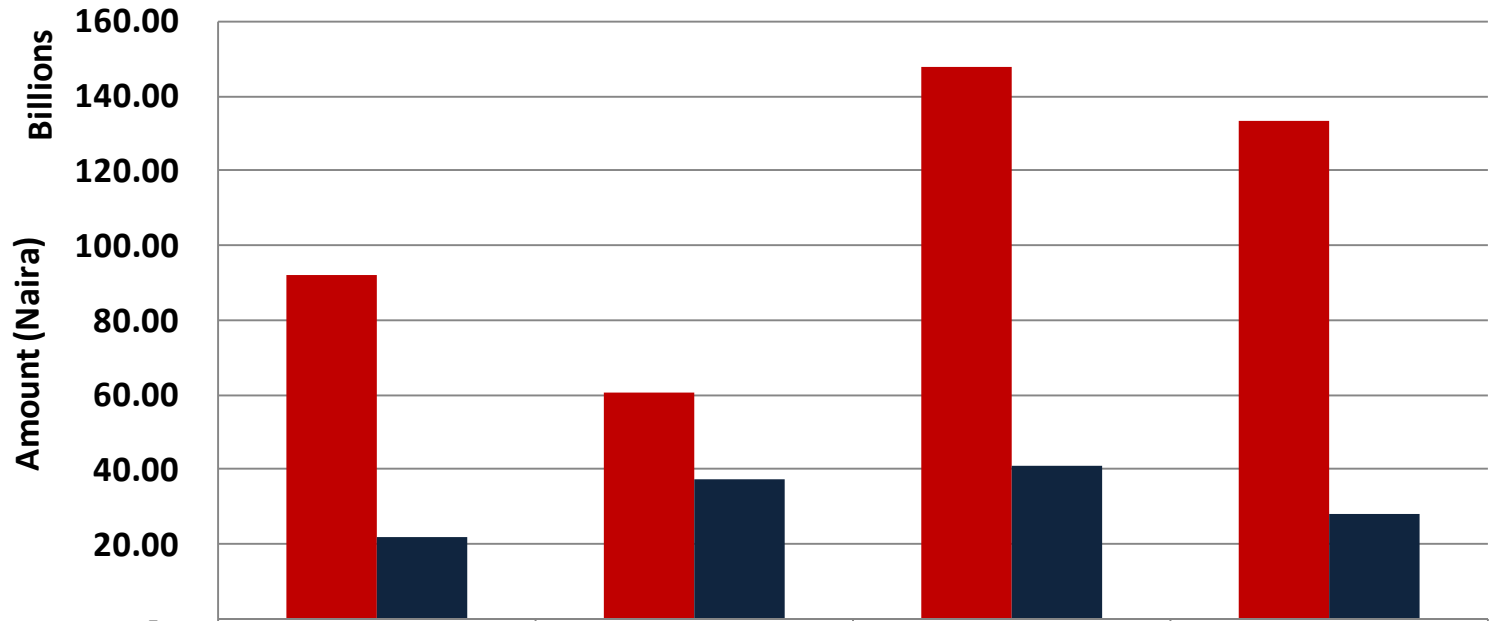


	January	February	March	April
■ 2011 Daily Average	56,277,778.19	57,246,719.64	53,974,720.35	58,165,322.35
■ 2012 Daily Average	26,584,037.12	26,007,384.00	39,759,400.56	48,037,775.89



COMPARATIVE ANALYSES OF PMS SUBSIDY PAYMENTS & QUANTITY SUPPLIED: JANUARY – APRIL, 2011 & 2012..III

**COMPARATIVE ANALYSIS OF SUBSIDY PAYMENTS UNDER THE PETROLEUM SUPPORT FUND (PSF) SCHEME :
JANUARY - APRIL, 2011 Vs JANUARY - APRIL, 2012**



	January	February	March	April
■ 2011	92,128,694,744.19	60,698,246,593.04	147,677,330,343.49	133,246,975,696.01
■ 2012	22,027,955,687.45	37,293,847,585.15	40,853,649,384.51	28,035,258,786.17



POTENTIAL BENEFITS OF A DEREGULATED DOWNSTREAM SECTOR...

The deregulation of the downstream sector ultimately will bring the much needed sanity and healthy competition into the Nigeria's downstream sector. The potential benefits of a deregulated sector are:

1. Investment in additional refineries to meet the increasing domestic products demand and for export:

- Current Installed Capacity: PMS: 26 million Litres per day
AGO: 17 million Litres per day
HHK: 10 million litres per day
- Domestic Demand: PMS: 40 million Litres per day
AGO: 12 million Litres per day
HHK: 10 million litres per day



POTENTIAL BENEFITS OF A DEREGULATED DOWNSTREAM SECTOR..II

This indicates a huge gap in demand-supply balance and therefore there is the need for additional investment. Three additional Greenfield refineries (with a petrochemical plant) with a total capacity of 300, 000 bpd for \$23 billion have been proposed.

Nigeria is therefore being positioned as the future hub of petroleum products supply in the West African and Sub Saharan regions.



POTENTIAL BENEFITS OF A DEREGULATED DOWNSTREAM SECTOR..III

2. Investment in import reception facilities (Jetties, Ports etc) which are currently inadequate:

- This is considered as a short term investment opportunity due to efforts being made to improve on local refining industry.
- It is expected that adequate import reception facility will reduce the demurrage exposure experienced in products handling. Lightering expenses currently account for about 3% of the expected pump price of PMS.



POTENTIAL BENEFITS OF A DEREGULATED DOWNSTREAM SECTOR..III

3. Investment in storage facility and network of pipelines as the nation moves through the creation of a National Strategic Fuel Reserves (NSFR):

- ✓ The existing pipelines need to be refurbished and adequately maintained.
- ✓ Also, developing surveillance system of the pipeline network in view of the incessant pipeline vandalism.
- ✓ Emerging investment opportunities abound in product & gas pipelines as the sector is being prepared for deregulation.
- ✓ The deregulated regime will facilitate the operations and management of pipelines and storage facilities under the open access and common carrier regime.
- ✓ In the same vein, the PIB recommends the creation of NSFR. Under this arrangement, additional investment in storage facilities nationwide will become attractive.



POTENTIAL BENEFITS OF A DEREGULATED DOWNSTREAM SECTOR..III

4. Investment in alternative source of energy: Compressed Natural Gas (CNG), Liquefied Petroleum Gas (LPG) etc.
- ❖ Biofuel is to be derived from cassava, maize, guinea corn and sugar cane.
 - ❖ The initiative on gas utilization has increased considerably with the launch of LPG/CNG stations in Abuja and Benin by NIPCO Plc.



OPTION FOR OVERCOMING DEREGULATION CHALLENGES...

In order to ensure a “trouble free” deregulated regime, adequate framework and mechanism must be put in place:

1. Legal & Regulatory Framework:

A fully deregulated sector will require a strong legal and regulatory framework. It is in this regard that the full recommendations of the Oil & Gas Reforms Implementation Committee, which is now enshrined in the Petroleum Industry Bill (PIB) will be implemented.

The PIB makes provisions for a plethora of laws to guide the industry as well as two regulatory agencies- Upstream Petroleum Inspectorate (UPI) and Downstream Petroleum Regulatory Agency (DPRA) to regulate the Upstream and Downstream sectors respectively.



OPTION FOR OVERCOMING DEREGULATION CHALLENGES..II

2. Effective Monitoring by the Regulatory Agency:

Post passage of the PIB, the Agency will be saddled with responsibilities such as:

- Setting rules for the administration of the open access regime, regulate and administer the open access to transportation and bulk storage facilities.
- Determining the tariffs for the open access.
- Establishing methodology for bulk transportation and storage tariffs.
- Administering and monitoring the National Operating and Strategic stocks.
- Arbitration, mediation and conflict resolution.



OPTION FOR OVERCOMING DEREGULATION CHALLENGES..III

- Determination of indicative pump prices of products nationwide.
- Monitoring of compliance to indicative prices published by the Authority.
- Coordination of products supply – imports & local.
- Assessment of the investment environment and stimulation of investment flow through provision of incentives.



OPTION FOR OVERCOMING DEREGULATION CHALLENGES..IV

3. Implementation of Cushioning Measures:

- ✓ Deregulation will guarantee steady inflow of investments and better management of National Foreign Reserves resulting in more stable FOREX market.
- ✓ Mitigating the initial spiralling inflationary effects by monitoring the micro and macroeconomic indices. This will enable interventions by the Government to put in place mechanisms to monitor and control food prices, transportation costs etc.
- ✓ Rapidly improve power situation and aggressively promote gas, biofuel as alternative energy for the country.
- ✓ Provision of adequate Strategic Fuel Reserve up to 90 days sufficiency by the Government for the three major white products.



CONCLUSIONS

- Sustaining the tempo of reforming the administration of Subsidy Scheme is germane to the sustainability of the Nigeria's downstream sector.
- Deregulation policy if 'carefully' implemented will stimulate economic growth and social wellbeing of the populace.
- The abounding opportunities and benefits far outweighs the short-run cost of discomforts.
- It is however instructive to note that deregulation without 'regulatory controls' leads to the development of anti-competitive practices and profiteering of operators.
- Regulators therefore are 'watchmen' making and implementing policies to prevent consumers from being shortchanged and ensure that operators are adequately restituted. Regulators also ensure that there is a level playing ground for all genuine operators.