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REGULATORY AND OPERATIONAL ISSUES IN
FINANCING PETROLEUM PRODUCTS
IMPORTATION

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PETROLEUM PRODUCTS FINANCING PROCESS IN NIGERIA

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PETROLEUM PRODUCTS FINANCING PROCESS IN NIGERIA

- Nigeria imports petroleum products from Europe, WAF, AG etc.
- The Nigerian importer obtains an import license from DPR (Department of Petroleum resources having fulfilled the agency's requirements
- For Regulated products, in addition to its DPR license, the importer also obtains permission to import an agreed volume of products from PPPRA(Petroleum Products Pricing Regulatory Agency) after fulfilling the agency's requirements
- The importer through its local bank applies to the Central bank of Nigeria(CBN) for foreign exchange (usually USD) which is the currency of purchase from the vendor / refinery
- The mode of application to CBN is through a 'Form M'
- All foreign vendors/ refineries require a letter of credit "*CONFIRMED BY A FIRST CLASS INTERNATIONAL BANK*"
- The local bank establishes a letter of credit on a CFR (Cost and Freight) basis , at a price permitting a +/- 10% fluctuation in price and volume, with local insurance policy at 110% of the cargo value on receipt of application from the importer.
- On negotiation of the letter of credit by vendor/ refinery, vendor presents shipping documents whilst Importer presents exchange control documents with the requisite cash in local currency to local bank for CBN to repatriate funds.
- The other mode apart from via letters of credit is through bills for collection. Although bills for collection is rare.



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INDUSTRY REGULATORS , INTER RELATIONSHIP AND ROLES

FINANCING REGULATOR: CENTRAL BANK OF NIGERIA (CBN)

ROLE: Aid importers in the conversion of sales proceeds generated in local currency to foreign currency for the purchase of product from international vendors/refinery.

CBN INTERRELATIONSHIP WITH OTHER REGULATORS :

DEPARTMENT OF PETROLEUM RESOURCES(DPR):

- CBN requires DPR import license for the establishment of initial form m for purchase of foreign exchange
- CBN requires DPR discharge certificate to confirm product discharge into Nigeria prior the remittance of foreign exchange to offshore counterparts

CUSTOMS:

- CBN Requires CRI (Clean Report of Inspection) from customs and SGD(Single Goods Declaration) as part of exchange control documents required prior to remittance of foreign exchange to offshore counterparts. CRI ensures that appropriate import duties have been calculated for destination inspection

•PPPRA (PETROLEUM PRODUCTS PRICING REGULATORY AGENCY)

CBN Requires data on petroleum industry for internal analysis . However, for PPPRA to authorize importer to bring products into Nigeria, they require DPR permit and vice versa.



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REGULATORY CHALLENGES

FINANCING REGULATOR: CENTRAL BANK OF NIGERIA (CBN)

FINANCIAL INSTRUMENT ISSUES

- Adoption of inflexible sales terms. CBN accepted terms are CFR (Cost and Freight) however there exists other terms which could be beneficial to the importer and invariably the economy.
- Where there is a need to exploit FOB (free on board) transactions, accessibility to foreign exchange through form 'a' is cumbersome and is made worse when there is demurrage (demurrage would occur presently due to the poor state of port infrastructure)
- Inadequacy of the +/- 10% band for volatility of price for FORM M values. To adjust any price volatility in excess of this band is cumbersome and requires that new FORM M's be issued. The volatility in the international oil market calls for a more robust approach.
- Under developed state of the derivatives market, with the fluctuating rates of the exchange rates exposes the importer to losses from the date of deal conception to date that LCs are issued.
- Insistence of CBN to receive original documents prior to release of foreign exchange for the purchase of products. Letters of indemnity are acceptable in other countries.

OTHER ISSUES

- Insistence by CBN that insurance coverage be from local insurance company, whilst this promotes local content, in the event of total loss, can local insurance companies provide a cover?
- High interest charges from the local banks, who charge interest on letters of credit from date of establishment instead of from date of negotiation.
- Fast track program should be evaluated to place Nigerian banks in the 'first class league' of banks. This would reduce the financing costs by the confirmation fees which are usually 'huge'
- Need for CBN to inter relate with customers of different sectors of the economy more often to better provide financial solutions as required by these sectors.
- Need for CBN to have a more robust nomenclature for documents that serve the same purpose e.g. 'certificate of quality' termed analytical report should be acceptable and not considered a discrepant document



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OPERATIONAL CHALLENGES

FINANCING REGULATOR: CENTRAL BANK OF NIGERIA (CBN)

- Required DPR import license for the establishment of initial FORM M for purchase of foreign exchange usually takes a long time to come out of DPR. Should be made renewable annually instead of quarterly to reduce the clog in the process
- Required DPR discharge certificate to confirm product discharge into Nigeria prior the remittance of foreign exchange to offshore counterparts usually takes a long time to be processed by DPR
- Required CRI (Clean report of inspection) and SGD(Single goods declaration) from customs as part of exchange control documents required prior to remittance of foreign exchange to offshore counterparts. Usually take a long time to be processed about two – three weeks after discharge
- Transshipment of cargos (most full 30kt ships cannot due to draft restrictions discharge in one lot at the ports and need to be broken up) is not allowed at Lagos. Transshipment at further locations would result in more expenses for the importer



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FINANCING OF PETROLEUM PRODUCTS BEST PRACTICES

- International letters of credit for petroleum products usually include a 'fluctuating clause' to accommodate movements in the international prices
- ICC (International Chambers of Commerce) UCP (Uniform Customs & Practice) 600 issued 1st July 2007 by be adopted for letters of credit
- Interest on payment only commence when letters of credit are negotiated and not when they are established in other countries
- Trades can be concluded on other basis apart from cost and freight internationally
- There exists a robust derivatives market to adequately mitigate fluctuating market risks of price, exchange rate ad interest rate
- The international industry understands that original shipping documents take a long time from issuance to arrive with final receiver and so accept the use of Letters of indemnity. These can be countersigned by first class international banks for comfort.



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Questions? ???

Thank you !!!!