Economic Intelligence Unit

Working Paper Series

No 1 – March 2013

Partial removal of fuel subsidy: how has Lagos fared?

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Abstract

The partial removal of fuel subsidy by the Federal Government of Nigeria (FGN) in January 2012 led to mass strikes that lasted eight days, which resulted in economic losses for the country. This action saw the price of a litre of petrol go up from N65 to N97, with the attendant rise in the prices of goods and services. FGN and its economic analysts opined that the removal was justified because government will spend less on subsidy and would be able to invest savings in other sectors of economy. It was argued further that the removal of fuel subsidy will generate external reserve, attract investors into the petroleum sector and generate employment through the furtherance of capital projects.

Other analysts however differed from government, arguing from the socialist and moralist viewpoint that fuel subsidy is one of the only ways in which Nigerians (especially the poor) benefit from its natural resource endowments. These analysts also argued that the crude oil being refined in the country or taken out for refining for import swapping should be free, but the government charges Nigerians for this. They conclude that the real price from such considerations show that there is therefore no petrol subsidy, but a 'high sales tax' on petroleum products, and that the government through 'subsidy' transfers the wealth from the Nigerian masses to a petrol cabal (the importers and marketers). Others further argued that majority of Nigerians are not against the removal of subsidy, but that successive governments have not utilised the savings from such actions in a way that benefited Nigerians, and stressed that subsidy should therefore be removed for proper accountability.

Following the partial removal, the FGN put in place the subsidy reinvestment and empowerment programme (SURE-P) as a way of assuring Nigerians that the savings from the subsidy removal would be spent on activities that will have a direct impact on the lives of poor and vulnerable Nigerians. A portion of the SURE-P funds will also accrue to States and Local Governments for use in developmental projects.

This paper attempts to assess the effects of the partial removal on Lagos State, and underscores the need for the FGN to ensure that the SURE-P funds meant for states should be made available on a timely basis so as to enable the states undertake necessary projects.

The Partial Removal of Fuel Subsidy in 2012: How did Lagos Fare?

Introduction

The issue of fuel subsidy removal dates back to the early 80s, and different governments have sought to reduce or eliminate the subsidy. Such efforts have either been scaled back or abandoned because it is usually met with debates, strikes, protests and other form of opposition. In urban areas especially Lagos and Abuja, there have always been large scale strikes and often serious riots. The arguments from citizens including socialist and moralists is that fuel subsidy is one of the only ways in which Nigerians (especially the poor) benefit from its natural resource endowments. Table 1 presents a trend of the subsidy removal efforts by different governments and the effects on the pump price of petrol.

Table 1: Trends in the pump price of Petrol (1985 – 2012)

Date	FUEL PRICE (FROM)	FUEL PRICE (TO)	REGIME
April 1985	15.3k	20k	Ibrahim Babangida
31st March, 1986	20k	39.5k	,,
10th April, 1988	39.5k	42k	,,
1st Jan.,1989	42k	60k (private vehicles only)	,,
19th Dec., 1989	42k	60k (Uniform price)	,,
6th March, 1991	60k	70k	,,
8th Nov., 1993	70k	N5	Ernest Shonekan
22nd Nov., 1993	N5	N3.25k	Abacha
2nd Oct., 1994	N3.25k	N15	,,
4th Oct., 1994	N15	N11	,,
20th Dec., 1998	N11	N25	Abdusalami Abubakar
6th Jan., 1999	N25	N20	,,
1st June, 2000	N20	N30	Obasanjo
8th June, 2000	N30	N25	,,
13th June, 2000	N25	N22	,,
1st Jan., 2002		N26	
23rd Jan., 2003		N40	,,
May, 2009		N70	,,
		N65	Yar' Adua
1st Jan., 2012	N65	N141	Goodluck Jonathan
9th Jan., 2012		N97	,,

Source: Wikipedia

Subsidy could be defined as money paid by government or an organisation to reduce the cost of services or of producing goods so that their prices can be kept low. To date, major petroleum products being subsidised by the Nigerian government are Kerosene and Petrol. Indeed, the country has long subsidised fuel for the citizens. However economists and international financial institutions have argued for many years that because of the high costs to government, it significantly distorts the economy; stressing that the removal of subsidy would help the economy grow.

President Goodluck Jonathan on the 1st of January, 2012 announced the removal of subsidy on fuel and the pump price of PMS (petrol) was increased to N141.00, a 116% increase from the previous price of N65.00. This action resulted in a nationwide labour strike which lasted for eight days before a compromise was reached and the pump price was then pegged at N97.00 leaving the percentage increase at 49.2%.

Observers noted that this policy action may have led to the unintended consequence of a decrease in consumer spending, as disposable incomes fell, with the rise in transportation, food and other costs. It is also noted that the removal of subsidy would have both short and long run effects invariably affecting all the macroeconomic variables (gross domestic product (GDP), inflation and unemployment).

The 2012 'partial' Removal

Over the years, the Federal Government of Nigeria (FGN) operated a fuel subsidy regime with the aim of making petroleum products available to cushion the effect of actual market prices of products on the general populace. According to the Petroleum Pricing Regulatory Agency (PPPRA), the country consumes 35 million litres of fuel daily. As at August 15, 2011, the pricing template of PPPRA showed the landing cost of a litre of petrol was N129.21/litre. It showed the margin to transporters and marketers as N15.49, bringing the expected pump price of petrol to N144.70. However the initial pump price at that time was N65, a difference of N79.70, which represented government subsidy. It is also reported that the FGN spends about N1.3 trillion on petroleum products subsidy, which includes about N300 Billion on Kerosene; through the Nigeria National Petroleum Corporation (NNPC).

Justifying the January 1, 2012 announcement of the end of fuel subsidy, the FGN stated that the move became necessary since there was no provision for the subsidy in the 2012 budget. Prior to the fuel subsidy removal in January 2012, the Federal Government had held some debates through its economic experts, where it argued and admitted that the oil subsidy had hitherto benefitted only a few Nigerians and foreign investors. It was further argued that the removal of fuel subsidy is a deliberate policy that would help conserve and maximise the country's oil wealth, while using the savings from the subsidy removal to improve the lot of Nigerians.

Other reasons proffered for the subsidy removal were:

1. The huge unsustainable subsidy burden as a result of current subsidy regime in which fixed price is maintained irrespective of market realities.

2. Subsidy administration is beset with inefficiencies, leakages and corruption and has also resulted to the diversion of scarce resources away from investment in critical infrastructure, while putting pressure on government resources.

3. Huge price disparity has encouraged smuggling of petroleum products across the borders to neighbouring countries where prices are much higher. Nigeria therefore ends up subsidizing consumption of petroleum products in neighbouring countries.

4. Fuel subsidies do not reach the intended beneficiaries.

5. Subsidy has discouraged competition and stifled private investment in the downstream sector

Some analysts argue that there is no subsidy at all. Agbor (2012) illustrates this as follows. The Nigerian government has earmarked 445000 barrel per day throughput for meeting domestic refinery products demands. These volumes are not for export. They are public goods reserved for internal consumption. Nonetheless, we can get the Nigerian crude oil to our refineries at the cost of \$5 per barrel; made up of the finding /development cost (\$3.5/bbl) and a production/storage /transportation cost of \$1.50 per barrel. One barrel is 42 gallons or 168 litres.

The price of 1 barrel of petrol at the Depot gate is the sum of the cost of crude oil, the refining cost and the pipeline transportation cost. Refining costs are at \$12.6 per barrel and pipeline distribution costs are \$1.50 per barrel. The Distribution Margins (Retailers, Transporters, Dealers, Bridging Funds, Administrative charges etc) are N15.49/litre or \$16.58 per barrel. Therefore the true cost of 1 litre of petrol in a filling station anywhere in Nigeria should be (\$5 +\$12.6+\$1.5+\$16.6) or \$35.7 per barrel. This is equal to N33.36 per litre compared to the official price of N65 per litre. There is no petrol subsidy in Nigeria; rather the current official prices are too high.

Other analysts argue that the figures from government do not add up and that the N1.3 trillion which government claims it spent on subsidy in 2011 was false. For example, Majaro (2012) opines that if we follow the claims of NNPC that 170,000 barrels per day of crude oil is refined locally this translates to a total of 12.7 million litres of petrol from the refineries. Again under the ‘crude for product swap’, a total of 210,000 barrels per day is sent to external refineries for refining, and assuming that we receive only 50 per cent of the petrol obtainable from the crude swapped (due to transportation and processing costs); this translates to 7.9 million litres of petrol from the crude for product swap. So if NNPC is to be believed, a total of 20.6 million litres is available through NNPC and only 14 million litres should be imported to meet the estimated 35 million litres consumed locally. At this rate, costs should be 14x365x141=720billion.

Again if we assume that all the refineries are not working and all the 34 million litres are imported, then the total costs of imported petrol would be 34x141x365=1.75trillion. Meanwhile Nigerians have been paying N65/litre, translating to 34x65x365=N897billion. If we subtract this from 1.75trillion, it gives a balance of N945biillion, which us what the government should pay on subsidy.

Other analysts argue that fuel subsidy benefits actually go to those who drive into filling stations to buy the petrol, which include the high and middle class who own cars and those people who own transport vehicles. Although the expectation is that the effects would pass on to the poor man, it never happens. They contend that it is often difficult to convince ordinary Nigerians that they do not really benefit from subsidy because they go to the petrol station to buy fuel for generators and also pays more for transport when the price of fuel goes up. If we look at 34 million litres consumed daily, what goes into generators is probably not more than 3 million litres so the main bulk of the fuel is consumed by the rich and middle class who own cars, when the benefits ought to go to the masses, the poor, school children etc. These analysts conclude that the best thing to do is to take away the subsidy and re-route the amount of subsidy directly to those who need it most.

Following the many debates for and against the removal, it somehow emerged that a major issue seemed that there was a feeling that many Nigerians were not necessarily opposed to the removal of fuel subsidy, but wanted to know where the subsidy will be allocated. The FGN had projected that the higher price of fuel could spark off a chain reaction which would motivate investors to build refineries in Nigeria and this will lead to gainful employment opportunities; increase in taxable revenue to the Government and also lead to conservation of Nigeria's foreign exchange reserve; reduce Nigeria's borrowing needs; eradication of fuel importation in the long run; technology transfer; strong economic growth; stability in the value of the Naira; growth of other industries such as petro chemicals and logistics among others. Other projected positive benefits of the subsidy removal were:

1. Revenue: More Money at Government Disposal, according to the federal government, the subsidy money would be distributed to the states proportionally to help carry out some of their capital projects.

2. Investment: Re-Investing the subsidy funds on transport system. The federal government had taken delivery of Mass Transit Vehicles to complement the transport sector.

3. Reduction of traffic congestion hence gains in man hours.

4. Re awakening of Nigerians on government budget and allocation of resources.

The Honourable Commissioner for Economic Planning and Budgets while addressing Newsmen on the 2012 budget analysis said: "what we will see is that fuel consumption will reduce and correspond to the amount of subsidy. What is true is that because there is no more subsidy, the amount often deducted for subsidy from the federation account will now be available for the three tiers of government. So we expect the impact of the subsidy to be positive if properly applied".

It was on the heels of these demands that the federal government decided to put in place, the Subsidy Re-investment and Empowerment (SURE) programme. According to the FGN

(2012), the total projected subsidy re-investible funds per annum is N1.134 trillion based on average crude oil price of US$90 per barrel. Out of this, N478.49 billion accrues to the federal government, N411.03 billion to state government, N203.23 billion to LGs, N9.86 billion to the FCT and N31.37 billion as transfers to derivation and ecology, development of natural resources and stabilisation funds.

The SURE programme is focused on utilisation of federal government's share of the subsidy. Every state and local government is expected to design its own programmes utilising its portion of the subsidy reinvestment funds. Table 2 below shows the relative amounts accruing to States. The FGN stated that critical infrastructure projects in power, roads, transportation, water and downstream petroleum sectors will be executed in order to transform the economy, and in line with Vision 20:2020 objectives.

Table 2: SURE P allocations accruing to States

State	Allocation (N 000s)
Abia	7,460,062.24
Adamawa	7093217.24
Akwa Ibom	43406731.87
Anambra	7164697.14
Bauchi	8309773.31
Bayelsa	33839652.09
Benue	7659631.38
Borno	8451350.27
Cross River	7718686.26
Delta	40965476.92
Ebonyi	5880552.17
Edo	9432709.30
Ekiti	5931760.50
Enugu	6692449.99
Gombe	6291166.08
Imo	8729126.56
Jigawa	7848086.61
Kaduna	8944553.13
Kano	11210304.04
Katsina	8525402.69
Kebbi	7131000.67
Kogi	7113202.30
Kwara	6482037.63
Lagos	10126514.01
Nasarawa	6073343.25
Niger	8294895.04
Ogun	6932554.10
Ondo	12554345.28
Osun	6575162.77
Oyo	8283911.05
Plateau	6956827.74
Rivers	44628272.62
Sokoto	7395670.79
Taraba	7005145.87
Yobe	6952382.78
Zamfara	6973520.31

Source: SURE Programme

Major components of the SURE programme are as follows:

Component A: Social Safety Net Programmes – aimed at mitigating the impacts of subsidy discontinuation on the poor and vulnerable as well as lay the foundation for building a robust social safety net mechanism in the country.

Component B: Niger Delta Developmental Project. This component is aimed at improving the lives of residents in the Niger Delta region and promoting economic growth in the region by providing access to the refineries, seaports, as well as access to agricultural areas of the Niger Delta.

Component C: Road Infrastructure Projects. This component is aimed at the completion of core road projects that will enhance transportation of passengers and goods in the country to enhance economic activities and social integration as tangible benefits of the subsidy gains.

Component D: Rail Transport Projects. This component is aimed at the rehabilitation and restoration of the abandoned railway infrastructure and the construction of new standard gauge railway lines, thereby providing alternative means of transportation of people and goods across the country.

Component E: Water and Agriculture Projects. This component is aimed at harnessing Nigeria's abundant water resources for national development through sustainable food production and water conservation. Under this component, there are 1) irrigation projects, aimed at increasing local production of rice by over 400,000 tonnes per year and other food crops; 2) urban water supply project aimed at increasing the level of potable water supply available to about 10 million people.

Component F: Selected Power Projects. This component is aimed at contributing towards the power sector reforms by improving the generation capacity through hydro and coal power plants.

Component G: Petroleum/NNPC projects. The component is aimed at restoring and improving domestic refining capacity and preventing shortfalls in the supply of petroleum products.

Component H: ICT Projects. This is aimed at supporting the Federal Ministry of Communications Technology to facilitate the build out of a critical aspect of ICT infrastructure in the country, specifically to boost broadband connectivity.

From the table above, out of N411,034,176.00 subsidy fund to be distributed to state governments annually, Lagos is expected to get a share of N10,126,514.01 and its Local Government Areas would get N7,114,676.51 of the total of N203,235,480.00. According to the 2012 second quarter review of the economy by Central Bank of Nigeria (CBN), N56.45 billion was also shared among the three tiers of government as exchange rate gain. As a result, the Federal Government got N15.09 billion; states, N22.58 billion; local councils, N11.64 billion and 13 per cent Derivation Fund, N7.34 billion.

Indications from Lagos show that the SURE programme is active. According to a Punch Newspaper publication in January 2013, local government desk officers who will assist in the implementation of the subsidy reinvestment and empowerment programme have been inaugurated in Lagos State. The officers, who were inaugurated at the Lagos office of the National Directorate of Employment, were also educated on what the SURE-P initiative entailed. The Chairman, SURE-P Implementation Committee for Lagos State, Mr. Bode Oyedele, stated that “the committee had commenced the community service project” stressing that “We promised to employ 3,000 at the first instance in Lagos. This figure includes youths who are not employed and widows, and they will be working within their local government areas. Some of them will be involved in drainage clearing, while others will be involved in community development projects going on in their areas.”

Explaining the operational modalities of the initiatives, Oyedele stated that “what we want to do is that once we identify a certain project, we will provide labour and those beneficiaries will be paid under the SURE-P programme.” The Lagos State Coordinator, NDE, Mr. Joseph Modey, gave an assurance that all local governments in the state would be captured in the programme. He said, “The NDE is involved in this to the extent that it is the vehicle through which the Federal Government has chosen to implement the SURE-P in all the states of the federation. “We will assemble all the stakeholders and familiarise them with the content of the programme as part of the preparatory activities to commence the implementation of the programme in Lagos. We are going to go through all the local governments in the state.”

Effects of removal of fuel subsidy

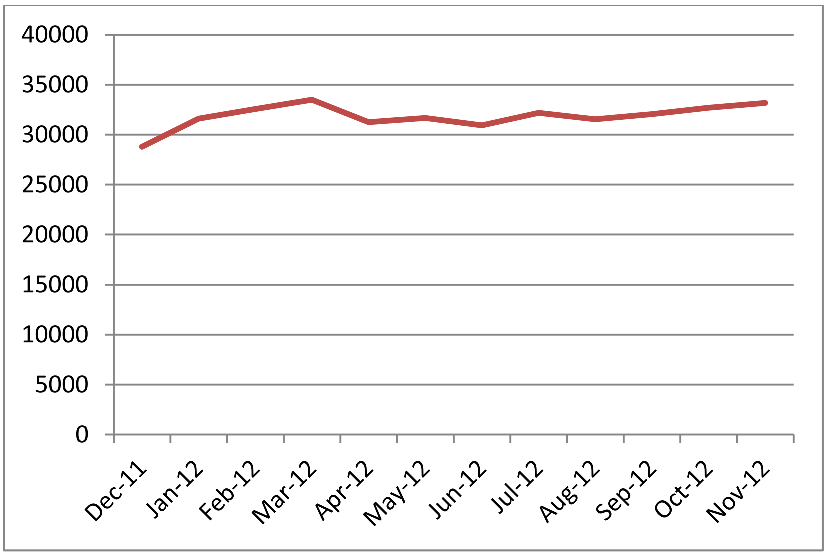
Following the announcement of the complete removal of subsidy on fuel on January 1, 2012, there were widespread protests all over the country called by the Nigeria Labour Congress (NLC). In Lagos, Joint Action Front (JAF), the umbrella body for pro-labour civil society groups in the country, called for civil disobedience by Nigerians to force President Goodluck Jonathan to rescind the decision announced. In a statement titled “Nigerians, arise now and resist the wicked hike in fuel prices”, JAF said government action had reinforced the group resolved to begin a mass action and protest nationwide from Monday January 2nd 2012 against the policy and urged Nigerians to turn up en-mass for the protest starting from Lagos.

The mass protests and strike action lasted for eight days, during which time, FGN rescinded its decision on full subsidy removal into a partial one, and petrol pump price came down from N141 to N97. The mass protests led to economic losses for the country. According to the Voice of Nigeria (2012), this was estimated by the National Bureau of Statistics to be to the tune of ₦207billion. This is about 4.4% of the aggregate expenditure (N4,697,021 Billion) of the country's 2012 Budget and almost half of Lagos State 2012 Budget. Lack of economic activities for those 8 days was greatly felt in Lagos being the commercial hub of the nation.

The National Bureau of Statistics (NBS) in its GDP report for the country covering 2011 and Q1 of 2012, stated that the first quarter of 2012 had been characterised by a decline in economic activities occasioned by the partial removal of subsidy on petrol and the subsequent civil protest and weak consumer demand following the higher price levels across major segments of the economy. It stated that the non-oil sector however continued to be a major driver of the economy recording 7.93% growth in real terms in the first quarter of 2012 compared with 8.73% at the corresponding period in 2011.

In the sections that follow, the immediate impacts of the fuel subsidy removal are highlighted.

Inflation: Inflation, a general rise in the prices of goods and services in an economy or a particular country resulting in the fall of value of money could be a **demand-pull inflation** or **cost-push inflation**. With the removal of fuel subsidy in the nation, there had been a general increase in prices of goods and services leading to corresponding increase in cost of living and cost of production. The present scenario is that of cost-push inflation, where a decrease in aggregate supply occurred as a result of rise in price of production inputs. This occurs when labour costs and the price of raw materials such as crude oil rises. Decreases in productivity (the ratio of GDP to inputs) can also have a negative impact on aggregate supply thereby causing rise in prices.



Month/Year	All Items
Dec-11	28777.30
Jan-12	31610.45
Feb-12	32550.65
Mar-12	33495.40
Apr-12	31237.55
May-12	31676.63
Jun-12	30921.88
Jul-12	32164.88
Aug-12	31526.15
Sep-12	32034.77
Oct-12	32690.66
Nov-12	33159.14

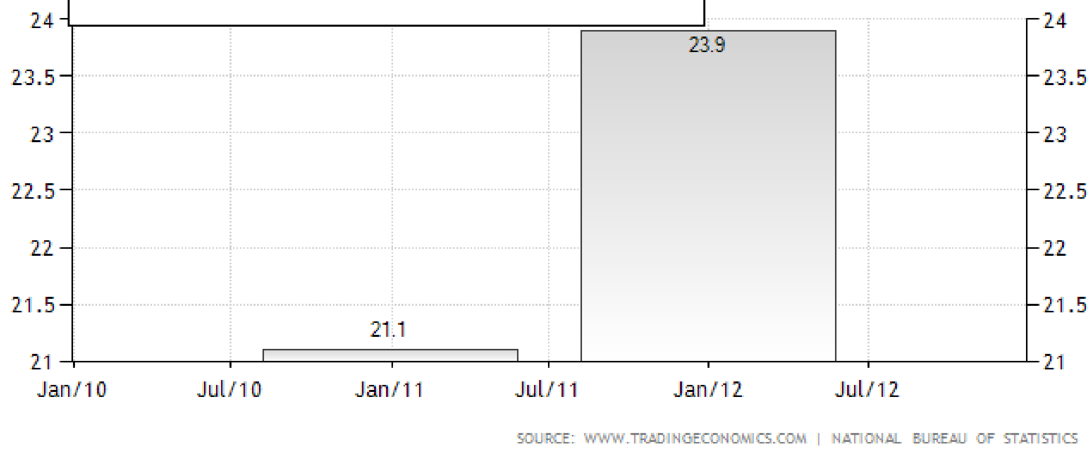
Table 3; Figure 1: CPI figures for Lagos, Dec 2011 to Nov 2012
Source: Lagos Bureau of Statistics

The biggest contributors to the consumer inflation were the high prices of some food items, liquid fuel and transport fares and other miscellaneous goods and services which need liquid fuel or transport fares for providing their services. Compared to national averages, Lagos fared a bit worse. At the national level, the consumer inflation rate has increased from 10.3% in December, 2011 to 12.6% in January 2012 and food inflation rate has increased from 11% in December to 13.1% in January, 2012, and analyst believe the inflation figure would yet increase and get worse before it gets better.(National Bureau of Statistics).

However, the CPI generated by the LBS (2012) shows that after the general price increase in consumer goods in January, 2012 due to the increase in petroleum prices, the increase was stable for the whole first quarter of the year. Table 3 and figure 1 above shows that the Consumer Price Index (CPI) rose by 9.8% in January after the removal of fuel subsidy. Further increases were recorded in February and March, with a slight drop in April. Although the increases in CPI fluctuated throughout the year, overall, it increased by about 15% over the one year period from December 2011 to November 2012.

Unemployment: Unemployment which is one of the major macroeconomic variables is caused by shift in labour market. Sequel to the shift in government policy on fuel subsidy, analysts opined that the high cost of production had invariably reduced demand because of the fall out on the purchasing power of money. On the long run companies may have to down size to continue to be in business, hence an upward shift in the unemployment rate. Lagos was a bit better in terms of unemployment when compared with the national average. Data from NBS (2012) show that the rate of unemployment was given as 23.9% at the beginning of 2012 compared to 21.1% at the same period of the previous year (figure 2 below). The unemployment figure for Lagos was 12% in 2011 and 16% in 2012.

Figure 2: Nigeria unemployment rate



High Cost of Transportation: The cost of transporting goods and services had increased and this has affected the demand and supply of goods and services. In the aftermath of the fuel subsidy removal which led to pump price of petrol rising from N65 to N141, there was a 100 - 120% increase in transport fares in Lagos; and this is comparable to the national average. Following the reversal from N141 to N97, transport prices came down and the rise stood at an average of 40% compared to the prices when pump price was N65.

High Crime Rate: High cost of living tends to increase the crime rate in the country. However, Lagos State being a security conscious State had gathered momentum in combating crime in the State. The high crime rate in the country could not be said to be induced by removal of fuel subsidy but the fact remains that the 40% increase in transport fares, 24% rate of unemployment and general increase on all commodity prices among others which are within a short period of time of the subsidy removal are contributory factors to the increase in crime rate.

Higher cost of living: for a country where a large percentage of her populace is living below the poverty level (a person is said to be in poverty when such person earns less than $1 per day and unable to eat three square meals); the effects of fuel subsidy removal would have significant effects. According to NBS, 112.519million of the estimated 163million Nigerians live in relative poverty conditions. This is 69% of the country's population. The removal of the fuel subsidy is an additional burden on the people because of the increase of the cost of every food item (including the most common pure water which used to be sold for N5 but now is N10) without corresponding increase in wages and salaries. In essence, the welfare of the people had been jeopardized. According to the LBS for example, the CPI for food items in Lagos showed a 35% increase between January and March 2012.

Conclusion and Recommendations

The partial removal of fuel subsidy led to mass strikes in January 2012 and economic losses for the country. Economic analysts opine that the removal is justified because government will spend less on subsidy and would be able to invest savings from such in other sectors of economy. The removal will generate external reserve, attract investors and also be a medium of technology transfer and industrialisation through the furtherance of capital projects that would generate employment. In response to the socialist and moralists arguments that fuel subsidy is one of the only ways in which Nigerians (especially the poor) benefit from its natural resource endowments, the SURE programme was put in place so as to assure Nigerians that the proceeds from the subsidy removal would be spent on activities that will have a direct impact on the lives of poor and vulnerable Nigerians.

The analysis of the effects of the partial removal of subsidy showed that whereas food inflation in Lagos was higher than national average in 2012, unemployment in Lagos lower than national average, and transport costs similar to national average during the periods under review. There have been concerns raised recently about the implementation of the

SURE programme to the extent that the Federal House of Representatives has said it will look into the mandate and operations of the programme (The Nation, February 2013). It is recommended that:

- FGN should ensure that the SURE-P funds meant for States are released as appropriate
- Lagos State government should ensure that SURE-P funds are channelled for the intended use
- The State should focus on increasing food supply in order to bring down the costs of food items
- The State should continue its policy on Mass transit as a vehicle for ensuring relatively stable transportation costs
- The YES programme should be implemented with vigour to create employment especially for the youth

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