

## **FACTS YOU MUST KNOW: SUBSIDY MADE EASY**

### **1) DEFINITION**

To subsidise is to sell a product below the cost of production. Since the federal government has been secretive about the state of our refineries and their production capacity, we will focus on importation rather than production. So, in essence, within the Nigerian Fuel Subsidy context, to subsidise is to sell petrol below the cost of importation.

### **2) THE UNSUBSTANTIATED CLAIMS OF THE FEDERAL GOVERNMENT**

The Nigerian government claims that Nigerians consume 34 million litres of petrol per day. The government has also said publicly that N141 per litre is the unsubsidised pump price of petrol imported into Nigeria. (N131.70 kobo being the landing price and N9.30 kobo being profit.)

### **3) ANNUAL COST OF IMPORTATION**

Daily Fuel Consumption: 34 million litres  
Cost at Pump: N141.00  
No. of days in a regular year: 365 days  
Total cost of all petrol imported yearly into Nigeria:

**Litres      Naira      Days**  
34m    x    141    x    365

= N1.75 trillion

### **4) COST BORNE BY THE CONSUMERS**

Nigerians have been paying N65 per litre for fuel, haven't we? Therefore, cost borne by the consumers =

**Litres      Naira      Days**  
34m    x    65    x    365

= N807 billion

### **5) COST OF SUBSIDY BORNE BY THE GOVERNMENT**

In 2011 alone, government claimed to have spent N1.3 trillion by October – the bill for the full year, assuming a constant rate of consumption is N1.56 trillion.

Consequently, the true cost of subsidy borne by the government is:

Total cost of importation minus total borne by consumers, i.e. N1.75 trillion minus N807 billion = N943 billion.

**Unexplainable difference: N617 billion**

The federal government of Nigeria cannot explain the difference between the amount actually disbursed for subsidy and the cost borne by Nigerians (N1.56 trillion minus N943 billion = N617 billion).

**6) BOGUS CLAIM BY THE GOVERNMENT**

A government official has claimed that the shortfall of N617 billion is what goes to subsidising our neighbours through smuggling. This is pathetic. But let us assume (assumption being the lowest level of knowledge) that the government is unable to protect our borders and checkmate the brisk smuggling going on. Even then, the figures still don't add up. This is because even if 50% of the petrol consumed in each of our neighbouring countries is illegally exported from Nigeria, the figures are still inaccurate. Why?

**WORLD BANK'S FIGURES: POPULATIONS OF WEST AFRICAN COUNTRIES**

<u>NIGERIA:</u>	<u>158.4 million</u>
BENIN:	8.8 million
TOGO:	6 million
CAMEROUN:	19.2 million
NIGER:	15.5 million
CHAD:	11.2 million
GHANA:	24.4 million

The total population of all our six (6) neighbours is 85.5 million.

Let's do some more arithmetic:

- a) **Rate of Petrol Consumption in Nigeria:** Total consumed divided by total population:

34 million litres divided by 158.8 million people = 0.21 litres per person per day.

- b) **Rate of Petrol Consumption in all our 6 neighbouring countries, assumed to be the same as Nigeria:**

0.2 litres x 85.5 million people = 18.35 million litres per day

Now, if we assume that 50% of the petrol consumed in all the six neighbouring countries comes from Nigeria, this value come to 9.18 million litres per day.

**7) PATHETIC ABSURDITY**

There are two illogicalities flowing from this smuggling saga.

a) If 9.18 million litres of petrol is truly smuggled out of our borders per day, then ours is the most porous nation in the world. This is why: The biggest fuel tankers in Nigeria have a capacity of about 36,000 litres. To smuggle 9.18 million litres of fuel, you need 254 trucks. What our government is telling us is that 254 huge tankers pass through our borders every day and they cannot do anything about it. This is not just acute incompetence, but also a serious security challenge. For if the government cannot stop 254 tanker trailers from crossing the border daily, how can they stop importation of weapons or even invasion by a foreign country?

b) 2<sup>nd</sup> illogicality:

Even if we believe the government and assume that about 9.18 million litres is actually taken to our neighbours by way of smuggling every day, and all this is subsidised by the Nigerian government, the figures being touted as subsidy still don't add up. This is why:

**Difference between pump price before and after subsidy removal =**

$$N141.00 - N65.00 = N76.00$$

**Total spent on subsidizing petrol to our neighbours annually =**

$$N76.00 \times 9.18 \text{ million litres} \times 365 \text{ days} = N255 \text{ billion}$$

If you take the N255 billion away from the N617 billion shortfall that the government cannot explain, there is still a shortfall of N362 billion. The government still needs to tell us what/who is eating up this N362 billion (\$2.26 billion USD).

## 8) **ILLOGICAL ASSUMPTIONS**

- i) We have assumed that there are no working refineries in Nigeria and so no local petrol production whatsoever – yet, there is, even if the refineries are working below capacity.
- ii) Nigeria actually consumes 34 million litres of petrol per day. Most experts disagree and give a figure between 20 and 25 million litres per day. Yet there is still an unexplainable shortfall even if we use the exaggerated figure of the government.
- iii) Ghana, Togo, Benin, Cameroun, Niger, and Chad all consume the same rate as Nigeria and get 50% of their petrol illegally from Nigeria through smuggling.

These figures simply show the incompetence and insincerity of our government officials. This is pure banditry.

- 9) **FACT 9**: The simplest part of the fuel subsidy arithmetic will reveal one startling fact: That the government does not need to subsidise our petrol at all if we reject corruption and sleaze as a way of life. Check this out:

- a) NNPC crude oil allocation for local consumption = 400,000 barrels per day (from a total of 2.450 million barrels per day).
- b) If our refineries work at just 30%, 280,000 barrels can be sold on the international market, leaving the rest for local production.
- c) Money accruing to the federal government through NNPC on the sale, using \$80/bbl – a conservative figure as against the current price of \$100/bbl – would be \$22.4m per day. Annually this translates to \$8.176bn or N1.3 trillion.
- d) The government does not need to subsidise our petrol imports - at least not from the Federation Account. The same crude that should have been refined by NNPC is simply sold on the international market (since our refineries barely work) and the money is used to buy petrol. The 400,000 barrels per day given to NNPC for local consumption can either be refined by NNPC or sold to pay for imports. This absurdity called subsidy should be funded with this money, not the regular FGN budget.

If the FGN uses its regular budget for subsidising petrol, then what happens to the crude oil given to NNPC for local refining that gets sold on the international market?

#### **10) TACTICAL BLUNDER**

The federal government is making the deregulation issue a revenue problem. Nigerians are not against deregulation. We have seen deregulation in the telecom sector and Nigerians are better for it, as even the poor have access to telephones now right before the eyes of those who think it is not for them. What is happening presently is not deregulation but an all-time high fuel pump increase, unprecedented in the history of our nation by a government that has gone broke due to excessive and reckless spending largely on themselves. If the excesses of all the three tiers of government are seriously curbed, that would free enough money for infrastructural development without unduly punishing the poor citizens of this country.

Let me just cite, in closing, the example of National Assembly excesses and misplaced spending as contained in the 2012 budget proposal:

1. Number of Senators	109
2. Number of Members of the House of Representatives	360
3. Total Number of Legislators	469
4. 2012 Budget Proposal for the National Assembly	N150 billion
5. Average Cost of Maintaining Each Member	N320 million
6. Average Cost of Maintaining Each Member in USD	\$2.1 million/year

Time has come for the citizens of this country to hold the government accountable and demand the prosecution of those bleeding our nation to death. Until this government downsizes, cuts down its profligacy and leads by example in modesty and moderation, the poor people of this country will not and must not subsidise

the excesses of the oil sector fat cats and the immorality cum fiscal scandal of the self-centred and indulgent lifestyles of those in government.

Here is a hidden treasure of wisdom for those in power while there is still time to make amends:

**PROVERBS 21:6&7**

“Getting treasures by a lying tongue is the fleeting fantasy of those who seek death. The violence of the wicked will destroy them because they refuse to do just.”

A word of counsel for those who voted for such soulishly indulgent leadership:

“Never trust a man who once had no shoes, or you may end up losing your legs.”

This is the conclusion of the matter on subsidy removal:

- i) “If a ruler pays attention to lies, all his servants become wicked.” (Proverbs 29:12)
- ii) “The Righteous God wisely considers the house of the wicked, overthrowing the wicked for their wickedness. Whoever shuts his ears to the cry of the poor will also cry himself and will not be heard.” (Proverbs 21:12&13)

Thanks for your attention. God bless you all.