Fuel Subsidy War

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President Goodluck Jonathan declares his resolve to remove oil subsidy next month just as the labour unions and civil society groups perfect their strategies for resistance

It all started like an ill wind that blows no good news early this year. And many Nigerians were well positioned to do war with the harbinger of the bad news of removal of fuel subsidy. The bad news was put on hold until after the April elections. Prior to the election, the plan of the President Goodluck Jonathan administration was to start implementing the fuel subsidy removal by the second quarter of this year. And this reflected in the budget where he provided only N240 billion for fuel subsidy covering only the first quarter of the year. He could not implement it because it was sure to cost him and his party the April elections because Nigerians were strongly opposed to the removal of fuel subsidy which has, over the years, been a touchy issue. He also did not remove the subsidy then because he thought that he had not educated and sensitised Nigerians enough to understand that fuel subsidy was undermining the economy of the country. Hence, he decided to be more strategic and buy time to be able to carry Nigerians along in the implementation of a policy, which has continued to draw the ire of the masses albeit wrongly. In view of the strident opposition against the removal of fuel subsidy and the possibility that the National Assembly could scuttle the president’s idea by not giving the necessary legal instrument to remove the fuel subsidy, the president has decided to be one step above the fray. He plans to use executive fiat to cajole everybody - organised labour, civil servants, opposition parties and the masses into supporting the policy. The President may have been emboldened to take the decision by the legal advice on the constitutional clauses which empower him to withdraw the subsidy. Section 16(2) of the 1999 Constitution empowers the president to withdraw subsidy because it falls within economic matters. According to the section, “The state shall direct its policy towards ensuring (a) the promotion of a planned and balanced economic development; (b) that the material resources of the nation are harnessed and distributed as best as possible to serve the common good; (c) that the economic system is not operated in such a manner as to permit the concentration of wealth or the means of production and exchange in the hands of few individuals or of a group.” No doubt, this constitutional provision informed the President’s insistence that subsidy withdrawal must be accomplished despite public outcry. As a manisfestation of the administration’s resolve to do away with subsidy, Newswatch learnt that there is no provision for it in the 2012 budget. Also, at the opening of the presidential retreat with the private sector on economic development and creation, in October, Jonathan said that subsidy removal remained the only responsible way of harnessing revenue for capital stock formation, among others. “There are proposals to phase out petroleum subsidies in a deliberate and responsible way that will harness revenues for capital stock formation and leverage on private sector investments in public-private partnerships (PPPs).” he said. In order to drive home his desire to remove fuel subsidy, President Jonathan has resorted to cajoling different segments of the society to support the move. Few hours before his departure for the Commonwealth Heads of Government Meeting in Perth, Australia, October 21, he met with the National Working Committee of the Peoples Democratic Party, PDP, to sell his subsidy removal plan. At the meeting which held at the Presidential Villa, he told the party chieftains that removing the subsidy was inevitable, as failure to do so could lead to the collapse of the economy. He also reminded them that oil subsidy removal is part of the policy thrust and programme of the PDP. Without much ado, the party keyed into the logic. A week after, it announced its support for the proposal, arguing that the action was necessary as it was one of the most important keys to the achievement of the President’s transformation agenda, which was the pivot of his campaign promises and programmes. Abubakar Baraje, acting national chairman of the party, said the subsidy removal would not only provide funds for infrastructural development, but would also restore the middle class. According to him, “the federal government is deeply committed to tackling decaying infrastructures, provision of jobs to unemployed youths, stimulation of investments in critical sectors and provision of security. Unfortunately, Nigeria depends on oil export earnings to run the economy. The transformation agenda of Jonathan will be achieved if the subsidy was removed.” Baraje also said that it had become imperative for government to review the subsidy policy since it has made very few Nigerians extremely wealthy to the detriment of the larger society. Apart from the PDP, state governors were also cajoled to support oil subsidy removal. Gabriel Suswam, governor of Benue State, said the subsidy was not getting to the masses, because a few faceless individuals were the ones enjoying it. “If you go to Sokoto, I don’t think you will buy a litre of petrol at N65. Who is enjoying the subsidy? A few people are taking a lot of money. And in spite of the fact that the federal government has made a pronouncement that if it takes N250 billion for this month, few people will share that money. The governors, with no exception, are fully in support of removal of subsidy,” he said. Sule Lamido, governor of Jigawa State, who also confirmed that the governors endorsed the controversial policy, however, pointed out that the states should be given a chunk of the proceeds to buoy their precarious financial position. According to the governor, the subsidy enables “the so-called oil importers to rake in N1.3 trillion of Nigerians’ money into their pockets and if subsidy removal is effected, the funds would be used by government to provide infrastructure for the people and pay minimum wage.” Lamido explained that all the state governors, irrespective of their political leaning, agreed to resist further removal from their federal allocations to fund subsidy. “All governors are united that their money should not be deducted for petrol subsidy. As leaders, we should not submit to the blackmail of irritants who are asking us to give them our sympathy out of pure emotions,” he said. Lamido also said that Jigawa State makes a minimum of N50 billion annually, yet there is no data anywhere to show the quantity of fuel consumed in Nigeria. Emmanuel Uduaghan, governor of Delta State, also corroborated the support of the governors to the president on the issue. He explained that fuel subsidy removal was not beneficial to Nigerians, which was the main reason the

governors were working together with the federal government. “A lot of discussions have gone into it. As at today, state governors are working with the federal government on this,” he said. The full support of the governors on the issue is further manisfested by the increase in their 2012 budget proposal, which was done in anticipation of the windfall from the subsidy removal. For example, Babatunde Fashola, Lagos State governor, presented a budget of N485 billion, as against N445 billion in 2011. That showed an increase of N40 billion. In Ogun State, Ibikunle Amosun, presented a budget of N187.9 billion, as against the N124.6 billion the previous year. That means that the 2012 budget was N65 billion higher. Similarly, Adams Oshiomhole of Edo State has presented a budget of N148.87 billion, which was N14.98 billion more than the state’s budget of 2011, while Enugu State’s budget of N74.99 billion was 11 percent higher than the N60 billion budgeted last year. Having convinced the governors, the potential beneficiaries in the fuel subsidy debate, the president has deployed a mass attack approach to the campaign on deregulation. Unlike in the past, when a special adviser to the President on Deregulation was appointed to spearhead the campaign, through the Nigerian National Petroleum Corporation, NNPC, several officials of the Jonathan administration are in the forefront for subsidy removal campaign. Also the president has directed all the ministries and agencies of government to embark on their own programme to convince Nigerians that removal of fuel subsidy is the way to go. This explains why key government functionaries are vociferously speaking in favour of the policy. Sanusi Lamido Sanusi, Central Bank of Nigeria governor, said ending fuel subsidy would be beneficial for foreign exchange reserves and ease pressure on the Naira, although it would have a short-term impact on inflation. Sanusi noted that the inflationary effect might be exaggerated because diesel was already deregulated and motorists in some parts of the country didn’t pay the subsidised price. “In the short term, we will battle with inflation. Unless there is any serious second-round effect, we’ll bring it down again gradually. Certainly, there will be a first round impact and supply side shocks of the removal of the subsidy,” he explained. Diezani Alison-Madueke, petroleum resources minister, also expressed similar sentiments that subsidy removal was inevitable. “If subsidy is removed, all Nigerians will see the benefit immediately in the areas of development of infrastructure like roads, health, among others”, she told the Senate Committee on Petroleum recently. Ngozi Okonjo-Iweala, minister of finance, put the nail on fuel subsidy when she gave shocking statistics to show the impact of the policy on the economy. In a presentation made to select leaders of four political parties, who met with President Jonathan last Monday, at the Presidential Villa, she said between 2006 and 2011, Nigeria spent N3,655.17 trillion to subsidise fuel. The amount is 30 percent of the total expenditure, 118 percent of the capital expenditure and 4.18 percent of the GDP. According to Okonjo-Iweala, “Subsidy does not get to the poor. The middle and upper classes are the real beneficiaries. It is clearly unsustainable. Subsidy in 2011 alone, so far, is over N1.3 trillion, which is higher than our capital budget. Evidence shows that the price of fuel in Nigeria is below both the African and International average.” She also hinted on what the pump price might look like next year, if the subsidy is removed. “The amount of subsidy equals to the difference between the consumer pump price of fuel versus the total cost of producing or importing. The price of petrol is N65 per litre, but the actual cost of supply is N139 per litre and projected at N120 per litre in 2012,” she said. It was learnt that the political leaders sought to know from the President and his team what he intended to do with the savings from the removal of fuel subsidy. “The whole essence is to extract commitment from the government which is yet to come,” a source who attended the meeting said. He continued: “Our party’s position is already known. We are against fuel subsidy removal. That position has not changed. Majority of other political leaders in attendance also opposed the planned removal.” He also told Newswatch that the meeting was inconclusive, as the parties were to formally make their positions known to the President before another round of meeting this week. Beyond government officials, a massive media campaign has been set in motion to sensitise the teeming Nigerian population on the benefits of subsidy removal. One of such campaigns in the print media reads: “Stop funding the problem, start funding the solution. Redirect subsidy funding to education, health care, job creation, affordable transport, agricultural development, peace and security.” The campaign also stated that fuel subsidy encourages over consumption and waste, impedes supply and demand adjustment and is a source of strain on national budgets. While the contentious fuel subsidy debate rages, the pertinent question has been: Who are the privileged beneficiaries? Penultimate Friday, Magnus Abe, chairman, Senate Joint Committee on Petroleum (Downstream), Appropriation and Finance, said the list of the beneficiaries included construction companies that had nothing to do with the petroleum industry. Among the beneficiaries are Oando Nigeria Plc (N228.506 billion), MRS (N224.818 billion), Folawiyo Energy (N113.32 billion), Enak Oil and Gas (N19.684 billion), African Petroleum (N104.58), Obat Oil (N85 billion), Bovas and Company Nigeria Limited (N5.685 billion) IPMAN Investment Limited (N10.9 billion) and Integrated Oil and Gas (N30.777 billion). Also mentioned are A-Z Petroleum (N18.61 billion), Capital Oil (N22.4 billion), Aminu Resources (N2.3 billion), Avidor (3.64 billion), Ascon (N5.271 billion), Eternal Oil (N5.574 billion), Forte Oil (N8.582 billion) and De Jones Petroleum (N14.86 billion). Abe said the refineries have not been working optimally because the NNPC makes more money when products are imported. “The issues of the state of the refineries is a reflection of the values we are pursuing. In the cause of the public hearing, I was saying to the NNPC that Nigerians believe that part of the reasons why refineries don’t work is because the NNPC makes more money when they are not working. They import things and trade and don’t care much on matters arising from their actions. If you have that kind of system, you are rewarding inefficiency,” he said. Abe explained that a litre of petrol is sold at N120 in the United States of America. This includes tax. Which means that the product is not subsidised by the government. Since the revelation of the list of beneficiaries, the Senate has been divided on the issue of subsidy removal. Last Tuesday, at its plenary session, Emmanuel Paulker (PDP, Bayelsa), said that many Nigerians were not benefiting from the scheme, which was serving only the upper class. “The masses are not enjoying the subsidy. We are heading for the rocks. If state governments have said they can no longer sustain subsidy, there is nothing we can do because we cannot legislate for the states,” he said. He was supported by Ayogu Eze (PDP, Enugu), who said if the government did not remove subsidy at this particular point in time, it would come to a time

in the country that the NNPC would not be able to bear the cost. But Abu Ibrahim (CPC, Katsina) said the removal would not be in the interest of his people because he had interacted with them from nine out of 11 local governments in his senatorial district and they were against it. Also, Awesu Kuta (PDP, Niger), said the removal should not be sudden, but gradual, until Nigerians were able to know the benefits. The release of the list of beneficiaries of the fuel subsidy has angered Nigerians and seems to have turned the tide against strident opposition to its removal. Many people and groups including some labour unions who were hitherto opposed to deregulation have called on government to prosecute them. The Petroleum and Natural Gas Senior Staff Association of Nigeria, PENGASSAN, is leading the campaign that the beneficiaries of fuel subsidy should be prosecuted. The association said oil workers would use all within their power to ensure those involved in the act return the stolen wealth to the nation’s purse. “PENGASSAN demands the refund and prosecution of all suspects in the alleged fraud in the importation of refined products to the country. This goes further to confirm the work of the cabal in ensuring that our refineries never worked. The same cabal intends taking over the upstream. We will use all the strength as a union to ensure all the stolen wealth is returned to the nation’s purse. They must also be prosecuted,” the union stated. However, PENGASSAN also said that certain irreducible minimums must be put in place before subsidy removal. They include revamping existing refineries, establishing enabling environment and incentives to encourage private sector participation in the refining business, infrastructural development and passage of PIB, which contains comprehensive provisions for the deregulation of the downstream sector. PENGASSAN is not alone. The Nigeria Labour Congress, NLC, has blamed the government for the actions of the oil cabals. Abdulwahid Umar, President of the Congress told Newswatch that for the government to have allowed a few people to destabilise the oil industry shows that it has lost control and is helpless. Umar also said that the present administration has never consulted labour on the matter, unlike the Yar’Adua government which initiated discussions with them before his death. Labour, therefore, said they are still opposed to the subsidy removal. “The official position of labour is that removal of subsidy is going to affect the vast majority of Nigerians negatively. Our position is that government should not do anyting that will affect citizens of this country negatively, including the issues in respect of the removal of oil subsidy. The NLC has not changed its position on this matter,” Umar said. He advised President Jonathan not to be swayed by praise singers and hypocrites, who, in actual fact, don’t mean well for his administration. “Some said Jonathan is about the greatest hero among all Nigerian past leaders. To me, those praise-singers are not helping him at all. Oil subsidy is something Buhari, IBB, Abacha and even Obasanjo couldn’t remove, I can’t see how Jonathan will be wiser than all those before him and emerge the greatest hero. I do hope and hate to say that rather than being the greatest hero, I don’t want to see him as the weakest link among the presidents Nigeria ever had,” he said. However, Pat Utomi, professor of political economy and founding director of the Lagos Business School, said fuel subsidy removal had been controversial because Nigerians don’t trust their government. The reason is not far-fetched. Past governments made the same promise of spending subsidy on building of roads and providing essential services to the citizens, yet the Federal Roads Safety Corps, FRSC, rated Nigerian roads as the second worst in the world. “The question to ask should be, ‘what did the last removal do for railways, roads? The point I am making is that we have come to the point where you can say that it is not sensible to allow government that does not know how to use public resources to take more of it away from the citizens. I would rather recommend that the Nigerian individual spends his money the way he or she likes, rather than the government of Nigeria waste it for him,” Utomi said. Utomi also said that the 18 licenced refineries have not been built because government has continued to encourage importation of petroleum products which discourages building of refineries. For example, a Nigerian from Akwa Ibom, based in California, who was building a refinery, was said to have lost billions of Naira because the government played games with him. Utomi explained that the trouble with Nigeria is that the country has lost a sense of shame, which means that something is fundamentally wrong. According to him, “I have come to the conclusion that the trouble with Nigeria is that we have lost a sense of ashamed. We do not feel ashame any more. If we do, I think that we should be embarrassed that in the arena of public discussion, we are still talking about our refineries not working optimally. That shows that something is fundamentally wrong. And for me as a citizen, that is not the way to go.” The country currently imports most of its petrol, as the four refineries work far below their installed capacity of 445,000 barrels per day. The refining output is insignificant when compared to the national demand of about 40 million litres per day. Nigerians would pay not less than N150 per litre when the fuel subsidy is eventually removed next year. Even at N65, Nigerians still pay one of the highest pump prices among the 12 – member nations of the Organisation of Petroleum Exporting Countries, OPEC. Unlike other OPEC countries that enjoy cheap fuel because of their functional refineries, Nigeria’s total dependence on importation of refined petroleum products accounts for the high cost of fuel in the country. At the exchange rate of N155 per dollar, Nigeria’s N65 per litre is equivalent to $0.42 per litre. In Saudi Arabia, the price is $0.12, an equivalent of about N18 per litre. In Kuwait, the price goes for $0.21 or N32. It costs $0.37, an equivalent of N57 per litre in the United Arab Emirates. Similarly, in the South American country of Venezuela, petrol is sold at $0.05 or N7, while it is $0.22, an equivalent of N34 in Qatar. In Iran, the price is $0.11 or N17, while in Algeria, one litre of petrol is sold for about $0.20, an equivalent of about N31. Now that the federal government has made fuel subsidy removal a fait accompli, it has the onerous task of putting in place palliative measures that would reduce the suffering of the populace, whose purchasing power has already been reduced by the devaluation of the Naira.