

# The Return of Fuel Subsidy

By Reuben Abati



I was away on vacation for just two weeks only to return to meet fuel queues still on the streets of Nigeria with the fuel stations rationing fuel in Lagos and other parts of the country. It is a big shame, and an embarrassment that the world's sixth largest producer of crude oil cannot refine its own petroleum products. Nigeria has the finest blend of crude- Brent Crude notable for its low sulphur content, but as in everything else, we export the best of our assets, including people, only to buy back the same assets from outsiders. With finished petroleum products, we now import the same petrol that flows in abundance in the creeks of the Niger Delta and the backyard of some people's ancestors. Reuters reported recently, that NNPC Limited, the sole importer of finished products, enjoying a monopoly in that regard was indebted to gasoline suppliers to the tune of over \$6 billion forcing traders to backout, resulting in a scarcity of fuel in the country. Under contract terms, NNPC is required to pay within 90 days of delivery, failing which the traders collect a late payment compensation of \$250,000 per cargo. So, when Nigeria tenders for fuel, a number of traders now look the other way. Nigeria has no savings to bail it out; instead the government is desperately looking for money. It won't be long before the Nigerian government begins to tax persons for dying, or having babies or for marrying or engaging in the basic ordinary

tasks of living. In 2023, NNPC took a loan of \$3.3 billion from Afrexim Bank, but it looks like even that has been depleted. What we are dealing with, those who are familiar with the subject tell us, is simply the failure of policy, the lack of vision at the highest levels and the cumulative effect of the many years of the oil curse. President Bola Ahmed Tinubu worsened the situation. The crisis that non-availability of fuel in the country has now created, with the high cost of living, inflation, loss of time and capital and the widespread angst in the land could have been avoided. We suffer because of Tinubu's populism, over-excitement and lack of caution. On May 29 2023, at his inauguration as President of Nigeria, Tinubu allowed his emotions to get the better part of him when he suddenly announced in his inaugural speech that "fuel subsidy is gone!" Some poorly educated persons in his team must have told him that he should do something radical from the first day, and that after all in Kenya, William Ruto did something radical as soon as he assumed office. Ruto is today ruing the day he caused the tragedy that his exuberance has brought upon him. There may have also been persons around President Tinubu who told him to take a step that would please the IMF and the World Bank, both of which had always argued that Nigeria could not sustain its subsidy regime. What no one

told Tinubu was that whereas the removal of fuel subsidy was prescribed in the Petroleum Industry Act of 2023., President Muhammadu Buhari, Tinubu's predecessor was happy to claim the credit that it was under his watch that the PIA was passed after 13 years – one of the longest running pieces of legislation in recent times – but he was not willing to implement every aspect of it. Section 205(1) of the PIA states that wholesale and retail prices of petroleum products would be determined by market forces, to encourage competition and private sector investment. As of 2022, almost one naira in every four Naira earned by the Nigerian government was spent on fuel subsidy. Nonetheless, the Buhari administration played smart. It postponed the divine reign of market forces until after 18 months, stating that the removal of fuel subsidy could result in social upheaval, and that the timing would be problematic. Buhari willfully disobeyed the same law that he signed. He postponed the evil day and left a booby trap for Bola Ahmed Tinubu, who clearly out-

downstream sector of the petroleum industry. The Mafia, benefitting from the rot in the industry including present occupants in the corridors of power, sabotaged the Jonathan government. They have since eaten their vomit, returning to 2012, and they are shamelessly comfortable about it. In 2012, fuel subsidy gulped just about N1 trillion. Tinubu created a perfect storm by removing fuel subsidy and also abolishing the dual foreign exchange rate at the same time. It is simple common sense. Both moves were populist but the timing and the combination were wrong. Within 15 months, Nigeria is literally on its knees. Between May 2023 and now, the pump price of fuel has gone from N197 per litre to N617 per litre and up to N1, 300. President Tinubu promised the people that he would renew hope. He told us "e lo fokan bale." On the contrary cases of sudden death syndrome have increased. Nigerian youths are fleeing abroad in droves because they cannot find hope in their own country. Nigeria has not even been able to meet its OPEC production quota. When the spot

price of Brent goes up as it did during COVID-19, and now in the face of the conflicts in the Middle East, and between Russia and Ukraine, Nigeria is unable to take advantage of given opportunities. The country is also underperforming in Domestic Revenue Generation as the elites in power, after a fashion, are more interested in their own luxury and comfort. The optics is scary. The Tinubu government has left the people in a place of confusion: Fuel subsidy was removed on a whim, without clarity and proper consultation with stakeholders, and apparently no co-ordination with the sub-nationals. What I find particularly intriguing is that last week the same Tinubu administration trying to find a way around the fuel scarcity in the country and the fact



of over-exuberance on inauguration day proclaimed that "the fuel subsidy is gone". His media handlers have said that he was left with no option in the matter; because in any case the extension by the Buhari administration was due to expire. But could Tinubu have considered other options? Could he have chosen the option of a little honeymoon with the Nigerian people? The least that he could have done would have been to wait and study the situation and not resort to an impulsive policy making decision to please the Western crowd. The error is not his alone. What happened to the so-called members of the transition, hand-over committee? They should have looked at the situation on the ground and advice the President accordingly. Buhari thought the removal of fuel subsidy would cause social upheaval; Tinubu's transition team should have embarked on a rigorous interrogation of why and how Buhari tactfully avoided the storm. He must be laughing at Tinubu in his Daura home. And this is without prejudice to the fact that every economist that I know argued that the fuel subsidy regime was unsustainable. It had become an avenue for corruption and sharp practices, the very reason the Jonathan administration decided in 2012 to deregulate the

that fuel now sells for as much as N1, 300 per litre in parts of the country, directed the NNPC to use its 2023 final dividends due to the Federation to pay for petrol subsidy, in other words, the Federal Government wants the payment of dividends to the Federation to be suspended, to boost NNPC's cash flow. On its part, NNPC says it will be unable to remit taxes and royalties to the Federation anyway because of on-going subsidy payments or what it calls "subsidy shortfall and FX differential." In summary NNPC says it has been paying subsidy, and the Federal Government says it should pay more. This is enough talk to make anybody have a headache. For, the same Tinubu administration since May 29, 2023, had insisted that there was no fuel subsidy in Nigeria, even when everyone including the IMF reported that fuel subsidy had been re-introduced as far back as December 2023. Nasir el-Rufai and others told us the government had reintroduced fuel subsidy. Senator Atiku Bagudu, Minister of Budget and Economic Planning said this was not true, quoting the PIA, and insisting that in fact the government was saving money from the removal of fuel subsidy, up to about N400 billion monthly.