A PRESENTATION
BY
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On behalf of
STRATEGIC ENERGY LIMITED
NIGERIA
(SUBSIDIES OF LP GAS MARKETS)
HISTORY OF LPG CONSUMPTION IN NIGERIA

- Nigeria produced 12% of LPG consumed in the Sub-Saharan Africa but accounted for the consumption of only 1% in the West Africa region

- In the late 80s and 90s, LPG consumption in Nigeria grew rapidly from 34,000 metric tonnes to 129,000 tonnes.

- Subsequent years, LPG consumption declined by an average rate of 13% per annum reaching a trough of 43,000 metric tons in 2001.

- Nigeria with a population of over 150 million consumed only 120,000MT of LPG in 2010 compared to Senegal, with a population of 10.2 million that consumes an average of 134,000 metric tons of LPG annually.

- This implies that Nigeria has the potential to consume over 2,000,000MT annually if adequate infrastructure and incentives (e.g. subsidy on LPG equipments) are put in place all through the LPG Value Chain.
WEST-AFRICAN ANNUAL PER CAPITAL LPG CONSUMPTION

Metric Tonnes (Thousands)

Senegal's Performance Above the West African Average Consumption (251%) more

The Gap Nigeria needs to cover and exceed is 3,150% and more of the current LPG consumption

West African Average LPG Consumption

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<th>Country</th>
<th>LPG (MT) Consumption</th>
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<td>Benin Rep</td>
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<td>Cameroon</td>
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<td>Senegal</td>
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THE CURRENT SITUATION IN NIGERIA
(NO SUBSIDY ON LP GAS FOR THE DOMESTIC MARKET)

- Government spent over N350 Billion in 2011
- Does not create job opportunities
- Cost of energy to Nigerians is high – ($1 - $1.5) per litre
- Encourages corruption in the industry
- Dangerous to the Environment

THE LPG INDUSTRY IS UNDER DEVELOPED
- Cost of switching and energy for cooking to Nigerians is high (between $30 and $110 for the equipments) while cost of LPG per litre is $0.8
- Substantial LPG is wasted through flaring
- Dangerous to the Environment

Subsidy on Kerosene

No Subsidy on LPG for the domestic Market

Present Situation

- The Nigerian Government lost over N350 billion in (2.2 Billion USD) through subsidy paid on kerosene which is usually diverted to neighbouring countries or to the aviation industry
- Cases of adulterated kerosene causes explosion, killing people as well as loss of properties
- Nigerians spend more money on Kerosene which reduces their purchasing power on other activities
- Health Issues from Kerosene soot (Victims are mostly Women & Children)
- Destruction of the bio diversity
GOVERNMENT SUBSIDISED KEROSENE
(NOT EASILY AVAILABLE)
MAJOR FACTORS AFFECTING THE GROWTH OF LPG IN NIGERIA

- **Government Policies**
  - *Subsidy on Kerosene by Federal Government*
  - *Excessive import duties (as high as 35%) and VAT on LP Gas equipment*

- Inadequate LPG equipment in the market and high cost of the equipment

- High “first costs” associated with acquisition of cylinders, Hoses, Regulators and LPG stoves by consumers (Acquisition cost – between $30 and $110 per package)

- Inadequate trucks for inter-city transportation of LPG and Bridging activities (Stakeholders are working vigorously on this part of the value chain)

- Insufficient number of jetties and few LPG inland storage facilities across Nigeria

- Lack of Skilled Personnel in the LPG Industry
ISSUES OF SUBSIDY IN NIGERIA
GOVERNMENT’S FOCUS ON SUBSIDY IN THE NIGERIAN OIL AND GAS INDUSTRY

- The Nigerian Government’s focus on subsidies is on Kerosene and Petrol for the following reasons:

  - 80% of Nigerians use Kerosene and firewood for Domestic Cooking
  
  - Petrol is widely used for Transportation of small vehicles or individual power generation in homes or small business offices. Diesel is also widely used for Generators as well as for mass transit buses and trucks.
  
  - The LPG market is deregulated in Nigeria which implies that market forces determine the price
  
  - Hence, subsidy does not exist in the Nigerian domestic LPG market
ISSUES OF PETROL AND KEROSENE SUBSIDY IN NIGERIA
RECENT UPROAR BY THE NIGERIAN POPULACE

- Four refineries in Nigeria are working at about 30% of installed capacity. Government must continuously import petroleum products including kerosene and petrol. This practice has been going on over the years.
- The Nigerian Government spent a staggering **N1.7 Billion** on subsidy payment for petrol and kerosene alone in 2011.
- On January 1\textsuperscript{st} 2012, the Nigerian Government declared that it can no longer sustain the subsidy payment (**N76 per litre**) on imported Petrol but full subsidy would still be paid on Kerosene. Government also indicated that subsidy on kerosene would be removed in the nearest future.
- This led to the increase of pump price of petrol per litre from N65 to N141 (**117% increase**), which eventually led to massive protests across states in Nigeria. Government further reduced it to **N97 per litre** from **N141** earlier announced.
- Detailed analysis of the oil & gas industry shows that an estimated 35 million litres of petrol is consumed daily in Nigeria while subsidy is actually paid by Government on 57 million litres. It was alleged that an estimated 24 million litres is being diverted to neighbouring countries illegally by unscrupulous elements.
ISSUES OF SUBSIDY IN NIGERIA  
( THE ASPIRATIONS OF THE NIGERIAN PEOPLE)

- Nigerians are clamouring for the construction of new refineries across Nigeria as well as the total overhaul of the existing refineries to ensure a fair and affordable petroleum products pump price per litre.

- Nigerians also want the Federal Government to reduce its expenditure by 50%. The savings from the reduction in expenditure should be channelled to other capital projects required for the development of the Nigerian economy.

- The Petroleum Industry Bill that would ensure transparent and good practice in the industry should be passed into law.

- The development of the LPG sector through provision of incentives (massive LPG equipments distribution at reduced rates and creation of SME schemes), while subsidy is removed in phases on kerosene. This would promote clean environment, improved health, employment opportunities, human capital development, affordable energy for Nigerians e.t.c. More revenue can be earned by Government if Kerosene is concentrated on the aviation industry as ATK.

- Tackling corruption in the Nigerian oil and gas industry.
EXPECTED GOVERNMENT’S INTERVENTION IN THE NIGERIAN LPG INDUSTRY (INCENTIVES ON LPG EQUIPMENTS)

- The Nigerian LP Gas Association (NLPGA) and World LP Gas Association (WLPGA) presented various conversion schemes to the Nigerian Government.

- Since the LPG market in Nigeria is deregulated, NLPGA and WLPGA advised the Nigerian Government to provide incentives on LPG equipment through conversion schemes.

- The Kerosene to LPG Scheme presented to the Nigerian Government was:
  - Massive distribution of the LPG equipments (Cylinders, Stoves, Hoses and Regulators) in conjunction with the existing cylinder filling operators in Nigeria – *(Targeting 30 Million Homes)*
  - Target increased LPG consumption to 1 Million Metric Tonnes by 2015
  - Removal of import duties on LPG equipments to promote easy acquisition of the equipment
  - Promote SME schemes through the conversion of kerosene sellers to LPG distributors by subsidising LPG filling equipment
LPG EQUIPMENTS PROPOSED FOR THE CONVERSION SCHEME

- Triple Heads Skid Unit
- Cylinder Filling Plant
- 3 kg Cylinder
- 6 kg Cylinder
- 12.5 kg Cylinder
- Hoses & Regulators
- LPG Stoves (Single head & Twin burner heads)
IF INCENTIVES ON LPG EQUIPMENTS ARE PROVIDED – THE IDEAL SITUATION

No Subsidy on Kerosene
(Kerosene should be concentrated on the Aviation Sector as ATK)

Introduction of Incentives to the LPG Market to promote wide usage of LPG
(Especially on LPG Equipment)

Expect Result

- Government would save over N200 Billion annually, even after subsidising gas equipments for prospective users of LPG
- Government would have the opportunity of channelling the money saved to other important sectors of the Nigerian economy
- Cost of LPG would be cheaper and affordable to Nigerians thereby increasing their purchasing power on other activities
- New businesses would be created as well as massive employment opportunities
- Gas gathering, processing and utilization schemes would be created through partnerships
- A cleaner and sustainable environment would also be achieved
GOVERNMENT POLICIES AND ENFORCEMENT

- Outright ban of Kerosene, firewood and charcoal for domestic cooking in Nigeria (Kerosene should be concentrated on the aviation sector as ATK and should be banned for domestic. This would help to promote LPG which is cleaner and environmentally friendly)

- Removal of duties & levies on LPG Equipment imported as well as the granting of tax holidays for new businesses in the LPG value chain

- Rationalization of Regulators in the Nigerian Oil and Gas sector to ensure faster approvals, avoid duplication of roles and multiple taxation
BENEFITS OF GOVERNMENT’S INCENTIVES ON LPG

- Conversion of significant proportion of the Nigerian populace to LPG users
- Drastic reduction of subsidy presently paid on Kerosene by the Nigerian Government (The money saved would be channelled to other important sectors)
- Wide usage of LPG amongst the Nigerian populace thereby promoting:
  - Less polluted and sustainable environment
  - Reduced cases of deforestation in various regions of Nigeria
  - Massive Employment Opportunities
  - Positive ripple effects on other industries (Power Generation, Agriculture, Petrochemical industries, Steel and Glass manufacturing industries e.t.c.)
  - Opportunity of auto-gas which would lead to reduced transportation cost and maintenance
  - Additional Revenue Stream for the Nigerian Government
  - A Better Nigerian Economy / GDP growth
THANK YOU FOR YOUR ATTENTION