

INEFFICIENCY & CORRUPTION IN THE PMS VALUE CHAIN

ABOUT THIS BRIEF

- This Summary Brief extracted from the Study on 'Improving Efficiency in the Downstream Petroleum Sector: Key Institutional Processes Review' is produced by **OrderPaper Nigeria** to simplify and amplify the highlights and key recommendations of the work.
- It is an expression of the citizen engagement component of the extractive advocacy stream of **OrderPaper** encapsulated under the Petroleum, People and Power Series.

ON THE PETROLEUM INDUSTRY

- The petroleum industry in Nigeria is divided into upstream, midstream and downstream.
- The upstream covers the exploration and extraction of black gold and is dominated by major multinational oil companies due to its capital intensive nature. The companies collaborate with the NNPC under Joint Ventures, Production Sharing Contracts and other contractual arrangements to extract crude oil.
- Midstream has to do with transportation, logistics, refining and storage of petroleum products. Pipelines, shipping companies, trunks, storage and refining make up this segment. Nigeria has 4 refineries- two in Port Harcourt, one each in Warri and Kaduna respectively- and they have a combined capacity of 445,000 barrels installed capacity, However, the refineries have failed to produce at optimal level despite billions on turn around maintenance by the NNPC. This has led to the importation of refined products for country-wide consumption.
- Downstream is the end-user stage dealing with distribution and sales for product consumption.

ABOUT THE STUDY

- The Study on 'Improving Efficiency in the Downstream Petroleum Sector: Key Institutional Processes Review' was undertaken by the Nigeria Extractive Industry Transparency Initiative (NEITI) with support from the Facility for Oil Sector Transformation (FOSTER).
- The key objective is to identify inefficiencies and corruption enablers in the downstream sector with a view to recommending pathways to reducing if not totally eliminating them.
- The Study focuses on the Premium Motor Spirit (PMS) value chain since the product "accounts for about 60% of the entire petroleum products consumed in the country" and is "currently the only regulated product in the downstream sector and the perceived linkage between regulation, corruption and inefficiency in the country."

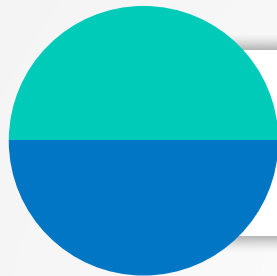
SPOTLIGHTED AGENCIES

Nigerian National Petroleum Corporation (NNPC) – The Study focuses on the NNPC as the national oil company solely owned by the state and participates currently as regulator and operator on behalf of the government of Nigeria.

Petroleum Product Pricing Regulatory Agency (PPPRA)
- The PPPRA was set up by the PPPRA (Establishment) Act of 2003 to be an independent body to manage the receipt and distribution of petroleum products to ensure availability in the country.

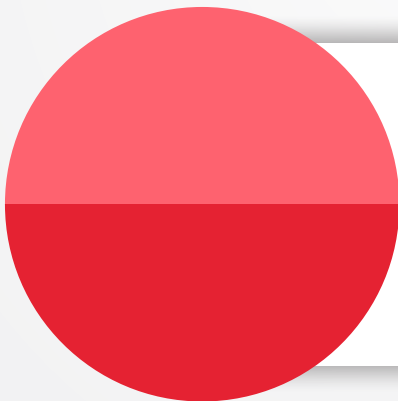
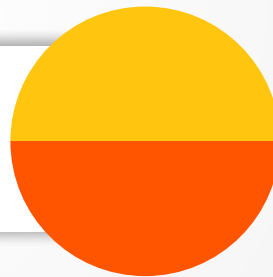
Petroleum Equalization Fund (Management) Board (PEF[M]B) – The Petroleum Equalization Fund was established to administer “the reimbursement of oil marketing companies for any loss sustained by them solely and exclusively as a result of

SPOTLIGHTED PROCESSES



Daily PMS demand estimation process – currently based on truck-out quantities from depots

PMS importation process – due to lack of sufficient local refining capacity, Nigeria imports most, if not all, of her domestic petrol consumption



Bridging & National Transport Allowance Claims Administration Process - To ensure national price equilibrium for petrol, allowances are paid into the Fund by Marketers, while Claims for compensation are paid out of the fund to the Marketers by the PEF(M)B depending on the relative distances from depot to depot and from depot to retail outlets

SEVEN CORRUPTION ENABLERS IN THE PMS DISTRIBUTION CHAIN

Weak Enforcement – Agencies with regulatory mandate either sleep on their duties or completely shirk such under the weight of bigger influences. **CONSEQUENCE:** Inefficiency and Loopholes for Corruption

Function Overlaps – Overlapping functions between the NNPC, PPPRA and PEF(M)B is prevalent. **CONSEQUENCE:** inefficiency and Corruption

The Under-recovery Bogey – The change of nomenclature from subsidy to under-recovery has retained a regime of arbitrariness in the petrol importation process. **CONSEQUENCE:** Loopholes for Corruption, Waste and Lack of Transparency and Accountability

No Reliable Consumption Data – No standard basis for determining daily consumption of petrol in the country. **CONSEQUENCE:** Arbitrariness and Loopholes for Corruption

Rule of the Thumb – Lack of standard consumption data to determine import volume. **CONSEQUENCE:** Loophole for Corruption

Price Differential - Cheaper petrol in Nigeria compared with neighbouring countries. **CONSEQUENCE:** Smuggling and Profiteering

One-Eyed Aquila - The PEF(M)B deploys Aquila – a tech tool - to administer a national price equilibrium for petrol through claims and compensation to marketers. The focus on depot-to-depot product transfers leaves a blind spot at retail outlets. **CONSEQUENCE:** Loopholes for Corruption

NNPC's Heavy Hand



DEPRIVED PEF - Since the national oil company became the sole importer of petrol in 2017, remittance of Bridging Allowances on imports and NTA Contributions to the PEF(M)B has been erratic thus depriving the agency of funds to meet obligations to Marketers



DISEMPOWERED PPPRA – NNPC's monopoly in the petrol importation chain has diminished the powers of the PPPRA to effectively discharge its monitoring, pricing and other regulatory roles downstream.

FLAGGED



PEF: Previous audits by Auditor General of the Federation (AuGF) and the Oil and Gas Audit of NEITI raised the following issues for determination by the PEF(M)B

- Failure to fully account for interest earned on funds placed on fixed deposit with banks
- No differentiation between funds for primary activities, including settlement of claims and receipt of NTA contributions and those conventional administrative activities



NNPC - Current petrol importation process under the Direct Sale, Direct Purchase (DSDP) arrangement by the NNPC confers upon it the powers to decide the quantity of products to be imported as well as being sole importer since 2017

RECOMMENDATIONS

1. The Study recommended that **PPPRA** should:

A) Maintain independence in the determination of:

- ii. **national daily PMS demand**
- iii. **Import quantities**
- iv. **Pricing**
- v. **Margins to importers**
- vi. **Charges to other stakeholders**

B.) Take the lead in inter-agency collaboration on data capturing and management towards the negotiation of a Service Level Agreement (SLA) on mutually agreed commitments.

C.) Extend the estimation process of daily petrol consumption in the country to include collation of data at all retail outlets via technology. This data set should then be juxtaposed with the truck-out data collated at the depots to determine in-country consumption levels.

2. The Study also recommended that **PEF(M)B** should:
Developing and deploying suitable technology to track product deliveries to retail outlets and not just from depot to depot as is currently the case
3. The Study further recommended that the **DPR** should get more involved – Given that the agency plays a key role in regulating activities in the downstream it should be strategic in implementing the recommendations

DATA DON'T LIE

N777 billion –
Under-recovery cost
to government in a
13-months period
up to May 2019

N43.81 billion naira
– Amount
receivable from
Marketers by the
PEF(M)B from 2014
to 2016

N8.34 billion -
Amount payable to
Marketers by the
PEF(M)B from 2014
to 2016

About OrderPaper Nigeria

OrderPaper is Nigeria's preeminent policy think-tank and multi-platform legislative interface intervening in the extractives space through civic technology and policy advocacy, including convening of the **HostCom Colloquiums** on host community relations as well as the Post Covid-19 Petroleum Agenda for Nigeria (PoCoPAN) conferences. **OrderPaper Nigeria** has designed, developed and deployed two novel mobile applications: **(1) ConsTrack** – for public projects and budget tracking; and **(2) RemTrack** – for citizen engagement and tracking transparency and accountability issues in

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