

FG to Guarantee Fuel Subsidy with Sovereign Debt Notes



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Lagos — The Federal Government has concluded arrangements to issue oil marketers with Sovereign Debt Notes (SDNs) as a security against any delay in payment of subsidy for imported cargoes. SDN, which is another name for government borrowing, is like Treasury Bills (TBs) (government securities) and can be discounted for cash, but the only difference between the two is that while the former is a short-term borrowing the latter is for long term.

Controversy has also trailed the sudden withdrawal and review of the second quarter import permit by the Federal Government through the Petroleum Products Pricing and Regulatory Agency (PPPRA), six days after the approval was handed over to importers of petroleum products.

THISDAY gathered that after the PPPRA gave the marketers permit to import about 3.7million metric tonnes of Premium Motor Spirit (PMS) on the 31 of March, the permit was withdrawn on April 6 and a new one issued in a manner that was alleged to have favoured about five marketers to the detriment of others.

But the Executive Secretary of PPPRA, Mr. Abiodun Ibikunle, told THISDAY that the agency merely reviewed the initial allocation given to the marketers.

"What we did was to review the allocation. We have done the review and communicated the new figures to the marketers," he said.

Further investigation, however, revealed that the sudden interest shown by few marketers to attempt to monopolize the fuel importation regime was due to an assurance by the PPPRA that marketers that import fuel would henceforth be issued with SDNs as collateral or guarantee against any undue delay in payment of subsidy.

With these SDNs, marketers that do not get their payment within 45 days stipulated in the Petroleum Support Fund (PSF) guidelines, will take the instruments to their creditor banks as cash to pay for their loans.

Government's previous delay in payment of subsidy made some top marketers shun the importation regime and rely on the Nigerian National Petroleum Corporation (NNPC) for imported fuel, a development that created the recent fuel crisis that hit the country.

Some of these marketers imported little products last year and also requested for import permit from PPPRA for very little allocation in the first and second quarters of 2010.

But it was alleged that as soon as information filtered in that the government would issue SDNs, these marketers were said to have influenced the withdrawal and review of the initial allocation issued for the second quarter to enable them get huge allocation.

Under the new allocation issued to marketers last week, according to a source, the number of marketers was reduced from 53 to 25 and the allocation of the marketers that did not make the new list was reallocated to less than five marketers.

Some marketers, who spoke to THISDAY on condition of anonymity, alleged that government's action in allowing very few marketers to dominate fuel importation would create monopoly and plunge the country into another fuel crisis.

These marketers also said that the development, coupled with the introduction of SDNs would make mockery of planned deregulation of the downstream sector.

"Instead of deregulating the industry and allowing free entry and free exit, they are over-regulating and creating a cult to hijack the business. This will definitely backfire and create another crisis," said a marketer.

But Ibikunle told THISDAY that the issue of allocation is an ongoing exercise and that marketers whose names were removed are those that have been receiving approval since last year but have not been importing fuel.

"We realised that some people, who have been getting allocation since the last quarter have not been importing anything. So, we have to review their allocations. It is not that we have excluded them; it is an ongoing thing," Ibikunle said.

It was also alleged that some marketers that have track record of performance in importation and had continuously imported products at the peak of the recent fuel crisis when other marketers abandoned importation over unpaid subsidies and exchange rate differentials, also had their allocation slashed by the PPPRA to favour the privileged few.

However, the Managing Director and Chief Executive Officer of Integrated Oil and Gas Limited, Mr. Tony Ihenacho told THISDAY that his company's allocation was not slashed by the PPPRA.

"They asked us to return the initial allocation. It is like they discovered a mistake in the allocation and asked us to return it but they did not change it. We got approval for what we requested for," he said. Ibikunle however said PPPRA is willing to listen to genuine complaints by any aggrieved marketer.

"You cannot run away from people complaining in this kind of exercise. Yes, we gave out approval and it was retrieved and reviewed. But we have since communicated the new figures to them. If anybody feels dissatisfied with what we have done, the person has the right to come up and complain and we will look into it," he said.

But the affected marketers insist that the PPPRA has no basis to slash their allocation or exclude them to favour those that had earlier abandoned importation when there was crisis.

They said in terms of track records of performance and capacity, they are better off than the marketers whose allocation was reviewed upwards, adding that some of these marketers got huge allocation in excess of their capacity.

An industry source told THISDAY that the storage facilities of some of the marketers that had their allocation slashed or names excluded in the latest allocation are the biggest in the industry.

"Both onshore and offshore storage capacity of one of the affected marketers is about one billion litres, the highest in the country. One of them is the only company that has done 14million litres in a day, that is, loaded 600 tankers in one day. With 14 gantries (loading bay) to load 14 trucks simultaneously, one of the affected marketers loads an average of one truck in every 10 minutes in its depot. Even the refineries don't have that capacity. Also, with a central loading system, even the Group Managing Director of NNPC can monitor fuel loading in one of these companies from his office. So, everybody is surprised that PPPRA is denying such companies the opportunity to import while smaller companies got huge allocation far beyond their capacity. They want less than five marketers to dominate and control the industry," he said.

In the first quarter of 2010, approval for importation of 3.9million metric tonnes of PMS was granted to the NNPC and 33 other marketers, while the estimated optimum volume requirement in the country in metric tonnes for 120 days was 3,131,991.05.

Ibikunle had told THISDAY that the excess approval was to avoid any hiccup in fuel supply in the country during the period.