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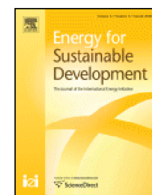

Relevance lost? The Petroleum Equalization Fund in Nigeria☆

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A B S T R A C T

This paper traces the origins of the Petroleum Equalization Fund (PEF) in Nigeria and describes the environment in which it has operated. The paper argues that the PEF has failed to live up to its mandate of equalizing the prices of petroleum products across the country. This is in part because such equalization schemes create arbitrage opportunities which are always prone to exploitation. The rentier nature of the Nigerian state and the prevalence of corruption in the country have added fodder to such exploitations. The consequence of the above is that PEF has simply become one of the inefficient channels of subsidizing the price of petroleum products in Nigeria. This paper therefore recommends that the starting point in the efforts by the Nigerian government to undertake petrol subsidy reform in the country should be to abolish the PEF.

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Introduction

In recent times, several factors have entwined to negatively impact on the price of crude oil.[1] As a consequence of the above, the price of the commodity which was almost US$115 in June 2014 is now below US$50, a drop of more than fifty percent. This sharp drop in the price of oil has resulted in the deterioration of the economies of many of the "oil producing countries whose budgets depend on high prices are in particular trouble." Such countries include Russia which has seen its currency, the rouble tumble. Other concerned oil producing countries include Nigeria and Venezuela. "Nigeria has been forced to raise interest rates and devalue the naira" while "Venezuela looks ever closer to defaulting on its debt" (Economist, 2014). The deterioration of the economies of several oil dependent states has brought to the fore the need for such countries to adopt more prudent fiscal policies and diversify their economies away from oil dependency. Specifically, the focus on subsidy reforms is justified by the three strand evidence that: 'large subsidies create problems for governments in their domestic accounts and often in their balance of payments'(Bienen and Gersovitz, 1986: 43); by lowering end-use prices, subsidies 'encourage increased energy use and reduce incentives to conserve energy efficiently'(Vagliasindi, 2012: 1); and that in developing countries, petrol subsidy is a costly approach to protecting the poor due to substantial benefit leakage to higher income groups (Kebede, 2006).

The international oil price crisis has thus reawakened the call for petroleum price reforms in most of the oil dependent economies. Whereas in the past most of those economies put in place various forms of subsidies in reaction to abundance of oil rents, the present realities have call for a rethink of those policy. In Nigeria, for instance, one such contentious subsidy scheme that is overtly due for reform is the Petroleum Equalization Fund (PEF). The Fund which was established via the promulgation of the Petroleum Equalization Fund (Management) Board etc. Decree Number 9 of 1975, was designed to make prices of petroleum products across the country uniform.[2] According to the enabling Act, the PEF is a statutory fund 'which is to be applied for the reimbursement of petroleum marketing companies for

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[1] "Four things are now affecting the picture. Demand is low because of weak economic activity, increased efficiency, and a growing switch away from oil to other fuels. Second, turmoil in Iraq and Libya—two big oil producers with nearly 4 m barrels a day combined—has not affected their output. The market is more sanguine about geopolitical risk. Thirdly, America has become the world's largest oil producer. Though it does not export crude oil, it now imports much less, creating a lot of spare supply. Finally, the Saudis and their Gulf allies have decided not to sacrifice their own market share to restore the price. They could curb production sharply, but the main benefits would go to countries they detest such as Iran and Russia. Saudi Arabia can tolerate lower oil prices quite easily. It has $900 billion in reserves. Its own oil costs very little (around $5–6 per barrel) to get out of the ground" (Economist, 2014)

[2] Section 2 Petroleum Equalization Fund (Management Board etc) Decree Number 9 of 1975.

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any losses suffered by them arising from the sale of petroleum products at uniform prices throughout Nigeria'.[3]

Recent attempts at deregulating the Nigerian petroleum industry brings to the fore the debate on the future of the PEF.[4] Specifically, in 2012, the government of President Goodluck Jonathan forwarded a Petroleum Industries Bill (PIB) to the Nigerian National Assembly for its consideration. This bill, which was based on the report of a 2000 Oil and Gas Implementation Committee (OGIC) set up by the federal government, is a reform legislation which aims to replace the existing myriad of legislative and administrative instruments in the Nigerian oil industry with one omnibus legislation (Lukman, 2007: 3). The main essence of the bill is to promote the emergence of an open and transparent oil industry for the benefit of the majority of the citizens.[5] The reform is based on the evidence of some defects in the lase and practices applicable in the industry. Although section 100 (1) of the PIB makes it explicit that PEF will continue to exist, section 100 (4) states that the PEF would be scrapped without any further legislation whenever "the government decides that petroleum product markets have been effectively deregulated." At this point, the Minister of Petroleum "shall take the required actions to ensure that the Equalization Fund ceases to exist and its assets and liabilities transferred to the government to be controlled and managed by the Ministry and at such time the provisions of the sections of the Act shall stand repealed". This provision of the PIB is based on the expectation that with the full deregulation of the downstream sector of the oil industry in the country, petroleum products would then be sold at market-determined prices that even out all sorts of subsidy-related and non-subsidy related costs. At that point, marketers can be allowed to sell the products at margins that reflect transport and insurance costs.

Given the fact that PEF is one of the channels through which government subsidizes the prices of petroleum products in Nigeria, it is not surprising that its fate is now entwined with the ongoing contentious and divisive debate over the removal of subsidy on petroleum products in Nigeria.[6] Critics base their view on the ground that rather than promote uniformity in the prices of petroleum products across the country, the PEF along with wider government subsidies on petroleum products have created incentives for both system operatives and regulators to exploit the petroleum products market in order to earn arbitrage profits. The consequence of this is that the prices of petroleum products in the country have rarely been effectively equalized since the establishment of PEF. There is also strong claim that the PEF has simply become one of the inefficient channels of subsidizing the price of petroleum products in Nigeria. Proponents of maintaining the status quo argue that it represents the only tangible benefit of oil wealth for most Nigerians" (Gillies, 2009: 3) and that the idea of calling for a full deregulation of the petroleum industry in Nigeria "is a clear call for anarchy."[7] The *Independent Petroleum Marketers Association of Nigeria* (*IPMAN*) *has also made explicit its opposition to the abolition of PEF arguing that* "it will create imbalance in the country".[8] This is because "Nigerians, especially in the northern part of the country, will pay more for the products than their counterparts in the South."[9] This is especially because most of the oil wells, refineries and depots are located in the Southern region of the country. The contradiction in the above reactions explains why attempts to deregulate the petroleum industry in the country have always proved unpopular. In January 2012, for instance, there were widespread riots in the country following the announcement by the Government that the pump price of a liter of petrol had been increased from an equivalent of US$0.43 to US$0.94. This forced the Government to immediately bring down the price to US$0.65.[10]

This paper demonstrates that the introduction of PEF was in the main influenced by political factors rather than economic considerations originally advanced by the then military government at the launch of the Fund in 1975. Although the then Nigerian Head of State, General Yakubu Gowon defended the policy mainly on economic grounds, evidence in this paper suggests that the reality was more complex.[11] The emergence of the PEF was arguably an extension of the age-long politics of resource sharing and revenue allocation in the country. In a federal system such as Nigeria, the interplay of political interests is unavoidable due to the fact that only nine southern states out of the 36 federating states produce the resources and the wealth of the nation (Phillips, 1971: 390). It is in those nine states that crude oil which accounts for about 75% of the country's consolidated budgetary revenues and over 90% of export revenue in the country is produced.[12] Based primarily on political considerations, equalizing the prices of petroleum products across the country was thus a logical extension of the oil rent induced by the increasing emphasis on "need" and "national interest" which occurred at the detriment of the "derivation principle" as the basis of revenue allocation among the constituent regions of Nigeria. 'The principle of derivation requires that all revenues which can be identified as having come from, or can be attributed to, a particular region should be allocated to it, provided that adequate and reliable data for this identification are available (a crucial requirement)' (Phillips, 1971: 390). A popular argument for introducing "need" and national interest' as basis for revenue allocation is that under a strict derivation principle, according to Phillips (1971), 'the more needy regions will be starved of resources. When fully applied, the derivation principle is therefore likely to lead to greater interregional economic disparity and to contribute to the instability of the federation'.

In the light of the current uncertainties surrounding international crude oil prices, this study which critiques the origins and operations of PEF in Nigeria aims to provide important lessons for other oil dependent economies that may also soon need to rethink their subsidization of their petroleum products. It also holds important lessons for countries that have recently emerged as oil producers.[13] To achieve its objective, the paper is divided into four additional parts. Part One critiques the theory and characteristics of rentier states while Part Two documents government involvement in pricing and subsidizing petroleum products in Nigeria. Part Three critiques the practice of petroleum equalization in Nigeria and Part Four concludes the paper.

[3] Section 2 Petroleum Equalization Fund (Management Board etc) Decree Number 9 of 1975.

[4] See, PIB: FG to scrap NNPC, PTDF, PPPRA, DPR, others", The Sun. (April 30, 2013), downloaded from, others http://sunnewsonline.com/new/cover/pib-fg-to-scrap-nnpc-ptdf-pppra-dpr-others/ (January 16, 2014).

[5] Nigeria Extractive Industries Transparency Initiative (NEITI) (undated, p.6).

[6] See Nwachukwu and Chike (2011, p.2796) and Siddiq et al. (2014, p.165). See also "Questionable clauses: NASS dumps Denzani's PIB" Sunday Trust (August 25, 2013), downloaded from http://sundaytrust.com.ng/index.php/news/14132-questionable-clauses-nass-dumps-diezani-s-pib> (January 16, 2014).

[7] See 'PIB: Why proposed regulation should leave PEF and PPPRA intact' Vanguard (October 6, 2009). Downloaded from <http://www.vanguardngr.com/2009/10/pib-why-proposed-legislation-should-leave-pef-and-pppra-intact/> (January 28, 2014).

[8] See "Nigeria: We're Against Scrapping of Petroleum Equalization Fund — IPMAN" Daily Trust (July 22, 2013) Downloaded from <http://allafrica.com/stories/201307221497.html> (January 16, 2014).

[9] See "Questionable clauses: NASS dumps Denzani's PIB".

[10] In Nigeria "subsidized gas is one of the few benefits trickling down from an infamously corrupt government that has pocketed billions of dollars in oil profits, with little to show for it." For the poor therefore, fuel subsidy means "some sense of ownership in a national resource, oil, in which roughly 80% of the economic benefit has flowed to 1% of the population, according to some estimates" (New York Times, January 16, 2012).

[11] Announcing the decision of the government to equalize petroleum prices all over Nigeria, the then Head of State, General Gowon asserted thus: "differentials in prices of petroleum products should not hamper dispersal of industries throughout the country". Also, "Industrialists will no longer use it as an excuse for not wishing to establish far afield nor will it impede the speedy implementation of various development projects of the state governments" (see Daily Times, 1973, pp.1 and 31).

[12] The statistics on the contributions of oil wealth are based on the World Bank Data and strived from http://www.worldbank.org/en/country/nigeria/overview

[13] Such countries include: Ghana, Mozambique, Tanzania, Kenya and Uganda (see KPMG, 2013, p.4).

Corruption and governance in rentier states

In a broad sense, the term rent has been described as "the income derived from the gift of nature" (Beblawi, 1987: 49). In states that are richly blessed with mineral and other natural resources, public revenues are significantly tied to the amount of rents accruing to the state from resource extractions and explorations. Along this line, Shambayati (1994: 308) defined a rentier state as "any state that receives a substantial portion of its income in the form of external rents." External rent, which constitutes an important basis for determining a rentier state, is defined by Mahdavy (1970) as "rentals paid by foreign individuals, concerns or governments to individuals, concerns or government of a given country." This is as opposed to internal rents, which is a "domestic payment transfer in a productive economy" and are excluded in the determination of a rentier state. Understanding the underlying difference between external and internal rents provides a strong basis for analyzing the economic features of a rentier state. Firstly, whereas external rents are paid by foreigners and come mostly in the form of royalties to the state, internal rents are usually tax-linked. Secondly, internal rents result from greater and direct participation of the residents and citizens of the state in productive economic activities, whereas the flow of external rents only brings about minimal participation in production but greater participation in distribution and consumption by the citizens or residents (Yates, 1996). It follows therefore that while the "existence of an internal rent (even substantial) is not sufficient to characterize a rentier state, the existence of an external rent can, if substantial "sustain the economy without a strong productive domestic sector, hence the epithet of a rentier economy" (see Beblawi, 1987: 51). The major reason for this, as argued by Helb (1985): 298) in the case of most oil-rich African countries, is that rent (income) accrues to the government directly and only a few persons are engaged in its generation. This according to Guyer (1992: 42) is so even under democratic dispensations. "Although the citizens (electorate) are supposed to be the principal in the principal–agent relationship, the rentier nature of the state has helped promote a culture of impunity and lack of accountability by their agents ('elected officials')" (Egbo et al., 2012: 598).

The implications of rents appear to vary across regions and across levels of economic development. In developed economies and some middle east countries, the flow of external rents provided opportunities of building viable infrastructure and for diversifying the economies. This is not the case in Africa where the concept of 'resource curse' is more predominant. In most resource-rich countries in Africa, the external nature and predominance of rental income naturally discourages hard work and results to an operating economic environment that is inimical to enterprise growth and citizens' engagement in socioeconomic governance and development. In most of the affected countries, the resultant effects include: "a complacent population with little representation, a lack of government accountability, mediocre performance and little trust between the "haves" and the "have nots" (Levins, 2013: 389).

All the above characteristics are inherent in the Nigerian society even under the current democratic dispensation. The Nigerian case, for instance has resulted to the overdependence of the state on oil revenues and a consequent reduction in the ability of the country's citizens to question the actions of the state. Statistical evidence, for example, shows that for over some decades now, the ratio of oil revenue to total public revenue has hovered around 65 to 85% since the start of the 1980s (see Fig. 1 below).

A good explanation of the situation in Nigeria is encapsulated in the dependency nature of the economy. This is so because "when governments derive sufficient revenues from the sale of oil, they are likely to tax their populations less heavily or not at all, and the public in turn will be less likely to demand accountability from- and representation in- their government" (Ross, 2001: 332). In other words, "when governments gain most of their revenues from external sources, such as resource rents or foreign assistance, they are freed from the need to levy domestic taxes and become less accountable to the societies they govern" (Ross, 1999: 312).

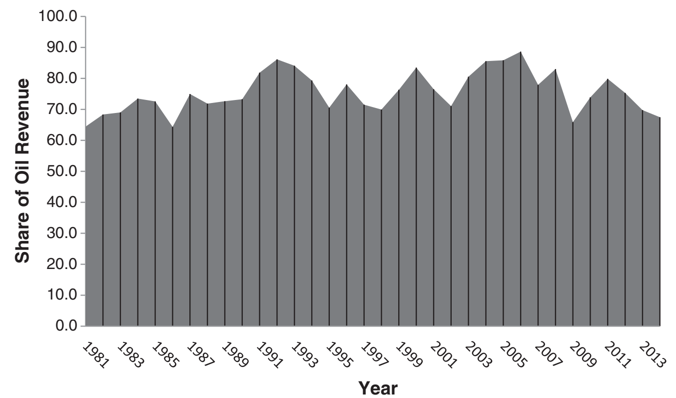

Fig. 1. Share of Oil Revenue to Total Federally Collected Revenue in Nigeria.
Sources: Central Bank of Nigeria Statistical Bulletin, 2014.

It is possible that the overdependence of the Nigerian state on oil revenues over the past years has reduced the ability of its citizens to question the actions of the state. This claim finds merit in the assertion of President Goodluck Jonathan in 2012 who publicly declared that 'it would be difficult to form a viable citizenry that could call government to account for its stewardship if the economy depends solely on oil revenue."[14] It is this reality that has encouraged the linking of external rent with corruption, and an assertion that "increases in oil rents significantly increase corruption [and] significantly deteriorate political rights" (Arezki and Brückner, 2011: 956). It is therefore safe to assert that corruption in Nigeria is positively correlated with increasing dependence of the country on oil rents. Available statistical evidence equally supports this conclusion. Fig. 2 provided below, for instance, reveals some level of correlation between the ranking of government's efforts towards the control corruption (as estimated by the **Worldwide Governance Indicators (WGI) project**) and the flow of oil revenue to the government since the return to democratic governance in Nigeria in 1999.

The rentier nature of the Nigerian economy has encouraged even the political rulers in post-independence in the country to sabotage the principal–agent relationship in the governance of the Nigerian state. The result is that what should normally be a straightforward agency relationship between the citizens (principal) and their rulers (agents) has been muddled up. Corruption has thus remained an intractable problem. This, at least in part, explains why since the attainment of political Independence in Nigeria, allegations of corruption have featured prominently in the evaluation of most governments in the count (see (Nzeogwu, 1966; and Forrest, 1993).

In 2013, for instance the immediate past Governor of the Central Bank of Nigeria (CBN), Sanusi Lamido Sanusi alleged that US $20 billion was unaccounted for by the Government. Although he was subsequently suspended from office, the matter remains unresolved.[15] More recently, Sanusi's predecessor as CBN Governor, Charles Soludo alleged that in the past four years of Jonathan's administration, "Nigeria's public finance is hemorrhaging to the point that… over N30 trillion (US$156 billion) is missing or stolen or unaccounted for, or simply mismanaged."[16] It is based on the above trends that many have concluded that corruption in Nigeria is indeed on the increase.

[14] 'Jonathan: pay taxes, hold govt. accountable', ThisDay [Nigerian] Newspaper, 11 October, 2010. <http://www.thisdaylive.com/articles/jonathan-pay-taxes-hold-govt-accountable/76868/> (3 July, 2012).

[15] See, Economist, 2014.

[16] See 'Soludo replies Okonjo-Iweala, accuses her of forging national economic statistics,' Premium Times (February 1, 2015), downloaded from http://www.premiumtimesng.com/news/headlines/176097-soludo-replies-okonjo-iweala-accuses-her-of-forging-national-economics-statistics.html> on February 5, 2015.

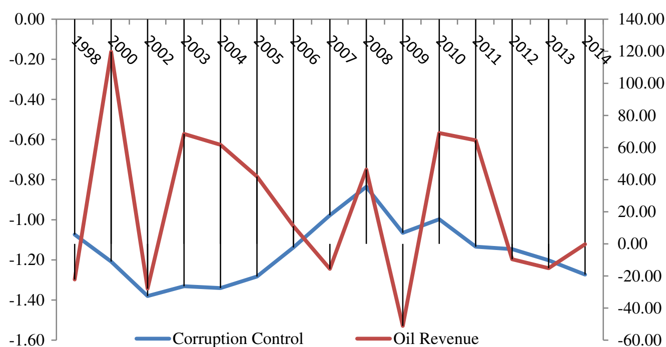

Fig. 2. Correlation Between Governance Quality and Flow of Oil Revenue in Nigeria. Sources: Central Bank of Nigeria Statistical Bulletin (for the Oil Revenue Data) and the WGI for the Corruption Control Data.

Qualifying the expanse heightening in the incidence of corruption in the country, the former military president, General Babangida, recently described his government as "saintly compared to successive administrations in terms of prevalence of corruption."[17]

A related consequence of the rentier nature of the Nigerian state is the fact that it has elevated the struggle for the control of Nigeria's oil revenue to a national sport. As already mentioned, prior to the discovery of oil, revenue allocation among the constituent regions of the Nigerian federation emphasized the derivation principle. In 1953, for instance, the Chick Commission Report recommended that: the federal government should keep 50% of the general import duty while 50% should go to the regions on derivation basis; the federal government should keep 50% of the import and excise duty on tobacco, the rest going to the regions based on derivation; 100% of the import duty on motor spirit should go to the regions; 100% of the mining rent and royalty should go to the regions, and; both levels should share the export duty on hides and skins on a 50–50 basis.[18] In the case of import duty, the derivation principle was defined based on the region from where the import demand originated. Under such jurisdiction, the constituent units of the Nigerian state were encouraged to actively pursue revenue generation. All this however began to change with the discovery of oil. With increasing revenue from oil rent, the focus of the constituent units of the Nigerian federation gradually shifted from revenue generation to revenue sharing.[19] The consequence of the above was that the percentage of mining rents and royalties shared based on the derivation principle declined from 100% in 1953 to 2% in 1984 before rising to 13% in 1999.[20]

It was as a consequence of the change in focus of fiscal arrangements in Nigeria from revenue generation to revenue sharing that the subsidizing of petroleum products was introduced. Before the introduction of PEF, Phillip Asiodu, who was then Permanent Secretary Ministry of Mines and Power and Chairman NNOC made it explicit that the government was interested in achieving price equalization at the lowest price then obtainable in the country.[21] PEF was subsequently established to equalize the prices of petroleum products at the prices obtainable at the time in Lagos, which was the lowest in the entire country. As will be seen in the subsequent sections, the advent of subsidy of petroleum products brought with it all the ills associated with corruption. These include the promotion of inefficiency and the encouragement of rent seeking behavior by both regulators and petroleum sector operatives. The result, as showed in the case of the PEF, is that public policies are characteristically ill-conceived and in most occasions significantly exploited private gains.

Government involvement in the petroleum industry in Nigeria

The Nigerian government exercises direct and indirect control over the downstream and upstream sectors of the petroleum industry in the country. At the upstream, government, through the NNPC, undertakes the allocation of oil blocks and engages in joint venture operations with multinational oil companies operating in the country. At the downstream, the government, through the NNPC and its subsidiaries, gets involved in the production, pricing and distribution of refined petroleum products across the country. At the downstream, governments operate different kinds of subsidy regimes that allow for cheap and uniform pricing petroleum products across the country. It is indeed on the platform of the latter that the PEF operates.

Government's involvement in the management of the Nigerian oil industry dated back to 1965 when the first refinery was build in Port Harcourt. The decision to establish a domestic refinery then was informed by two major developments. One was the discovery of oil by Shell in 1956. The second was the increasing importation of refined crude in the country, which created the impression that the domestic market had grown sufficiently to permit the efficient operation of a refinery based on Nigerian Petroleum."[22] Although by 1958 Nigeria had become a major oil exporting country, the level of importation of various mineral fuels had risen to as high as 9.427 million lb by 1960. This was the basis of the government decision to build its first refinery, which became fully operational in 1965, in Port Harcourt. This was in partnership with Shell BP. The official expectation then was that the local refinery project would "yield a profit in economic and financial terms over and above taxes and royalties." The subsequent reduction in importation of petroleum products would also represent "a very substantial import savings." Finally, the country would also benefit by exporting petroleum products to neighboring countries.[23]

Once the refinery came into operation in 1965, most of the above goals were met. "This made the country self-sufficient in most of the refined petroleum products". The production surplus in the refinery were exported to the neighboring countries like Niger, Dahomey (Benin), Togo and Chad.[24] Despite the damages to the refinery as a result of the Nigerian civil war (1967–1970) which led to temporary increases in petroleum product imports,[25] full operation was back on track before the end of 1970. In order to tighten its grip of the oil industry, the then military government in Nigeria earlier in 1969 promulgated the Nigerian Petroleum decree No. 51. The Decree was modeled after the 1968 request by OPEC that its members acquire 51% of foreign equity interests and to participate more 'actively in all aspects of oil operations' (Khan, 1994: 22). At that time, Nigeria was yet to join OPEC as a member, although the country was already emerging as a major force in the international oil market and having domestic policies in the oil sector influenced more by external events. Beyond the 51% equity interest recommended by OPEC, the Nigerian Petroleum Decree vested the entire ownership and control of all the petroleum in Nigeria with the State and/or its agencies (Onoh, 1983: 19). In its Second National Development Plan which was published in 1970, government reiterated the need for its increased participation in the Nigeria oil industry.

It was in pursuit of the provisions of the above Decree that the hydrocarbon section of the Ministry of Mines and Power was upgraded to Department of Petroleum Recourses (DPR) in 1970 and the Nigerian National Oil Corporation (NNOC) established in 1971 (NNPC, 1980: 2). The NNOC was set-up as a governmental agency and was empowered to engage in all segments of the oil industry ranging from exploration to marketing. The aim was "to strengthen Government's control,

[17] Daily Trust, 2015.
[18] Chick Report (1953, pp.25–27).
[19] See Uche and Uche (2004, pp.16–18).
[20] Uche and Uche (2004, pp.16–18), pp. 30–31.
[21] See Asiodu (1972, p.14, 1993, p.20)
[22] Federation of Nigeria, 1962, p. 62.
[23] Federation of Nigeria, 1962, p. 62.
[24] Second National Development Plan, p.163.
[25] See Annual Report of the Petroleum Division of the Federal Ministry of Mines and Power, 1968–9, p.8.

through more intimate knowledge of the industry, by effective participation in its operations" (Federal Government of Nigeria, 1972: 2). It was however subject to the same financial obligations of other oil companies. In 1972, the government announced that NNOC would be the sole beneficiary of all future oil concessions. The company was however allowed to make use of other oil companies as contractors or minority partners (Kirk-Greene and Rimmer, 1981: 86). The establishment of the national oil company was primarily anchored on the projection in the Second National Development Plan that by "late 1972, additional refining capacity will be required as the country's demand will have outgrown the maximum production possible from the Port Harcourt refinery."[26]In 1975, the Ministry of Petroleum Resources was created and DPR became part of the new Ministry. NNOC also became a parastatal under the new Ministry. Despite its monopoly privilege, NNOC proved to be ineffective. This was in part because of the constant power tussle between its officers and those of DPR (Osuala, 2013: 53). The widespread belief at the time was that corruption and the pursuit of personal interests fanned the power tussle (Turner, 1978: 181). In 1976, a panel that investigated the activities of NNOC "discovered that highly-placed NNOC officials had instigated preferential discount to selected buyers of Nigerian crude and engineered other trading practices that benefitted selected IOCs [International Oil Companies] and trades" (Osuala, 2013: 54). It therefore described Nigeria's oil as a "wasting asset" (Nwokeji, 2007: 16). Consequently, in an attempt to prevent future power struggle between DPR and NNOC, the government of General Obasanjo in 1977 abolished the Ministry of Petroleum Resources and merged the DPR and NNOC to form Nigerian National Petroleum Corporation (NNPC). The new NNPC therefore became operator, regulator and policy coordinator for the entire oil industry (NNPC, 1980: 2).

The complexity and undue conflict of interests inherent in the functions of the NNPC is considered to be the major source of inefficiency and incessant shortage of petroleum products in the country. When Shehu Shagari became President in October 1979, for instance, one of the first things he did was to set-up a panel of inquiry to investigate the activities of NNPC and its management of Nigerian oil resources. The panel found NNPC to be riddled with corruption and inefficiency (Federal Republic of Nigeria, 1980). Shagari, who sacked the entire board and senior management of NNPC, then sent a bill, aimed at reforming the Corporation, to the National Assembly (NA) (Nwokeji, 2007: 17). In his autobiography, Shagari asserted that "the bill was unduly held up and mutilated by unhelpful amendments that I had to veto and return it to the NA. I never saw it again" (Shagari, 2001: 259).

To curb the problem of incessant shortage, a second refinery was established in the Niger Delta city of Warri in 1979. Moved by the desire to ensure equity in the distribution of petroleum products in the country and to realize the goals of the PEF, a third refinery was established in 1980 in Kaduna, North Central region of the country. The inability of the existing refineries to meet up with the growing demand for refined petroleum products in the country led to the establishment of the fourth refinery in Port Harcourt in 1988.

Arguably the most extensive reform of NNPC till date was undertaken during the reign of General Babangida (1985–1993). Specifically, the administration restructured NNPC into five semi-autonomous sectors: oil and gas, refineries, petrochemicals, Petroleum Inspectorate and Pipelines and Products Marketing Company (PPMC). The Babangida Administration also established the National Petroleum Investment Management Services (NAPIMS) as an NNPC division to manage the nation's investment interest in the oil industry (Nwokeji, 2007: 18–19). Despite these structural changes, inefficiency and corruption continued to reign in NNPC. The subsequent Ernest Shonekan led Interim government which lasted only three months confirmed the existence of widespread fraud and inefficiency in NNPC (Nwokeji, 2007: 20). The status quo did not change during the regime of General Sani Abacha (1993–1998). Evidence from Thurber et al. (2010: 10–11), for instance, shows that throughout Abacha's reign, NNPC remained the major source for funding his corrupt activities.

When in 1999, Obasanjo, who was Head of State when NNPC was formed in 1977, returned as a civilian president he also tried to reform NNPC by appointing himself the Minister of Petroleum and Chairman of NNPC. According to the presidency, "the decision was undertaken in order to sanitize the oil industry that was enveloped in wanton sleaze" (Osuala, 2013: 64). At the time Obasanjo came to power in 1999, there was widespread distortions in the supply and pricing of petroleum products, which was as a consequence of product scarcity, low capacity utilization in government refineries; petroleum products adulteration; pipelines vandalisation; and large scale smuggling of petroleum products.[27] As a consequence of the above, the Obasanjo administration in August 2000, set up a Special Committee on the Review of Petroleum Products Supply and Distribution (SCRPPSD) to look into the problems of the downstream petroleum sector.

In October 2000, the Committee submitted its report. In summary, the report documented a failed pricing and distribution system for petroleum products. As a solution to the above problems the report favored strongly the liberalization of both the pricing and marketing of petroleum products, including the deregulation and liberalization of the "import of petroleum products by other parties and that prices of products should be based on import parity to enhance and encourage the participation of other players other than the NNPC".[28] Other relevant recommendations of the Panel include: the expansion of loading capability of all marine-fed depots; the establishment of a pipeline management authority; and, the setting-up of a Petroleum Products Pricing Regulatory Agency with sufficient autonomy to superintend the liberalization of the downstream sector of the petroleum industry.[29]

It was on the basis of the above recommendations that the government set-up the Petroleum Product Pricing Regulatory Agency (PPPRA) in 2003. The Act that established the body charged it with the function of determining the pricing policy of petroleum products and regulating the supply and distribution of petroleum products in Nigeria, among others.[30] Despite the above changes, there was little transparency in the management of oil resources during the Obasanjo administration (Thurber et al., 2010: 20).

Several other reform attempts at the oil sector by successive governments in the country also came to nothing.[31] Two major investigation panels, commissioned by the Presidency and the National Assembly during his current tenure have both exposed widespread fraud and corruption in NNPC and its management of the Nigerian oil resources.[32]

The inability of Nigeria's refineries to work is entwined with the widespread fraud in the importation of petroleum products and the administration of petroleum subsidies in Nigeria. The former president, General Obasanjo, laid credence to this claim when during his 1999 presidential election campaign he acknowledged that the refineries in the country were mismanaged in order to serve 'the purpose of those who want to import refined products so that they can make profits, profits at the expense of your own citizens'.[33] For instance, the subsidy

[26] See Second National Development Plan, p.163.

[27] For comparative prices of petroleum products in Nigeria and other West African countries that made such "large scale smuggling of petroleum products" possible, please see Table 1.

[28] PPPRA, undated. The import parity price is by the "the price at the border of a good that is imported, which includes international transport costs and tariffs" (UN World Food Program, undated).

[29] See also PPPRA (undated).

[30] Section 8.

[31] See Federal Government of Nigeria (2008).

[32] See House Report (2012) and Ribadu Report (2012).

[33] BBC Monitoring Africa: Presidential candidate Obasanjo's live TV interview, 26 February 1999.

payments claimed by NNPC on petrol which was N 219.7 billion (about US$1.5 billion at an average exchange rate of US$1 = N150) in 2006, rose to N360.1 billion in 2008 and N 785.9 billion in 2010. The opportunity cost of spending such huge amounts on petroleum subsidy is better viewed from the perspective that in 2011, the amount expended on PMS petroleum subsidy was equivalent to 68.9% of Nigeria's federally collectible non-oil revenue.[34] It has also been noted that fuel subsidy "contributes strongly to the deterioration of Nigeria's government balance which has changed from a surplus equal to 7.3% of GDP in 2008 to a deficit of 8.2% and 6.5% in 2009 and 2010 respectively" (Siddiq et al., 2014: 166). A House of Representatives' report that shows that during the period up to October 2011, the fuel import market 'became a free for all manner of companies engaged in every conceivable business' and not necessarily 'oil marketing/trading company', and resulted to a situation where some companies without permit is a given quarters imported products and were paid subsidy in violation of the [prevailing] guidelines.[35] A 2012 Senate Committee report similarly revealed that the subsidy distortions in the market cost N3.655 trillion between 2006 and September 2011, and indicted oil marketers as 'a cabal, fleecing the nation of vital funds to develop its decaying infrastructure'.[36]

Amidst the circumstances, the PPPRA, which was established as part of the process of deregulating the downstream sector of the Nigerian petroleum industry has since lost its credibility and is accused of inflating petroleum product prices.[37] The consequence of the above is that Nigeria has found itself in the unenviable position of being both a major crude oil exporter and a major petroleum product importer (Schiere, 2012:3). The above distortions in the management of the downstream petroleum sector, as will be seen in the next section, constitute a difficult terrain for the operations of PEF. It is for instance not surprising that PEF, which can rightly be described as an organ for subsidizing petroleum products in Nigeria, has over the years been inflicted with widespread mismanagement.

PEF and the equalization of petroleum product prices in Nigeria

The Petroleum Equalization Fund is a fund set-up by the Nigerian government in 1975 "for the reimbursement of petroleum marketing companies for any losses suffered by them arising from the sale of petroleum products at uniform prices throughout Nigeria".[38] The PEF is managed by a board known as the Petroleum Equalization Fund Management Board. The Fund is financed from both the budgetary allocation by the federal government and the net surplus revenue recovered from oil marketing companies. The net surplus revenue is "calculated by reference to the volume of the affected products sold on zonal basis and to the amount by which the uniform prices at which the products were sold exceeded, or were less than, the prices of those products prevailing immediately before the fixing of the uniform prices of the products".[39]

The PET Board uses two major strategies to ensure that the prices of petroleum products across the country are equalized. First is by undertaking the responsibility of reimbursing registered marketers their "transportation differentials for petroleum product movement from depots to their sales outlets (filling station), in order to ensure that products are sold at uniform pump price throughout the country".[40] The second strategy involves administering "bridging payment scheme to complement the Nigeria National Petroleum Companies pipeline distribution network of petroleum products to all the depot areas nation-wide, during breakdown/maintenance of local refineries and or pipeline breaks/vandalisation".

A misconception in the history of PEF in Nigeria is the belief that it was set-up as a consequence of the fuel shortages that Nigeria experienced in 1974 and 1975. This view has been propagated by PEF itself.[41] The reality however is that the idea of equalizing petroleum prices in Nigeria became feasible in 1967. This was when the government vested such powers to determine the prices of petroleum products in the Minister of Mines and Power.[42] This was restated in section 5(1) of the 1969 Petroleum Industry Decree. By the exercise of this power, government "ensured that unjustified increases in prices of petroleum products were not made."[43] Prior to this time, the powers to fix the prices of petroleum products was left to the discretion of oil marketing companies.

To maintain uniform prices across the country, the Government established the Petroleum Products Pricing Regulatory Agency (PPPRA), 2003, with the mandate of determining *pricing* policy of *petroleum* products and regulating their supply and distribution. Each petroleum product sells at uniform rate determined by the PPPRA, regardless of the distances from the petrol refineries and deposits. To determine the uniform prices, the PPPRA takes into consideration cost elements covering landing costs, transportation, retailers' margin and bridging fund. Of these cost elements, government undertakes to pay as subsidies to oil marketers the costs of transportation, bridging fund and other charges. For imported petroleum products, government also bears the costs arising from the wide disparity between the landed costs of these products vis-a-vis costs of locally manufactured petroleum products "necessitated the payment of subsidy to the oil marketers by the federal government to compensate them and avert financial losses on imports.".[44]

The Second National Development Plan made it explicit that government will "review the vexed question of country-wide uniform prices for petroleum products, bearing in mind that the differential in transport costs is an important element in the price structure and a vital factor in the availability of petroleum products to all parts of the country."[45] Gowon subsequently on October 1, 1973 announced that with effect from October 15, 1973, all petroleum products in the country were to sell at uniform prices. Prior to this announcement, prices of petroleum products varied across the country. A gallon of premium super petrol, for instance, sold at 44 kobo (Lagos), 48 kobo (Ibadan), 52 kobo (Kaduna), 58 1/2 kobo (Jos) and 70 kobo (Maiduguri).[46] Against expectation, the Nigerian government chose the lowest prices, which were obtained in Lagos, as the national price of the refined oil products. The choice of the lowest price revealed constituted a revelation of the original intention of government to use the PEF as an implicit strategy for subsidizing the prices of petrol in the country.

It was however not until February 17, 1975 that the government gave legal backing to its 1973 pronouncement by promulgating the Petroleum Equalization Fund (Management board etc.) Decree. The Decree however took retrospective effect from the October 15, 1973 date earlier announced.[47] The main objective of the decree was to establish the Petroleum Equalization Fund which is to be applied for the reimbursement of petroleum marketing companies, which are privately owned, for any losses suffered by them arising from the sale of petroleum products at uniform prices throughout Nigeria and a Management Board to manage the affairs of the Fund.

[34] See also (NEITI, 2012, p.70).
[35] House of Representatives Subsidy Report, 2012; p. 75 & 77.
[36] Africa Confidential, 20 January 2012 — Vol 53 — N° 2: How the petrol row caught fire, p. 1.
[37] Oxford Business Group (2012). For a critique of the petroleum pricing template in Nigeria, see Ozo-Eson (undated).
[38] Petroleum Equalization Fund (Management Board, etc.) Decree of 1975, paragraph 1 of the preliminary section.
[39] See Section 1 of the Decree.
[40] Gurin and Ribadu (2011).
[41] See PEF (M)B (2013), p.1.
[42] Second National Development Plan, 1970, p.163.
[43] Second National Development Plan, 1970, p.163.
[44] PEF Financial Statements, 1982, p.5.
[45] See Second National Development Plan, 1970, p.163.
[46] Onah, 1976 p.216.
[47] See Section 14 of the Decree.

By equalizing the prices of petroleum products at the Lagos price, PEF simply became an instrument used by the government to subsidize the prices paid by people living outside Lagos for petroleum products, especially for residents of far away northern states of Kano, Maiduguri, Sokoto and the likes. In the light of this underlying political orientation, the expansion of subsidy on petroleum products through PEF simply created huge incentives for policy abuse. In effect, the PEF created incentives for a shift in the basis for the allocation of petroleum products to states from the existence of real economic demand to imaginary political and ethnic considerations.

From the very beginning, the capacity of the PEF to function is further worsened by the persistent underperformance of the domestic refineries, incidences of vandalization characterizing the pipeline channel of petroleum product distribution and mono-dependency nature of the Nigerian transport system on road networks. There were allegations, for instance, that independent marketers were abusing the system by re-exporting products.[48] It was in the bid to prevent the oil marketing companies from re-exporting such imported products on which subsidies had been paid that the federal government ordered that such companies to pay the difference between the import parity and the local price of the product into the PEF whenever any liter of any petroleum product is exported.[49]

The decision to subsidize the prices of petroleum products in Nigeria through price equalization also led to huge increases in the local demand for such petroleum products.[50] The policy created an arbitrage opportunity whereby the distribution of petroleum products became highly uncorrelated with neither the level of economic activities not the capacity of the states. An illustration based on Fig. 3 below proves the existence of some level of inconsistency in the distribution of the products. In practice as revealed in the graph, it is only in Lagos, Rivers, Enugu and Delta states that the product allocation is made according to the level of economic activities. This is understandable because these states play host to strategic NNPC depots in the country. In most of the other states, the levels of allocation reasonably surpassed the level of economic activities — implying that petroleum product allocations are either diverted or not utilized in those states.

The fact that allocation of petroleum resources is made without recourse to actual demand for such products in the affected states can be linked to the arbitrage opportunity created by the usually wide gap between the official and the unofficial prices of petroleum products (see Fig. 4 below). Because of the logistic ease and incentives provided by the PEF and the absence of strict legal enforcement on the parts of the PPMC, PPPRA and the PEF Board, marketers buy products at official rates and divert the same to areas where they are likely to make higher profit margin. Due to the prevalence of corruption and inefficiency in the system, also, government's inability to enforce compliance generally heightens the incidences of petroleum product diversion and smuggle to neighboring countries. The foregoing argument is also implicated in Table 1 below where it is shown that 7 out of the 10 top states with the highest price differentials are in the northern region of the country — far away from refineries and depots. Similarly, 7 out of the 10 states with the least price differentials are in Lagos and its neighboring states.

Although it was public knowledge that subsidies normally increase domestic consumption and the illegal export of subsidized products (Khan, 1994: 127), the Nigerian government decided to equalize the prices of petroleum products in the country without fully thinking through what the possible consequences of such a policy would be on the use of such products, the existing distribution networks and the potentials for its smuggling.

In 1974, Gowon acknowledged "occasional shortages "of petroleum products in some parts of the country and made public the plan of government to expand the capacity of the Port Harcourt refinery; complete and commission the Warri refinery; build a new refinery in Kaduna; improve the distribution channels of petroleum products across the country; and, explore the possibility of constructing export oriented refineries.[51] Despite all these, the scarcity only worsened. Government subsequently established price control boards, military taskforces and adopted rationing.[52] All these had little positive impact in abating the shortage of petroleum products across the country. This forced the government to, in October 1975, set-up a Panel of Inquiry headed by Mr. Justice Oputa to: among other things, investigate the causes of the shortage in the supply of petroleum products to the public in some parts of the country; to investigate whether the shortage was precipitated by acts of inefficiency, negligence of duty, sabotage or other deliberate acts and if so to determine the responsible persons and/or institutions.[53] The Committee traced the shortage to logical challenges arising from the geographical diversity in the country and went on to recommend, among other things that storage depots be provided across the country and a pipeline system be put in place to enhance efficient distribution of petroleum products across the country (Akpogbomeh and Badejo, 2006: 29).

Arguably because PEF in practice was simply used by the government to further extend its subsidy on petroleum products a wide variance emerged between the theory and practice of the equalization scheme in Nigeria. Theoretically, the workings of a normal equalization scheme have been explained thus:

> Under this new pricing system, the country was divided into 26 marketing zones with price differentials established for each zone. The differentials in each zone for each product were obtained by deducting their uniform prices from the weighted average of their open market prices in a zone pre-uniform price. Where the difference is positive, the zone is deemed to be a claim zone and a marketer is compensated by the Fund, and when negative, a contribution zone, whence a marketer pays into the Fund for selling products in a designated zone. For all the marketers, the sum of their claims and contributions in the 26 zones was supposed to "zerorise" in theory since the new pricing system was not intended to result in any additional financial gains to the oil marketing companies.[54]

In practice, however, from the very beginning, the PEF was unable to "zerorise". The reason for this is mainly structural. PEF is an equalization fund only to the extent that government is willing to subsidize the fund. Based on the above, it was therefore not surprising that the subsidies provided by the national oil company in its bid to ensure efficient marketing of petroleum products sometimes conflict with the activities of PEF.

With the widespread distortions in the Nigerian petroleum products market caused by the equalization of prices across the country from the very beginning of PEF, NNOC came under pressure to help ameliorate the problem. Because of the grossly inadequate distribution systems, NNOC moved to put in place some administrative measures that were aimed at improving the supply of petroleum products across the country. Specifically, it put in place a scheme known as a Transportation Differential Zone (TDZ) with the sole objective of equalizing the prices of petroleum products within the marketing zones, as opposed to the equalization of prices between the marketing zones which was already being operationalized by PEF.[55] This essentially encouraged marketers

[48] A consequence of the introduction of PEF was that the prices of petroleum products became cheaper in Nigeria in comparison with other West African countries. This difference, which has essentially remained till date, creates arbitrage opportunities that encourage cross border smuggling. This price disparity remains till date. See Table 1 for comparative petroleum product prices in West Africa.

[49] PEF Financial Statements, 1982, p.5.

[50] See, for instance, Diejomaoh and Atobatele (1976, p.140).

[51] See Gowon's 1974 Budget Speech, reproduced in Nigerian Observer, April 1, 1974.

[52] See for instance, Nigerian Observer, February7, 1975, p.4; February 5, 1975, p.2 and; Sunday Observer, February 2, 1975, p.1.

[53] See Federal Republic of Nigeria (1975).

[54] PEF (M) B Annual Financial Statements, 1982, p.4.

[55] 1982 PEF Annual Financial Statements, p.6.

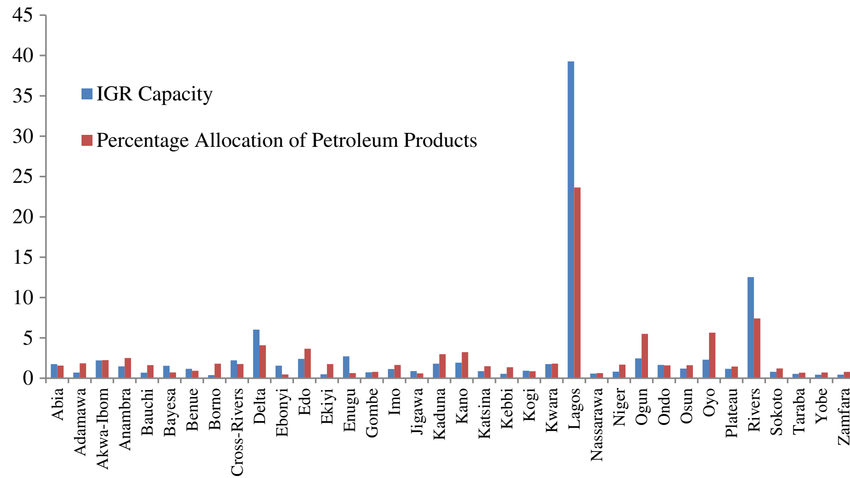

Fig. 3. Relationship Between Petroleum Products Allocations to and Internal Revenue Capacity of States.
Sources: National Bureau of Statistics (Nigeria) Dataset.

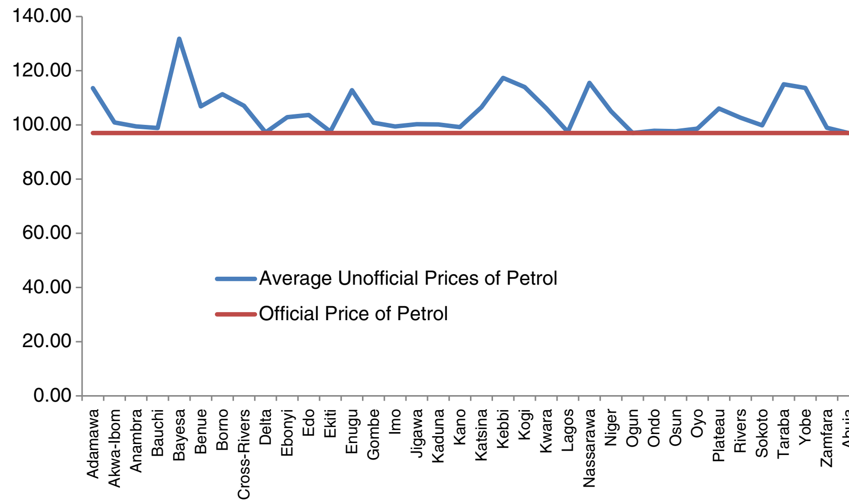

Fig. 4. Difference between Official and Unofficial Prices of Petrol across States.
Sources: National Bureau of Statistics (Nigeria) Petrol Price Watch, 2014.

to focus more on collecting equalization subsidies within zones. Onceintra zone prices were equalized through subsidies rather than by finding the weighted average of the prices, the window for PEF to receive income from marketers for interzone equalization became greatly limited.[56] PEF protested the introduction of the TDZ arguing that this represented an inherent subsidy and that "NNPC need not foist this burden on itself since the Equalization Fund was set up by the federal government specifically for such purposes and objectives."[57]

The above assertion however did not paint the entire picture. The intervention by the NNPC was in the main a means of facilitating increased supply of petroleum products which was necessitated by increasing demands, failure of pipelines and inadequate production by existing refineries. Such protests however yielded results for PEF as government subsequently transferred the TDZ bridging function from NNPC to PEF in 1988.[58]

From the above, it is clear that one of the main concerns of PEF was that the NNPC was duplicating the channels through which government was funding its subsidy on petroleum products. From the very inception of PEF, as already mentioned, the idea that the sum of the claims and contributions in the 26 zones was supposed to "zerorise" never happened. PEF has remained viable mainly because of generous government subsidies. Initially, this came in form of special levies and levies on export of petroleum products paid by the major oil companies.[59] Subsidies however inherently create incentives for system abuse by all stakeholders with the sole objective of reaping the arbitrage price differentials between market and subsidized prices of the concerned products. This explains why the prices of petroleum products across the country till date has not been effectively equalized. For instance, a 2014 poll by NOI Limited showed that only 44% of Nigerian were able to buy petrol at the recommended official price. A higher percentage of Nigerians living in the South South and South West geopolitical zones (49%), perhaps because of the proximity of the zones to seaports, were however able to buy the product at the official rate.

[56] Federal Republic of Nigeria (1975), p.7.
[57] Federal Republic of Nigeria (1975) p.6.
[58] See PEF(M)B (2011, p.36).

[59] "The special levies began only as a surcharge on Premium Motor Spirit and on Liquefied Petroleum Gas until first April 1974 when other products namely Regular Motor Spirit, dual purpose kerosene and Automotive Gas oil were brought in. With the introduction of import subsidies, it was felt that oil marketers should pay equivalent sums on products exported in order to avoid the situation whereby the country found herself subsidizing exports to neighboring countries." See PEF accounts for the quarter ended June 30, 1977, p.2.

Table 1
Degrees of petroleum product price differentials.
Sources: National Bureau of Statistics (Nigeria) Petrol Price Watch, 2014.

State	Unofficial price	Official price	34.81
Top ten states with the highest price differential			
Bayesa	131.81	97.00	34.81
Kebbi	117.35	97.00	20.35
Nassarawa	115.51	97.00	18.51
Taraba	114.98	97.00	17.98
Kogi	113.96	97.00	16.96
Yobe	113.65	97.00	16.65
Adamawa	113.57	97.00	16.57
Enugu	112.82	97.00	15.82
Borno	111.32	97.00	14.32
Cross-rivers	107.05	97.00	10.05
Top ten states with the least price differential			
Zamfara	98.95	97.00	1.95
Bauchi	98.85	97.00	1.85
Oyo	98.61	97.00	1.61
Ondo	97.84	97.00	0.84
Osun	97.65	97.00	0.65
Ekiti	97.55	97.00	0.55
Lagos	97.43	97.00	0.43
Delta	97.21	97.00	0.21
Ogun	97.03	97.00	0.03
Abuja	97.00	97.00	0.00

Another boost to the operations of PEF came from the construction of extensive network of pipelines and depots as recommended by the Oputa Commission. Once these pipelines were completed in 1978, the concept of bridging was extensively reduced (NNPC, 1980: 8). Bridging in this context implies the use of road tankers in place of pipelines for the distribution of petroleum products across cities and regions in the country. This happens during breakdown or maintenance of local refineries, as well as in the event of pipeline breaks/vandalisation. Payments made by the NNPC in the course of subsidizing this freight cost is regarded as bridging claim. The finances of PEF was further boosted in March, 1988 with the reorganization of NNPC. A consequence of this reorganization was the creation of a subsidiary called the Pipelines and Product Marketing Company (PPMC).

In November 1990, PPMC took over the bridging claims administration and settlements. The consequence of this was a material improvement in the finances of PEF. According to PEF's 1991 annual accounts, the "improvement in excess claims can be attributed to the take-over of Bridging claims administration and settlements by Pipeline and Products Marketing Company limited (PPMC) in November 1990".[60] From a financial standpoint, PEF remained on solid ground until 1999 when the vandalizing of pipelines became a major issue in the country (Onuoha, 2007: 106). This created difficulties for the PPMC. The debilitating impact of the sudden eruption in pipeline vitalization on PEF finances and activities have been aptly documented by PEF auditors thus:

> With the increased level of bridging activities due to the shutdown of the refineries and pipeline vadalisation, the rate of bridging as a percentage of total distribution of petroleum products increased from 8 to 15% early in the year to over 70% by the end of the year. It is very clear that PEF does not have the resources to fund the bridging activities in full if the current bridging allowance of 50 Kobo per litre of petroleum product is maintained. As such we were informed that the responsibility for the settlement of the bridging claims of major petroleum marketers [which surpassed N1 Billion] was passed to … NNPC.[61]

From the above, it is again clear that PEF has consistently, directly or indirectly, depended on government subsidies to survive. In fact, it is such subsidies that have been responsible for the robust finances of the establishment for most of its lifespan. In the first ten years of its existence (1975–1984), equalization claims from petroleum marketers always exceeded their contributions. PEF however offset the difference from the special levies and levies on exports. As has been mentioned above, the financial position of PEF improved materially from 1992 when PPMC took over the bridging claims administration and settlements from PEF.

In 2006, the activities of PEF expanded more than tenfold with the creation of the Petroleum Support Fund, dedicated to financing petroleum product subsidies in the country, by the Nigerian government.[62] This is because part of this very substantial subsidy fund is channeled through PEF. Aside from the above, the government also directly funds the activities of PEF. Since 2006, for instance, the body has been receiving direct statutory allocations from government.[63] In 2011, PEF also received a Special Intervention Fund of N9 billion from government.[64]

From the above, it is clear that PEF has increasingly become a conduit for channeling government subsidies on petroleum products in Nigeria and the body itself is also extensively dependent on government subsidies. Challenges such as pipeline vandalisation, non-functionality of the refineries and increasing reliance on imported petroleum products for domestic use have joined to weaken the capacity of the PET Board to perform its statutory duties of administering reimbursements and bridging payments based on the principle of price equalization. Consequently also, persistent petrol shortages and crises in the country have resulted to the inability of the PET to guarantee uniform prices of petroleum products across the country (Akpogbomeh and Badejo, 2006: 29–30).

Administratively, the inefficiency that is prevalent in NNPC also exists in PEF. The poor state of PEF's management and accounting records have been regularly highlighted over the years.[65] Even the current Executive Secretary of PEF has admitted that the Fund was poorly managed and failed to achieve its objectives all through the 1990s. During the time, PEF was owing petroleum product marketers "huge sums of money". This was "due partly to lack of funds, as well as inadequate number of staff to process the backlog". She however argued that things have changed with the introduction of Project Aquila, which is an information technology driven claims management solution.[66] It is further claimed that Project Aquila has drastically improved the performance of the Fund in achieving its objective of price equalization. It has also increased the ability of PEF to combat fraud. Within one year of its introduction, for instance, PEF "was able to detect and stop the payment of more than N400 million worth of fictitious claims" (Kasali, 2011: 2).

Such claims are however yet to be validated by third parties. It is for instance public knowledge that in most parts of the country, petroleum products are not sold at the officially stipulated prices.[67] A 2012 House of Representatives Report on petroleum subsidies in Nigeria was very critical of PEF asserting that the fund is inefficiently run and failed in its vital role of "providing PPPRA with vital data on product distribution and bridging." The report went on to state that although its operations were extensively funded from the PSF, it failed in most of the responsibilities assigned to it. Furthermore, "in the face of damning evidence of malpractice and corruption in the products distribution and bridging regime, the PEF (MB) made not a single report of a defaulting operator to the PPPRA/DPR".[68] It was based on the above failings that it

[60] See PEF 1991 Financial Statements, p.2.
[61] 1999 PEF Financial Statements, pp.6–7

[62] Center for Public Policy Alternatives and the International Institute for Sustainable Development 's Global Subsidies Initiative (2012, p.16).
[63] See various PEF (MB) Annual Financial Statements (2006–2012).
[64] See PEF (MB) Annual Financial Statements for the year ended December 31, 2011, p.7.
[65] See PEF (MB) Annual Financial Statements (1993, pp.3–4; 1997, pp.2–3; 2003, p.11).
[66] For detailed analysis of the workings of Project Aquila, see Kasali, 2010.
[67] See Ozo-Eson (undated, pp.20–1) and Ezeigbo (2013, p.8).
[68] House Report, 2012, p.111.

recommended that the present management of PEF be "overhauled and the Board when reconstituted should comprise of persons of impeccable integrity.".[69]

Conclusion

The discovery of oil in the Eastern Region of Nigeria culminated in a change of focus in fiscal relations among the regions from revenue generation to revenue sharing. From its very inception, therefore, PEF represented no more than an avenue for the government to further subsidize the prices of petroleum products in Nigeria. This proved to be the case when at inception government adopted the lowest price of petrol in the country as the basis for the implementation of the PEF. Despite its mandate, PEF has routinely failed in its main objective of equalizing the prices of petroleum products across the country. This is at least in part because subsidies on petroleum products distort the market for such products and create arbitrage opportunities for system operatives to exploit. This has been especially so in Nigeria where corruption is widespread. Given the fact that this subsidy scheme is being supervised by an inefficient, corrupt and discredited national oil company (NNPC), it is not surprising that PEF, which is also government owned and controlled, has inherited some of the above characteristics inherent in NNPC. The consequence of this is that PEF has simply become one of the inefficient channels of subsidizing the price of petroleum products in Nigeria. This paper therefore recommends that the starting point in the efforts by the Nigerian government to undertake petrol subsidy reform in the country should be to abolish the PEF. Interestingly, the current low international price of crude oil provides an excellent opportunity for the Nigerian Government to begin to effectively address the petroleum product subsidy issue without generating the usual social, political and economic upheaval that normally accompany increases in the price of petroleum products in the country. Unfortunately, rather than use the opportunity to formally end its corruption prone subsidy scheme, the Government chose to reduce the pump price of petrol from N97.00 to N87.00. According to the Government, at the new price, it is still subsidizing each liter of petrol by N2.50.[70] This means that the market price of a liter of petrol in Nigeria is now N89.50. Although abolishing PEF will lead to discriminatory pricing of petroleum products across the country, the price difference between the old official price (N97.00) and the new market price (N89.50) provides a buffer that can help ensure that petrol will be sold in most parts of the country at below N97.00. The fact that even under the new uniform price of N87.00, petrol prices in Nigeria that have still not been equalized further strengthen the case for the abolition of PEF.

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[69] House Report, 2012, p.111.

[70] See Daily Independent, 2015.

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