# NIGERIA'S REFINERIES – The Case for Privatization

Nigeria, Africa's leading crude oil exporter and a regional leader in installed crude oil refining capacity, sadly, remains the continent's largest per capita importer of refined petroleum products.

The country's four crude oil refineries, with a combined refining capacity of over 445,000 barrels of oil per day, according to the US Energy Information Administration (EIA), should easily be able to meet the current domestic demand in refined products. EIA estimates this is about 270,000 barrels of oil per day. However, in spite of promises by successive governments to improve the performance of the refineries and commit significant resources to their rehabilitation, the four refineries continue to operate at an average of 22.9% of installed refining capacity in 2012 (NNPC Annual Statistical Bulletin).

The simple fact is that Nigeria has to import nearly 80% of its requirement of refined petroleum products. In 2011 and 2012, Nigeria spent between 12 and 15 billion dollars annually to meet the deficit – something that, frankly, deserves sober reflection. It is also instructive that the cost effectiveness of the crude for oil SWAP deals has raised more questions in recent times. The process, designed to mitigate the depletion of Nigeria's Foreign exchange reserves, diverts potential foreign exchange reserves that can potentially be used to bolster local infrastructure.

The failure of these government-owned and operated refineries costs Nigerian citizens colossal sums of money in foreign exchange and government revenue, to the detriment of education, healthcare and other badly needed public services. N122 billion was essentially wasted in 2011 on maintaining refineries that never produce to their installed capacity. Refinery output fell between 2011 and 2012 from 24% to 22% (NNPC Annual Statistical Bulletin). Were these funds invested in the healthcare sector, for instance, they could have more than doubled the federal allocation to all 15 teaching hospitals and enhanced indelible services and training to millions around the country. Furthermore, poor refinery operation and maintenance, and fuel importation allegedly engendered massive corruption and fraud, which in turn, are adversely impacting the country's image.

There are fears, fuelled by the politicised nature of the dialogue, that the privatisation of the refineries will lead to the consolidation of wealth in a small subset of the country. Further aggravating an already apparent income gap in the population.

The nature of competition is such that private entities are bound by responsibilities to maximise shareholder value. The need to develop core competencies and achieve efficiency savings is the driving force behind the ethos of private sector institutions. A privatised refinery does not draw maintenance funds from a seemingly bottomless pit of funds sourced outside its operation. By its very nature, a privatised refinery must justify such expenditure in line with its operating profits.

With the world's current overcapacity for refining petroleum, local refineries face strong competition in an increasingly open market. A private sector run refinery can operate uninhibited by the lethargic and inefficient nature of public sector institutions both in cost, efficiency and transparency. The facts are that transparent and robust privatisation of these refineries will raise government revenue, conserve foreign exchange, decrease vulnerability to imported petroleum products, reduce fuel cost, increase employment and reduce corruption in the petroleum sector.

In recent weeks, a storm has been raised over the proposed privatisation of these four ailing refineries. At the epicentre are the National Union of Petroleum and Natural Gas Workers (NUPENG) and the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN), the two representative bodies of petroleum workers in Nigeria, who have been very vocal in their rejection of a refinery privatisation programme. PENGASSAN claims that the government deliberately underfunded the refineries as a ploy to rob Nigerians of prime national assets through cheap privatisation to its cronies, and that the unions, through their resistance, only seek to protect job losses in the refineries – an assertion that is not corroborated by empirical evidence. Nonetheless, the Federal Government of Nigeria and the Bureau for Public Enterprise (BPE), the institution appointed to manage government asset privatisation, seem to have retracted their earlier announcement on the proposed sale of the refineries.

If this sounds familiar, it is because we have been down this road before: recall Nigeria Airways, NITEL and, more recently, PHCN, which, contrarily, provides an example of firm government action that resulted in a *positive* outcome for all – not least industry workers.

In each of these cases, the unions and other stakeholders opposed privatisation and successfully deferred or, in some cases, scuttled the planned sale. Down the line, however, workers' interests were imperilled, not protected. Nigerian Airways was eventually liquidated, leaving no jobs for the workers. We are all familiar with the situation at NITEL/M-tel – both are effectively non-functional. PHCN, on the other hand, boasts a different story, as the Jonathan administration's political will saved a situation that could easily have gone the way of NITEL and Nigeria Airways. This government was able to privatise PHCN in a manner that was globally acclaimed as transparent, even by unsuccessful bidders! When US President Barack Obama last year launched US$7 billion Power Africa initiative to double capacity and increase access to electricity in Africa, Nigeria was chosen as one of the eight pilot countries. A key consideration for Nigeria's selection was the transparent power privatisation that had just been concluded.

The overwhelming evidence indicates that the private sector has served the Nigerian public and stakeholders better than government-owned and operated utilities and parastatals.

Let us examine two recent examples: power and telecommunications sectors before we return to the refineries.

The federal government sold power-generating companies to the private sector last year. In the case of Transcorp Ughelli Power Limited (TUPL), a subsidiary of the commercial conglomerate, Transnational Corporation of Nigeria, the company has doubled the Ughelli power plant's electricity output from 164 MW at the handover on November 1 to 360 MW as of January 31 – just three months! TUPL has also announced ambitious plans to raise the original capacity to 700 MW by December 2014, and will soon commence construction of an additional 1000 MW. Furthermore, a majority of competent PHCN staff were retained, while the federal government paid massive disengagement benefits and pensions to former PHCN employees from proceeds of the sale. The impact of the increased power generation will likely reach Nigerian homes and offices later this year, as the bottlenecks in transmission and distribution are identified and eliminated. In effect, the general public and stakeholders' interests have been well served.

In the telecommunications sector, the government liberalised the industry in 2001 by selling GSM licences, but retained ownership of the key operator, NITEL/M-tel. While the rest of the industry grew exponentially, NITEL faltered, with the result that it was ultimately sold in 2006. Unfortunately, the sale was subsequently reversed by the successor administration; today NITEL and M-tel are comatose and of negligible value, and contrary to the union's expectations, workers were left empty-handed. The contrast with the PHCN story could not be more glaring.

In each of the above examples, continued operation by the public sector led to billions of naira being lost on poorly managed entities. These entities deprived Nigerians of important services, fostered corruption and deprived important budget items, like education and health, of vital funds; in each case, privatisation or liberalisation – allowing competition from private business – solved the problem, and ensured the greater common good.

Coming back to the refineries, we have also been down the road of reversing privatisation and retaining public ownership of these assets. In 2007, attempts by the previous administration to facilitate the sale of the refineries were reversed due to pressure by the unions and management renewed its commitment to revamp the refineries. Yet, in 2011 alone, Nigeria reportedly spent $760 million on refinery maintenance, and the operational capacity of the refineries hardly changed. In the five years since the reversal, we have spent over US$30 billion in oil subsidies. These sums spent on Turn Around Maintenance (TAM) could have collectively funded our health and education budget for three years! This cannot continue.

Under the Greenfield Refinery initiative, the Nigerian National Petroleum Corporation (NNPC) planned to undertake a public-private partnership project to expand local refining capacity, eventually settling on establishing a 350 000 BPD refinery in Lagos. This along with calls for liberalising the sector by awarding licences for only new refineries, saying it worked for the telecommunications industry and GSM licensees, make up a myriad of policy suggestions on solutions to the refinery problem. The fact is that these are not mutually exclusive policies, as excess capacity can be exported. It is instructive to note that, although several refinery licences have been awarded in the past, not a single refinery has been successfully refurbished. As liberalisation has so far failed to work in the refining sub-sector as a viable policy option, selling the refineries is a faster and more efficacious means of building refining capacity. Moreover, even when new refineries eventually come on board, it will not negate the need to sell the existing ones – just as the GSM licences did not negate the need to sell NITEL.

While Nigeria continues to squander a fortune on importing petroleum products, attempts by governments to offload the existing refineries to competent private investors remain hampered by misguided policies, corruption and the lack of political will to confront entrenched, short term interests, such as the unions, whose fears are proven to be largely unwarranted. Savings from the reduced cost of import in the form of tariffs and demurrage on landed vessels can ease the need for budgetary allocations to oil subsidy funds.

It is in the public interest to sell the refineries and we have a golden opportunity to do so now, which will raise much needed revenue, conserve foreign exchange, reduce corruption and augment national security by reducing our vulnerability to imported oil products. It will be for our mutual and collective benefit

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