



HOUSE OF REPRESENTATIVES

REPORT

OF THE

AD-HOC COMMITTEE

***' TO VERIFY AND DETERMINE THE ACTUAL SUBSIDY
REQUIREMENTS AND MONITOR THE IMPLEMENTATION OF THE
SUBSIDY REGIME IN NIGERIA'***

RESOLUTION NO. (HR.1/2012)

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CHAPTER ONE

EXECUTIVE SUMMARY

Following the removal of subsidy on PMS on the 1st day of January, 2012 by the Federal Government of Nigeria and the attendant spontaneous social and political upheavals that greeted the policy, the House of Representatives in an Emergency Session on the 8th of January, 2012 set up an Ad-hoc Committee to verify and determine the actual subsidy requirements and monitor the implementation of the subsidy regime in Nigeria.

The Federal Government had informed the nation of its inability to continue to pump endless amount of money into the seemingly bottomless pit that was referred to as petroleum products subsidy. It explained that the annual subsidy payment was huge, endless and unsustainable. Nigerians were led to believe that the colossal payments made were solely on PMS and HHK actually consumed by Nigerians. Government ascribed the quoted figures to upsurge in international crude price, high exchange rate, smuggling, increase in population and vehicles etc. However, a large section of the population faulted the premise of the Government subsidy figures, maintaining that unbridled corruption and an inefficient and wasteful process accounted for a large part of the payments. To avert a clear and present danger of descent into lawlessness, the leadership of the

House of Representatives took the bold and decisive action of convening the first ever Emergency Session on a *Sunday (8th January, 2012)*, and set up the Ad-hoc Committee to verify the actual subsidy requirements of the country.

The Committee decided that the scope of this investigation should be for three years 2009 -2011 for the following reasons:

- The actual budget expenditure on subsidy for both PMS and HHK was tolerable, being N261.1b in 2006, N278.8b in 2007 and N346.7b in 2008. 5 companies including NNPC were involved in 2006, 10 in 2007 and 19 in 2008 contrasted to 140 in 2011.
- Secondly, in line with accounting practice, the Committee decided to investigate three years activities of the scheme.
- The Committee could have chosen to limit the investigation to 2011 alone given the scale of escalation of subsidy in that year alone but decided to take three years to establish a trend.

The Ad-Hoc Committee held Public Hearings from 16th of January, 2012 to 9th of February, 2012, taking sworn testimonies from 130 witnesses, receiving information from several volunteers, and receiving in evidence over 3,000 volumes of documents.

In the course of the investigations the Ad-Hoc Committee was able to establish the following:

1. Contrary to statutory requirements and other guidelines under the Petroleum Support Fund (PSF) Scheme mandating agencies in the industry to keep reliable information data base, there seemed to be a deliberate understanding among the agencies not to do so. This lack of record keeping contributed in no small measure to the decadence and rots the Committee found in the administration of the PSF. This is evident also in the budget preparatory process by MDAs where adequate data is not made available to the National Assembly. The Committee had to resort to forensic analysis and examination of varied and external sources (including the Lloyds List Intelligence) to verify simple transactions. In this regard, the PPPRA is strongly urged to publish henceforth, the PSF accounts on quarterly basis to ensure transparency and openness of the subsidy Scheme.
2. We found out that the subsidy regime, as operated between the period under review (2009 and 2011), were fraught with endemic corruption and entrenched inefficiency. Much of the amount claimed to have been paid as subsidy was actually not for consumed PMS. Government officials made nonsense of the PSF Guidelines due mainly to sleaze and, in some other cases, incompetence. It is therefore apparent that the insistence by top Government officials that the subsidy figures was for products consumed was a clear attempt to mislead the Nigerian people.
3. Thus, contrary to the earlier official figure of subsidy payment of N1.3 Trillion, the Accountant-General of the Federation put forward

a figure of N1.6 Trillion, the CBN N1.7 Trillion, while the Committee established subsidy payment of N2,587.087 Trillion as at 31st December, 2011, amounting to more than 900% over the appropriated sum of N245 Billion. This figure of N2, 587.087Trillion is based on the CBN figure of N844.944b paid to NNPC, in addition to another figure of N847.942b reflected as withdrawals by NNPC from the excess crude naira account, as well as the sum of N894.201b paid as subsidy to the Marketers. The figure of N847.942b quoted above strongly suggests that NNPC might have been withdrawing from two sources especially when the double withdrawals were also reflected both in 2009 and in 2010.

However, it should be noted that as at the time the public hearing was concluded, there were outstanding claims by NNPC and the Marketers in excess of N270billion as subsidy payments for 2011.

Whereas the mandate of the Committee was necessitated by the removal of subsidy, the Committee found out that subsidy payment on kerosene formed an Integra part of the total sum.

4. On its part, NNPC was found not to be accountable to any body or authority. The Corporation, in 2011, processed payment of N310.4 Billion as 2009 – 2011 arrears of subsidy on Kerosene, contrary to a Presidential Directive which removed subsidy on Kerosene in 2009. The Corporation also processed for itself, direct deduction of subsidy payment from amounts it received from other operations such as joint venture before paying the balance to the Federation

Account, thereby depleting the shares of States and Local Governments from the distributable pool. Worse still, the direct deduction in 2011 alone, which amounted to N847.942 Billion, was effected without any provision in the Appropriation Act.

5. While NNPC feasted on the Federation Account to bloat the subsidy payable, some of the marketers were involved in claiming subsidy on products not supplied. PPPRA laid this foundation by allocating volumes of products each quarter to the marketers which it knew were not in conformity with its own guidelines for participation.
6. Our investigation further revealed that certain marketers collected subsidy of over N230.184 Billion on PMS volume of 3,262,960,225litres that from the records made available to us were not supplied. Apart from proliferation and non-designation of bank accounts for subsidy payment, PPPRA and the OAGF were unable to manage in a transparent manner the two accounts they chose to disclose. There were indications that PPPRA paid N158 Billion to itself in 2009 and N157 Billion in 2010. When confronted, the OAGF was unable to submit details of the bulk payments arrogated to PPPRA and the account from which the bulk sums were disbursed to the supposed beneficiaries.
7. Curiously too, the particular Accountant-General that served during the period 2009 was found to have made payments of equal instalments of N999 Million for a record 128 times within 24

hours on the 12th and 13th of January 2009, totalling N127.872 Billion. The confirmed payments from the CBN records were made to beneficiaries yet to be disclosed by the OAGF or identified by the Committee. We however discovered that only 36 Marketers were participants under the PSF Scheme during this period. Even if there were 128 marketers, it was inconceivable that all would have imported the same quantity of products to warrant equal payments.

8. In order to arrive at a probable figure of daily consumption of PMS, the Committee took the entire volume of 14,787,152,340 litres imported by marketers and NNPC in 2011 as recorded by PPPRA and then deducted what we suspected as over-invoiced volume of 3,262,960,225. Thus, the actual volume imported for year 2011 was 11,510,202,347. This manifested into an average daily PMS consumption of 31.5 million litres.
9. However, in 2012 marginal increment of 1.5 million litres a day is recommended in order to take care of unforeseen circumstances, bringing it to 33 million litres per day. And to maintain a strategic reserve, an additional average of seven (7) million litres per day(or 630million litres per Quarter) for the first quarter of 2012 only is recommended. Thus, PPPRA is to use 40 million litres of PMS in the first quarter as its maximum ordering quantity per day. In subsequent quarters PMS daily ordering quantity should be 33 million litres per day. For Kerosene, the Committee recommends a daily ordering quantity of 9 million litres.

10. On the issue of kerosene subsidy, the Committee strongly advocated for a Government policy to immediately recommence subsidy payment on the product by urging withdrawal of the 2009 Presidential Directive.

11. We also proposed a budget amount of N806.766billion for the 2012 fiscal year for payment of subsidy on PMS and Kerosene.

12. For the 2012 Appropriation Act, the Committee's recommendation is based on the following follows:

PMS: 33,000,000 Litres x N44 (subsidy) x 365 days = N529,980,000.00

Provision for strategic reserve for 1st Quarter of 2012:

7,000,000 x N44 (subsidy) x 90 days N27,720,000.00

HHK 9,000,000 Litres x N101 (subsidy) x 274 days = N249,006,000.00

Total

N806,766,000,000.00

Note: Commencement of kerosene subsidy is as from the second quarter of 2012, since the Committee is of the opinion that the product is still not under the subsidy regime.

Therefore, the Committee recommends the sum of N806.766billion as subsidy for year 2012.

13. With regards to the 445,000 bpd allocation to NNPC , the Committee believes that with the current refining capacity of 53% and the SWAP/Offshore processing arrangement of the balance of 47%, it is sufficient to provide the nation with the following products:

- a. 40 Million Litres Per Day (MLPD) of PMS,
- b. 10 MLPD of Kerosene (HHK)
- c. 8.97 MLPD of Diesel (AGO) ,
- d. 0.62 MLPD of LPG and
- e. 2.31 MLPD of FO

It is only AGO whose average daily consumption of 12 million Litres per day will not be achieved in full. Since AGO has been deregulated, other marketers can make up for the 3.03 MLPD AGO shortfalls. The implication of this finding is that if NNPC properly manages the allocation of 445 bpd efficiently, the availability of the products can be achieved by the NNPC alone. This contrasts the situation where in 2009-2011 NNPC got the daily allocation of 445,000bpd and the nation still had to import through Marketers.

Curiously, although NNPC confirmed that it makes some savings of about ₦11.00 per litre refining locally than import, it could not be established that the Corporation reflects this cost differential in its claims to subsidy.

The Committee recommends that NNPC be unbundled to make its operations more efficient and transparent and this we believe can be achieved through the passage of a well drafted and comprehensive PIB Bill.

All those in the Management and Board of the NNPC directly involved in the infractions identified for the years 2009-2011 should be investigated and prosecuted for abuse of office by the relevant anti-corruption agencies.

14. Part of the funding sources of the PSF Account is over-recovery from marketers. This accrues when product landing cost is lower than the Ex-Depot price. The Committee observed that :
 - i. In 2009, there was an over-recovery of N2.766 Billion. This was expected to have been credited to the PSF Account but was not traceable to the official PSF Account disclosed.
 - ii. Furthermore, in the presentation made by Akintola Williams Deloitte it was claimed that the sum of NGN5.27Billion was established as over-recovery in 2009, however, there was no evidence that this money was credited to the PSF Account.

15. It is our view that the Guidelines of the PSF Scheme, even as watered down by the Board in 2009, could have salvaged the Scheme if they were observed and enforced. Had the staff of various agencies and government officials not compromised and colluded with certain marketers, the level of corruption would have been minimal. The Committee viewed this fact with serious concern and has suggested measures to ensure that impunity is no longer condoned. Therefore, marketers that had short-changed Nigerians were identified and recommended to make refunds within a time-frame of three months; civil servants were to be

sanctioned in accordance with the Civil Service Rules as well as under extant Laws; management staff and top government officials were, based on the gravity of their offences, to be reprimanded, re-deployed, dismissed and, in specific cases, prosecuted for abuse of office and fraudulent practices.

16. The Committee recommended the refund to the treasury the sum of ***N1, 067,040,456,171.31 trillion*** from the under listed for various violations.

i.)	NNPC (Kerosene Subsidy)	-
	N310,414,963,613.00	
ii.)	NNPC (Above PPRA recommendation)-	
	N285,098,000,000.00	
iii.)	NNPC (Self discount)	-
	N108,648,000,000.00	
iv.)	Marketers (Total violations of PSF)	-
	N8,664,352,554.00	
v.)	Companies that refused to appear	-
	N41,936,140,005.31	
vi.)	PPPRA excess payment to self	=
	<u>N312,279,000,000.00</u>	
	TOTAL	<u>N1,067,040,456,171.31</u>

The Committee believes that if the PSF scheme was properly managed, this sum of N1.070trillion would have been available to the three tiers of Government for budget enhancement.

17. The Committee recommends that the following transactions be further investigated by the relevant anti-corruption agencies and determine their level of culpability with a view to making further recoveries;
- i. Payment of N999m to unnamed entities 128times to the tune of N127.872b
 - ii. Companies who collected Forex to the tune of \$402.610b whose utilization is questionable to the Committee.
 - iii. The 72 Companies listed under the financial forensics are hereby recommended for further investigation by the relevant anti-corruption agencies with a view to establishing their culpability and recovering the sums indicated against their names totalling N230, 184,605,691.00.
 - iv. The Over recoveries of N2.766b and N5.27b which were not accounted for by the office of the Accountant General of the Federation.
 - v. The cases of double deductions by the NNPC for subsidy payments in 2009,2010 and 2011 mentioned in this Report.