

Why Cooking Gas Prices Are Increasing in Nigeria and Steps Being Taken by the Government to Stem the Tide

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Many Nigerians are wondering why cooking gas (LPG) prices keep rising, despite Nigeria's large gas reserves. They also wonder what the federal government of Nigeria (the "FGN") might be doing to stem this tide. According to the now defunct Department of Petroleum Resources, Nigeria's gas reserves are 206.53 trillion cubic feet making Nigeria one of the top ten (10) countries in terms of proven gas reserves. Query then, is, why are cooking gas prices rising with international gas prices & not readily available a lot of the time.

Scarcity in the Midst of Plenty

Nigeria's gas reserves and potentials are so huge that it was once said that the gas flared in Nigeria was sufficient to generate electricity for the whole of Trinidad and Tobago for one year. However, as suggested above, the enormity of the gas reserves has not guaranteed the security of energy supply. Cooking gas, (consisting mainly of butane and some propane), is produced from processing gas and refined crude. It, therefore, requires some processing and or refining. Thus, merely having natural gas or crude does not guarantee that the country will have cooking gas, if there is the capacity and or the infrastructure to refine the requisite petroleum or process the natural gas into butane and propane.

Essentially, if there isn't sufficient infrastructure, attractive commercials, distribution capacity; a country with abundant base resources will end up importing finished products for its consumption and this will naturally impact its balance of trade and payment. Nigeria, for example, despite its huge gas reserves, in the month of August 2020, imported 71.35% of the cooking gas, consumed in the country in the period. This was, in spite of Nigeria's abundant natural gas resources. Nigeria continues to import, regularly, anywhere from 40%-60% of its cooking gas needs.

Rising International Gas Prices and Its Effects on Nigeria

Since we now know that a key reason why we import cooking gas is domestic underproduction; the query then is why gas (cooking gas) prices, are rising. The answer to that question is simple. If a country imports an international commodity from the international market then the vagaries of the international market will impact same.

Effectively, the price of cooking gas in Nigeria because a large percentage of same is imported will include cost of production of gas offshore, cost of processing same, shipping, insurance, margins- including the margins enjoyed by the middlemen in Nigeria.

Why are gas prices rising abroad, you may then ask? Answer includes the fact that demand is rebounding as economies get back to business and consumers return to pre-pandemic activities. At the same time, producers, who suffered through Covid downturn, have been slow to hike output.

Hence, there is a shortfall and once demand exceeds supply, prices surge. This is exacerbated by the closure of a number of refineries in the US because of the Hurricane Ida and gas rich Russia not making enough gas available in Europe. What all these mean again to any net importer (like Nigeria) is that the purchase price will increase. Now add those other costs like shipping, insurance, margins etc. Make matters worse, by adding logistics challenges and delays. That's the true picture of things.

Having understood the pricing dynamics, question is what the FGN, is or has been doing to stem this tide, if any? Well, there are a number of things including ensuring that every gas producer has the obligation to reserve a portion of gas produced in Nigeria to be left for domestic sale and use.



Other Reasons- VAT, Increasing Nigerian Costs and Scarcity

In exercise of the powers conferred upon the minister of finance, budget and national planning, by Section 38 of the Value Added Tax Act, she issued the Value Added Tax (Modification Order) 2020 published in the Federal Republic of Nigeria official Gazette No 18, Volume 107 (the "Order"). The Order precludes the charging of VAT on amongst other LPG. However, the Federal Inland Revenue Service has, in practice, been enforcing the payment of VAT on LPG. Hence, adding to the cost of same in the country. The same is for CNG and other gas derivatives in the Nigerian domestic market. Logistics problems around the importation, clearing and lifting of cooking gas have also led to scarcity which have exacerbated the problems around the prices and made it more expensive.

What the FGN is Doing to Stem the Tide

Added to this, the govt also introduced the National Gas Expansion Programme (NGEP), the Gas Flare Commercialization Programme (GFCP) and a few others around gas utilization. Whilst the NGEP seeks to encourage gas utilization in Nigeria rather than dirtier less energy efficient sources, the GFCP is different.

The GFCP seeks to increase production of, amongst others, cooking gas since its purpose is to have companies go to flare sites and take gas which would have otherwise, been flared (wasted), Such gas will then be processed to amongst other products, cooking gas.

If well implemented and the commercials well thought-out, cooking gas prices should stabilize and improve generally. Of course, govt must support this, especially being for the domestic market.

Even if benchmarked against international gas prices, international market factors will play minimal roles and then there will be no shipping, insurance and those other factors (priced in USD).

Conclusion

It is also important to note that because cooking gas is imported even if its price does not increase in the international market, same will continue to increase if the Nigerian currency continues to devalue because more naira will be required for the same United States price of a commodity.

That said, if Nigeria continues to develop the capacity to refine and process its base natural resources, especially with the obligation to reserve some of that for domestic sale then the FGN might be able to play a serious role in stemming the tide of incessant price increases.

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