

### **The Fallacy of Local Refining**

It's almost a sing-song – if only we had enough refineries in Nigeria, all the fuel problems will disappear. Almost without exception, every expert has articulated local refining of petroleum products as the be all and end all solution for fuel shortage in Nigeria. Unfortunately, that is not exactly correct.

The problem is that the assertion is based on wrong or misconceived assumptions. First it assumes ready availability of feedstock to local refineries. Secondly it assumes that the crude oil is cheaply available. Most crucially, it presumes the existence of an excellent regulatory framework. The reality is that the opposite is the case on all the stated indices.

### **Crude Oil Feedstock Is Not Readily Available**

The current framework under the Petroleum Act strictly regulates who gets what crude oil, and any dealing outside the framework is criminal. By section 9 of the Petroleum Act, the Minister has the power and discretion to determine the proportion and quantity of crude oil to be supplied to any refinery. Thus access to Nigerian crude oil is not dependent on the refiner having resources to pay, but approval of quota by the Minister. While this provision has been applicable in the extant regime where the existing refineries are all government owned, in the envisaged era of private refining, it falls short of basic standards of competition and competitiveness.

### **Nor Is It Cheaply Available**

Even if crude oil were readily available, it is not cheaply available. It will be sold on commercial terms in line with applicable international pricing benchmarks. Refined products will be available at cost plus modest margin or princely premium. Refiners will sell only to those ready and able to pay. With government still keen on maintaining an opaque and unreliable regime of subsidy payments, no refiner will be ready to sell to the local market. If government insists they must sell to the local market the industry will die. On the flipside, government may decide to institute a policy of crude oil pricing dichotomy with discounted rates for local refining and standard rates for international sale. In the true spirit of Nigerian enterprise, this will lead to arbitrage, racketeering and round-tripping. The result will be continued unavailability of petroleum products.

### **Policy Framework**

A clear policy outline will determine competitive options for access to crude oil, export of refined products and local supply, containment of dominant positions, avoidance of price agreements and optimisation of investments. This does not exist for now.

In the foregoing circumstances, it is obvious that to assert local refining as a solution without more is not just simplistic but naïve. What then is the solution? The obvious one is removal of pricing restrictions and barriers to market entry for petroleum products trading and marketing. This of course needs to be coupled with emplacement of an effective regulator with a clear policy mandate.

### **Dangote?**

With proposed operations that big, he's thought it through. Crude oil guarantees are crucial, and he need not buy crude from, nor sell products to Nigeria. But it pays the country to sell to and buy from

him. Dangote can be in business refining 650k/bpd yet there will be shortages in the country if law and policy are not right.

So the local refining fallacy must stop. It's just delusional.