



FEDERAL MINISTRY OF PETROLEUM RESOURCES

OFFICE OF THE HONOURABLE MINISTER

Block D, 11th Floor, NNPC Towers, Herbert Macaulay Way,
Central Business District, P.M.B. 449, Abuja.

PRIVATE AND CONFIDENTIAL

HMPR/001/140510/013

May 14, 2010

His Excellency
Dr. Goodluck Ebele Jonathan, GCFR
The President, Commander-in-Chief of the Armed Forces
Federal Republic of Nigeria
Presidential Villa
Aso Rock, Abuja.

*Y
Your Excellency, Sir.*

RE: REQUEST FOR CLARIFICATION ON THE STATUS OF DUAL PURPOSE
KEROSENE SUBSIDY REMOVAL

The above subject matter respectfully refers.

Your Excellency may recall that on June 10, 2009, Late President Umaru Musa Yar'adua relayed a Presidential directive to remove subsidy.

However, the then Minister of Petroleum Resources, Late Dr. Rilwanu Lukman, did not implement this Presidential directive as it was never gazetted nor published in any section of the media as required by law. Consequently, the subsidy on DPK has remained in practice and NNPC has continued to subsidize this product. (see attached Appendices 2, 3, and 3a).

As a result of this lack of clarity, the sector has been bedeviled with uncertainty, which has led to withdrawal of marketers thus forcing NNPC to step in and take responsibility for importation of DPK.

Your Excellency Sir, I respectfully seek your clarification as to whether or not the subsidy on DPK is still in force.

Please accept, Your Excellency, the assurance of my highest regards and loyalty at all times.



Diezani Alison-Madueke (Mrs.)
Honorable Minister of Petroleum Resources
enclosures

HMPR

As The VP I was fully aware of the issues. The FG N wanted to deregulate DPK and PMS but labour leaders asked for some time. The matter was then suspended. Pls still suspend the issue of DPK subsidy removal pending when the FG N will completely deregulate PMS and DPK which as a nation we must do.

Aug 18/05/10



Reference: SH/PSP/24/A/2054

11th January, 2010

The Honourable Minister of Finance,
Federal Ministry of Finance
Finance Complex,
Abuja.

**RE: ENDORSEMENT OF ACTION PLAN ON THE
DEREGULATION OF THE DOWNSTREAM PETROLEUM
SUB-SECTOR**

I write with reference to a letter reference GMD.51 dated December 16, 2009 from the GMD NNPC to the Honourable Minister of Finance on the above subject matter which was copied to the Principal Secretary to the President, C-in-C.

2. The GMD acknowledges in the letter that Mr. President gave a directive for the immediate implementation of the elimination of the existing subsidy on Kerosene effective June 15, 2009. This directive was conveyed to all institutions concerned with its implementation.
3. The Principal Secretary is not aware of any information regarding the reversal of the directive by Mr. President and has not conveyed any such information subsequently.
4. In the above captioned letter under reference, the GMD requests the Honourable Minister to approve the subsidy claim of NNPC on Kerosene in spite of the subsisting Presidential directive to the contrary. This appears in my view, to be asking the Honourable Minister of Finance to overrule Mr. President which I consider inadvisable.
5. Please accept Honourable Minister, as always, the expression of my esteemed regards.


-DAVID EDEVBIE

Principal Secretary to the President, C-in-C



A2 57 APPENDIX Q
NIGERIAN NATIONAL PETROLEUM CORPORATION
CENTRAL BUSINESS DISTRICT, HERBERT MACAULAY WAY, P.M.B 190, GARKI

Cablegram NAPETCOR

Telephone: 09 - 2348200-17

Ref: GMD.51

Dec. 16 2009

Date:

Dr. Mansur Mukhtar
Honourable Minister of Finance
Federal Ministry of Finance
Finance Complex
Abuja

Hon. Minister,

ENDORSEMENT OF ACTION PLAN ON THE DEREGULATION OF THE
DOWNSTREAM PETROLEUM SUB-SECTOR

This memorandum seeks the kind consideration and approval of the Honourable Minister for NNPC's to continued claim of subsidy on the sale of Kerosene from the Petroleum Support Fund (PSF) until directed otherwise. The Principal Secretary to the President, Commander-in-Chief of the Federal Republic of Nigeria (PSP), had in a memo to the National Security Adviser dated October 19, 2009, sought to deny NNPC of the right to claim subsidy on Kerosene effective June 15, 2009, on the ground that NNPC did not implement Mr. President's directive on the issue.

1.0 BACKGROUND

The Honourable Minister will recall the following sequence of events that led to the Government decision to delay the implementation of the Presidential directive seeking to eliminate existing subsidy on the consumption of Kerosene:

- 1) Subsidy on petroleum products has been a regular feature of Nigeria's fiscal policy instrument since the discovery of oil. Prior to October 2003, the subsidy was administered through a program that required NNPC to pay for domestic crude oil at subsidized prices (below international market price), but also to sell the refined products processed from the crude oil at subsidized regulated prices that are below international market prices. Under this arrangement, losses incurred from selling refined products to the nation at subsidized prices were absorbed by subsidies earned from buying domestic crude at subsidized prices.

EXECUTIVE BOARD:

Dr. Rilwan Lukman (Minister of Petroleum), Mr. Odain Ajumogobia (Minister of State for Petroleum), Mr. Mohammed Sanusi Barkindo (GMD), Mr. Augustine O. Oniwon (GED, R&P), Mr. Philip O. Chukwu (GED), Dr. Attahir B. Yusuf (GED, CS), Mr. Michael A. Amokor (GED, R&P), Mr. Philip O. Chukwu (GED, R&P)

However, effective October 20, 2003, the Federal Government in a major policy change, directed NNPC to commence the purchase of domestic crude cost at international market price, without a corresponding liberalization of the prices of petroleum products. As a consequence, from that date to February 28, 2009 NNPC incurred losses of ₦1.156 trillion from supplying petroleum products to the nation at regulated prices. Since then NNPC has been making a case for relief from this burden. The Presidency gave NNPC temporary relief, first by extending the credit period for payment of domestic crude cost from 60 days to 90 days, then approved a reprieve from payment of domestic crude cost of ₦249bn and ₦201bn in February 2005 and December 2008 respectively.

- 2) His Excellency, Mr. President recognized the need to address the subsidy burden by appointing a high powered Presidential Committee on Petroleum Products Deregulation and charged it with the task of providing a lasting solution to the problems enumerated above. The Committee recommended and Mr. President accepted that the only viable solution is to completely deregulate the downstream sector of the petroleum industry.
- 3) In June 2009 Mr. President appointed another high powered Presidential Committee on Implementation of the Petroleum Products Deregulation under the chairmanship of the Honourable Minister of Finance to execute this bold initiative and advice on implementation strategy.
- 4) On June 9, 2009 Mr. President convened a meeting to discuss the Action Plan submitted by the Honourable Minister of Finance outlining the measures to be taken as part of the implementation strategy. Mr. President approved the Honourable Minister's proposal which included a decision to eliminate existing subsidy on Kerosene.
- 5) Subsequent to the meeting of June 9, 2009 another meeting was held in the office of the Honourable Minister of Petroleum Resources with the Honourable Minister of Finance, the Honourable Minister of State for Petroleum Resources, the Chief Economic Adviser to the President, and the Group Managing Director of NNPC in attendance. After extensive discussions on the issues and implications of implementation of kerosene subsidy removal, which at that time will translate to an increase in the price of kerosene. NNPC was directed to delay the implementation of the Presidential decision to remove subsidy on Kerosene. This is a strategic move to win the hearts and minds of NLC and the public over the eventual goal of deregulating the downstream sector as a whole.

This unanimous decision was therefore reached following the Federal Government directive to reduce the price of Petroleum Motor Spirit (PMS) from ₦70/ltr. to ₦65/ltr. as a result of the collapse in the prices of crude oil and related landing cost of petroleum products and in an attempt to alleviate the economic hardship brought about by the global financial crisis. The decision was in furtherance of Mr. President's directive to the Implementation Committee and ~~was therefore not an attempt to undermine the Presidential directive on~~ elimination of subsidy on Kerosene.

- 6) Subsequently, several other meetings were held on the deregulation issue and in each of these meetings, NNPC has always made its position clear: that the Corporation is fully behind the deregulation efforts of the Government; that it is ready to implement the decision to eliminate subsidy on Kerosene if specifically directed to do so; and that until the price of Kerosene is deregulated it is entitled to claim subsidy on Kerosene.

2.0 THE ISSUES

There are two critical issues for NNPC in regards to the claim for subsidy on Kerosene:

- 1) The erroneous perception from the PSP that NNPC wilfully disregarded the directives of Mr. President by not eliminating subsidy on Kerosene effective June 15, 2009.
- 2) The premature conclusion of the PSP that NNPC should not be entitled to claim subsidy on Kerosene effective June 15, 2009, on the ground that we failed to implement Mr. President's directive on the elimination of subsidy on Kerosene.

3.0 NOTATIONS AND PRAYERS:

The Honourable Minister is requested to graciously NOTE that:

- Subsidy on petroleum products has been a regular feature of Nigeria's fiscal policy instrument since the discovery of oil in the country.
- From October 10, 2003 to February 28, 2009 NNPC incurred losses of ₦1.156 trillion from supplying petroleum products to the nation at regulated prices. Since then NNPC has been making a case for relief from this burden.



APPENDIX 3

NIGERIAN NATIONAL PETROLEUM CORPORATION
CENTRAL BUSINESS DISTRICT, HERBERT MACAULAY WAY, P.M.B. 190, GARKI, ABUJA

Cablegram NAPETCOR
Telephone: 09 - 2348200-17

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Ref: GMD/09/01
Date: February 15, 2010

file

Dr. Mansur Mukhtar
Honourable Minister of Finance,
Federal Ministry of Finance,
Finance Complex,
Abuja.



For: Minister,

RE: ENDORSEMENT OF ACTION PLAN ON THE DEREGULATION OF THE DOWNSTREAM PETROLEUM SUB-SECTOR - SUBSIDY FOR KEROSENE

We refer to our memorandum of 16th December 2009 on the above subject and wish to bring to the notice of the Honourable Minister of Finance that PPPRA is yet to honour subsidy re-imbursment claims for Kerosene from NNPC since August 2009. PPPRA's stance is in compliance with the Presidential decision based on the recommendation of the high powered Presidential Committee set up to address the subsidy burden, preparatory to deregulation of the downstream sector of the Petroleum Industry. As a follow up, the Implementation Committee under your able chairmanship in its Action Plan approved by Mr. President included elimination of existing subsidy on Kerosene.

In a subsequent meeting in the office of Honourable Minister of Petroleum Resources with Honourable Minister of Finance, Honourable Minister of State Petroleum Resources, Chief Economic Adviser to the President and the Group Managing Director of NNPC in attendance, however, NNPC was directed to delay implementation of the decision to remove subsidy on kerosene. This unanimous decision was a strategic move to win the hearts and minds of the public over the eventual goal of deregulating the downstream sector as a whole.

Consequently, NNPC continued the sale of the product (Kerosene) at subsidized price. This has resulted in NNPC not recovering subsidy for Kerosene supplied to the Nigerian market since August 2009. From August to December 2009, NNPC supplied a total of 781,696,925.86 litres with an estimated subsidy of ₦42,020,871,455.21 as highlighted below.

MONTH	VOLUME (Litres)	Estimated Subsidy (₦)
August 2009	160,108,636.69	8,429,719,721.62
September 2009	108,727,455.76	5,389,619,982.02
October 2009	232,145,604.77	12,396,575,294.61
November 2009	120,606,591.95	6,856,484,752.47
December 2009	160,108,636.69	8,948,471,704.49
TOTAL	781,696,925.86	42,020,871,455.21

The refusal to honour our subsidy claims for Kerosene has placed serious burden on our financial resources with the attendant inability to settle petroleum products import bills as and when due. As at 12th February 2010, the Corporation owes a total US\$3,602,935,503.17 on products import out of which US\$851,513,231.51 is for Kerosene.

NOTATION

The Honourable Minister is invited to graciously note that:

- To address subsidy burden, Mr. President directed for complete deregulation of downstream sector.
- The Action Plan of the Presidential Implementation Committee on Deregulation in June 2009 included elimination of subsidy on Kerosene.
- In a strategic move at a subsequent meeting in the office of the Honourable Minister of Petroleum Resources, NNPC was directed to delay the subsidy removal in Kerosene along with FGN's directive to reduce price of petrol from ₦70/ltr to ₦65/ltr.
- NNPC has continued the sale of Kerosene to the public at a subsidized price.
- Between August and December 2009, NNPC has supplied over 780 million litres of Kerosene to the Nigerian market.
- Estimated subsidy due to NNPC for the period August to December 2009, based on PPPRA's template stood at ₦42,020,871,455.21 which has not been reimbursed to NNPC.
- NNPC is still selling Kerosene at subsidized price to the Nigerian public.
- NNPC's financial resources have been impacted negatively as a result non recovery of subsidy.

PRAYER

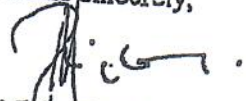
In view of the above and in line with the prayer in our earlier memorandum under reference, the Honourable Minister is invited to kindly consider, seek and obtain Presidential approval for the following:

- NNPC to continue to claim subsidy on the sale of Kerosene from PSF until the full deregulation of price of Kerosene.
- Direct the Petroleum Products Pricing Regulatory Agency (PPPRA) to honour NNPC's request for reimbursement in respect of claims for subsidy on Kerosene with effect from August 2009.
- Direct PPPRA to review, verify and certify all NNPC's claims and approve such authenticated claims immediately to ameliorate the current financial burden of NNPC.

Above is most respectfully submitted for your kind consideration and approval.

Please accept, Honourable Minister, the assurances of my highest consideration and esteem.

Yours sincerely,



M.S. Barkindo
Group Managing Director

CC: Honourable Minister of Petroleum

" Honourable Minister of State, Petroleum

" Honourable Minister of State, Finance

" Chief Economic Adviser

[Handwritten notes and signatures]
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Odet Joseph 23:07 2010
to 090542



NIGERIAN NATIONAL PETROLEUM CORPORATION
CENTRAL BUSINESS DISTRICT, HERBERT MACAULAY WAY, P.M.B 190, GARKI, ABUJA

Cablegram NAPETCOR

Telephone: 09 - 2348200 - 17

APPENDIX 3A *Appendix 3A*

Ref.....GMD.09.01.....

Date: April 30, 2010

Dr. Olusegun Oluwatoyin Agang
Honourable Minister of Finance,
Federal Ministry of Finance,
Finance Complex,
Abuja.

Handwritten initials and stamps:
MINISTRY OF FINANCE
MINISTRY OF PETROLEUM RESOURCES
005 MAY 2010
RECEIVED

RECEIVED
05 MAY 2010
FEDERAL MINISTRY OF FINANCE ABUJA

Handwritten signature: Hon Minister

RE-ENDORSEMENT OF ACTION PLAN ON THE DEREGULATION OF THE DOWNSTREAM PETROLEUM SUB-SECTOR - SUBSIDY FOR KEROSENE

We refer to our memorandum of 16th December 2009 and our letter of 15th February 2010 on the above subject and wish to bring to the notice of the Honourable Minister of Finance that PPPRA is yet to honour subsidy re-imbursement claims for kerosene (DPK) from NNPC since August 2009. PPPRA's stance is in compliance with the Presidential decision based on the recommendation of the high powered Presidential Committee set up to address the subsidy burden, preparatory to deregulation of the downstream sector of the Petroleum Industry. The Implementation Committee, under the Chairmanship of your predecessor, in its Action Plan approved by Mr. President, recommended the elimination of existing subsidy on kerosene.

In a subsequent meeting in the office of Honourable Minister of Petroleum Resources with Honourable Minister of Finance, Honourable Minister of State Petroleum Resources, Chief Economic Adviser to the President and the Group Managing Director of NNPC in attendance, however, NNPC was directed to delay implementation of the decision to remove subsidy on kerosene. This unanimous decision was a strategic move to win the hearts and minds of the public over the eventual goal of deregulating the downstream sector as a whole.

Consequently, NNPC continued the sale of the product (kerosene) at subsidized price. However, the Corporation has not been able to recover subsidy for kerosene supplied to the Nigerian market since August 2009. From August 2009 to March 2010, NNPC supplied a total of 1,512,873,076.18 litres of kerosene, with an estimated unrecovered subsidy of ₦85,972,323;796.97 as highlighted below.

EXECUTIVE BOARD:

- Mrs. Diezani Alison - Madueke (Minister of Petroleum) Shehu Ladan (GMD)
- Mr. Augustine O. Oniwon (GED, R & P). Mr. Philip O. Chukwu (GED, E&P). Dr. Attahir B. Yusuf (GED, CS)
- Mr. Michael A. Arokodare (GED, F&A). Mr. Aminu A. Babakusa (GED, C&I) Mr. Faithful A. Ali

MONTH	VOLUME (Litres)	Estimated Subsidy (₦)
August 2009	160,108,636.69	8,429,719,721.62
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November 2009	120,606,591.95	6,856,484,752.47
December 2009	160,108,636.69	8,948,471,704.49
Sub-Total	781,696,925.86	42,020,871,455.21
January 2010	198,031,580.21	12,105,670,498.12
February 2010	238,240,691.92	13,853,696,235.15
March 2010	294,903,878.19	17,992,085,608.49
Sub-Total	731,176,150.32	43,951,452,341.76
GRAND TOTAL	1,512,873,076.18	85,972,323,796.97

The refusal to honour our subsidy claims for kerosene has placed additional burden on our financial resources with the attendant inability to settle petroleum products import bills as and when due. As at 30th April 2010, the Corporation owes about US\$5.5 billion on products import out of which about US\$1 billion is for kerosene.

NOTATIONS:

- The Honourable Minister is invited to graciously note that:
- To address subsidy burden, Mr. President directed for complete deregulation of downstream sector.
 - The Action Plan of the Presidential Implementation Committee on Deregulation in June 2009 included elimination of subsidy on kerosene.
 - In a strategic move at a subsequent meeting in the office of the Honourable Minister of Petroleum Resources, NNPC was directed to delay the subsidy removal in kerosene along with FGN's directive to reduce price of petrol from ₦70/ltr to ₦65/ltr.
 - NNPC has continued the sale of kerosene to the public at a subsidized price.
 - Between August and March 2009, NNPC has supplied over 1.512 million litres of kerosene to the Nigerian market.
 - Estimated subsidy due to NNPC for the period August to March 2009, based on PPPRA's template stood at ₦85,972,323,796.97 which has not been reimbursed to NNPC.
 - NNPC is still selling Kerosene at subsidized price to the Nigerian public.
 - NNPC's financial resources have been impacted negatively as a result non recovery of subsidy.

PRAYERS:

In view of the above and in line with the prayers in our earlier memorandum and letter under reference, the Honourable Minister is invited to kindly consider, seek and obtain Presidential approval for the following:

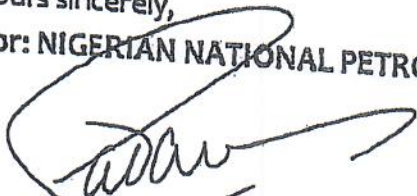
- NNPC to continue to claim subsidy on the sale of kerosene from PSF until the full deregulation of price of kerosene.
- Direct PPPRA to review, verify and certify all NNPC's claims and approve such authenticated claims immediately to ameliorate the current financial burden of NNPC.
- Direct the Petroleum Products Pricing Regulatory Agency (PPPRA) to honour NNPC's request for reimbursement in respect of claims for subsidy on kerosene with effect from August 2009.

Above is most respectfully submitted for your kind consideration and approval.

Please accept, Honourable Minister, the assurances of my highest consideration and esteem.

Yours sincerely,

For: NIGERIAN NATIONAL PETROLEUM CORPORATION


Mallam Shehu Ladan
Group Managing Director

CC:

Honourable Minister of Petroleum Resources
Honourable Minister of State, Finance