Media Briefing Note

Based on Comments at OTL – presented by James Gooder, Vice President, Argus Media

Evolving gasoline pricing in Nigeria

- The liberalisation of the Nigerian gasoline market presents a historic opportunity to foster greater competition and align fuel pricing with international market norms. This will help to ensure that local Nigerian refiners, distributors and marketers, importers and Nigerian consumers get a fair deal.

- Efficient trading of any commodity requires that buyers and sellers share a common understanding of quality, delivery terms and pricing. When it comes to pricing in fuel markets, it is a question of choosing a mutually acceptable benchmark price, against which buyers and sellers can negotiate an agreed premium or discount.

Wrong pricing basis

- Dated Brent is the common basis for crude oil purchases in both the North Sea and in West Africa. Intercontinental Exchange gasoil futures are the benchmark for diesel sales; the Dangote refinery has been using this marker since AGO production began. These are the market standards.

- But gasoline is a different case. For 20+ years gasoline pricing in Nigeria has been misaligned with the way the international market prices the refined product. This has led to distortions in subsidy calculations and the offshoring of supply chain profits.

- Since 2002, the gasoline market benchmark in the Atlantic Basin has been EBOB, published by independent price reporting agency, Argus. This daily price is based on a liquid and transparent market with multiple daily transactions of 1,000-2,000t barges in the Amsterdam-Rotterdam-Antwerp trading hub. It is used as the basis for European wholesale trade and also for gasoline exports to all of West Africa. These exports now must compete with regional production from Dangote and others.

- Further, EBOB is the basis for the only liquid hedging instrument for gasoline anywhere in Europe or Africa - Argus EBOB swaps listed by the Intercontinental Exchange - which allows producers and consumers to manage their risk exposure to future price movements.

- In Nigeria trade of gasoline imports has been linked to a different price reference, “Premium Unleaded” for many years and did not follow much of the market in switching to EBOB. Nigeria continued embedding the premium unleaded price in many long-standing structures and agreements including Petroleum Products Pricing Regulatory Agency (PPPRA) templates, Direct Sale Direct Purchase (DSDP) contracts and more.

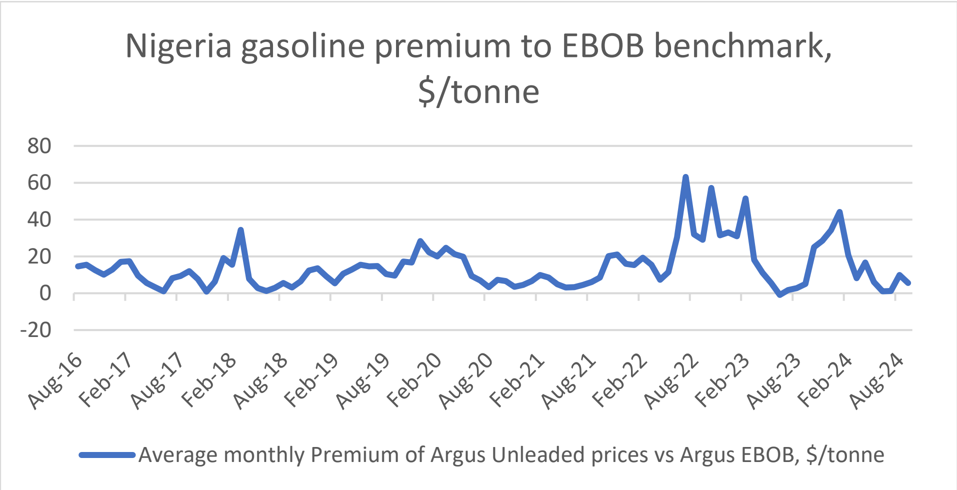
Cost implications in Nigeria

- This opened up huge inefficiencies where fuel bought in Europe on EBOB is then sold into Nigeria on the basis of the "Premium Unleaded" price. Why does this matter? *It is rather like buying dollar-denominated goods in naira, without knowing the exchange rate.*
    - The premium unleaded price is almost always higher than EBOB.
    - It reflects a higher quality gasoline which is not typically used in Nigeria.
    - It is a price generated in a highly illiquid market where a single trade or bid can substantially elevate the price.
    - At times in the past two years the premium unleaded price has been more than $50/t above EBOB on a month average basis – not individual days but across an entire month.
    - Over the past two years, the average premium has been around $19/t.
    - Given that the average outright price of EBOB gasoline in that period has been around $686/t, this means that the price used to underpin Nigeria's gasoline subsidy or pump prices has been 3% higher than the market standard, and at times up to 7% higher. This adds up to a lot of money.

Straightforward remedy

- Given the continuing debate about fuel subsidies, it is easy for a technical correction relating to the most appropriate benchmark to be overlooked. Inertia has been the main barrier to change.

- This small correction can easily be made if buyers in Nigeria ask for gasoline priced against EBOB - which is independent and widely used around the world - secure in the knowledge that they are using the same "currency" as their suppliers. Regional refiners can offer to sell against the same benchmark, in order that they can compete fairly with imports, avoid being undercut, and crucially can hedge their sales to manage the risk of price volatility.



Source: Argus Media

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