

NEWSLETTER

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ON THE ROAD TO FUEL SUFFICIENCY AND PRICE STABILITY: EXAMINING THE NATIONAL STRATEGIC STOCK REGULATIONS, 2023

INTRODUCTION

In a significant move that has shaken the core of Nigeria's energy industry, the federal government has made a momentous decision to bring an end to the fuel subsidy regime, signalling a transformative era for the nation's energy sector – market forces will now determine the prices, they say!! This decision marks a pivotal shift in the scheme of things for the downstream petroleum sector, with implications that extend far beyond mere price regulation. Some have argued that in spite of the many perks of the policy decision, it may very well become open season for a plethora of attendant issues around petroleum products availability. Adequate measures thus need to be put in place to ensure sufficiency of supply.

The introduction of the National Strategic Stocks Regulations, 2023 takes the centre stage, drawing a crucial correlation to the cessation of the fuel subsidy regime. These regulations which were released by the Nigerian Midstream and Downstream Petroleum Regulatory Authority (“the Authority”) in February, 2023 will play a vital role in ensuring fuel sufficiency and, by extension, fostering price stability. As Nigeria navigates the ever-changing currents of its energy landscape, the significance of these regulations become apparent. They exist as one of many key measures, poised to safeguard the nation's energy security and provide a solid footing amidst the waves of uncertainty. In this article, we shall be considering some of the key provisions of the National Strategic Stocks Regulations with a view to underscoring its significance in ensuring energy security.

WHAT ARE NATIONAL STRATEGIC STOCKS?

While the regulations do not provide a definition for national strategic stocks, the general definition is that they are reserves of petroleum products held by a country to ensure that it has a sufficient supply of these products in the event of an emergency or crisis. These stocks are typically held by the government in its storage depots and facilities or by a designated operator. They are intended to provide a strategic reserve of petroleum products, thereby ensuring the security of supply, reducing the impact of disruption in supply, and ultimately stabilising the domestic prices of these products. In Nigeria, the national Strategic Stocks Regulations of 2023 establishes the national strategic stocks of petroleum products, as well as sets out the general rules for its administration, operation and maintenance. The regulations also prescribes a regime for funding and spells out sanctions, fines and administrative penalties for failure to comply with its provisions. Let us now examine some of the key provisions of the regulations.

NATIONAL DEMAND RESERVE

The Regulations mandate the Authority to maintain a maximum 60-day national demand reserve of products through incremental stocking as national strategic stock. In what may be described as a cornerstone for energy security, the reserve represents a strategic stockpile of petroleum products held by the government to address unforeseen disruptions in supply or sudden increases in demand. By maintaining a substantial reserve, Nigeria can mitigate the impact of external shocks and ensure a steady supply of fuel, thereby safeguarding the nation's economic stability. The reserve shall not be subject to seizure, forfeiture, lien, mortgage or any other encumbrance by the owner of the facility in which the petroleum product is held or by a third party.

NATIONAL STRATEGIC STOCK LEVY

To finance the establishment and maintenance of the national demand reserve, the National Strategic Stock Levy has been introduced. The levy which is imposed on the retail price of imported and locally refined petroleum products shall not be more than 5%, to be determined and published from time to time by the Authority. The funds generated from this levy is to be channelled into building and sustaining the strategic stockpile, fortifying Nigeria's resilience against supply fluctuations and price volatilities. An interest-yielding account into which the levy shall be paid is to be maintained by the Authority to ensure transparency.

FACILITIES DESIGNATED FOR NATIONAL STRATEGIC STOCKS

The regulations also set out basic requirements for facilities which may be designated to store and manage the national strategic stocks. Among others, such facilities must possess a valid bulk storage licence, be fit for purpose and have good operational management and corporate governance practices. These facilities, strategically located and equipped with robust infrastructure, are to provide secure storage for the reserve. Stringent quality control measures and monitoring systems are to be implemented to ensure the integrity and availability of the stored petroleum products. The operator of a facility is also required to maintain an operating stock and a dead stock in accordance with guidelines to be published by the Authority, who in turn, shall monitor all designated facilities to ensure inventory management, confirm operational functionality and verify the security status of the facility.



OFF-TAKE OF PRODUCTS FROM NATIONAL STRATEGIC STOCKS AND DRAWDOWN MECHANISM

Off-take of products shall only be carried out by a valid retail outlet licence holder with functional distribution infrastructure and retailing outlets for products dispensing, among other conditions to be spelt out by the Authority. An off-taker is also required to inform the Authority of any legal proceedings being undertaken by or against such an off-taker by a third party which may affect the security of stocks.

During emergencies or periods of supply disruptions, the Authority may initiate a drawdown of products from the national strategic stocks. The drawdown mechanism ensures that critical sectors, such as healthcare, transportation, and essential services, receive uninterrupted fuel supply. The drawdown process is meticulously regulated, requiring proper documentation, verification, and compliance with established guidelines to maintain accountability and prevent misuse.

POWERS AND DUTIES OF THE AUTHORITY

To allow for effective regulation, the Authority is reposed with certain powers and responsibilities over the management and administration of national strategic stocks. In addition to its special powers under the PIA to inquire, inspect, examine or investigate any activity relating to national strategic stocks, the Authority is reposed with several duties and responsibilities around budgeting and auditing, stock management et al to mention a few. The Authority is also empowered to issue guidelines, directives and notices for the effective implementation of the Regulations. It exercises its powers to monitor the market, evaluate supply and demand dynamics, and make informed decisions to maintain a balance between fuel sufficiency and price stability.

CONCLUSION

The issuance of the National Strategic Stocks Regulations signifies Nigeria's commitment to enhancing energy security and promoting stability within the downstream petroleum industry. Through the establishment of the national demand reserve, the introduction of the national strategic stock levy, designated storage facilities, efficient off-take and distribution mechanisms, and the diligent execution of the Authority's powers and duties, Nigeria is poised to navigate the challenges of supply disruptions and price fluctuations effectively. As the nation embraces these regulations, the stage is set for a resilient and prosperous energy landscape, ensuring fuel sufficiency and ultimate price stability for the benefit of all Nigerians. What is now left is for the country to ensure the effective implementation of its provisions without more.

In the wake of our emerging reality, the significance of these Regulations can certainly not be understated; they stand as sentinels, guarding against the tumultuous waves of uncertainty, providing a foundation upon which Nigeria's energy security can find solid ground. The onus is thus on Nigeria through its regulators to avoid the fate of the barber's chair – perpetual motion, zero progress.

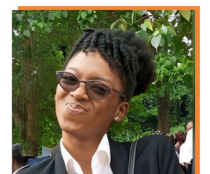
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