

# A way forward.

## The Nigerian LPG industry

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# AGENDA

- ▶ Perspective – the road so far
- ▶ Effects of past efforts
- ▶ The existing opportunities
- ▶ The ROCK in the way
- ▶ Moving the rock
  - Traditional routes
  - Paradigm shift – A way forward
- ▶ Benefits of recommendations
- ▶ Conclusion

# Perspective since last major intervention

## PRE NLNG

- **Characterized by product supply constraints**
  - ❖ Epileptic refinery production
  - ❖ Hedged importation by private parties
- **Market consumption**
  - ❖ Approximately 80,000MT annually
- **Retail pricing**
  - ❖ Fluctuated wildly between N240/kg – N480/kg
- **Seller's market**
  - ❖ Minimal cooperation between operators

## POST NLNG

- ▶ **Characterized by product supply sufficiency**
  - ❖ NLNG is defacto supplier into the market
- **Market consumption**
  - ❖ Consumption rose marginally to 100,000MT annually.
- **Retail pricing**
  - ❖ Traded in a narrower band of N200/kg – N280/kg
- **Buyer's market**
  - ❖ Lack of market depth is apparent
  - ❖ Pricing is differentiator – with margins suffering

# The Challenges

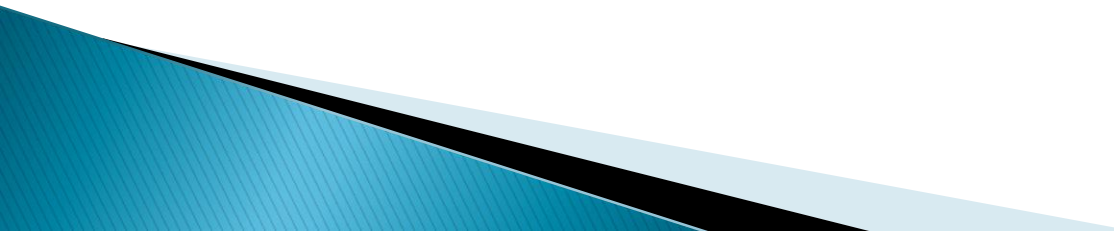
## ▶ Consumption is stagnant

- ❖ Gross consumption increase over 4yrs is 20,000MT – less than 5% year on year.
- ❖ Per capita consumption is approximately 0.5kg, compared to regional average of 5kg per capita.

## ▶ Numerous summits seem to have little effect

- WLPGA 2001 study
- Presidential steering committee 2003
- Nexant– USAID study
- WLPGA summit 2009

# SUMMARY OF THE CHALLENGES

- ▶ 9 out of 10 Nigerian households cooks with a dirty fuel such as kerosene, wood, charcoal.
  - ▶ Deforestation continues unabated.
  - ▶ Our environments continue to be degraded.
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# THE GOOD NEWS

- ▶ 9 out of 10 Nigerian households cooks with a dirty fuel such as kerosene, wood, charcoal.
- ▶ 10 out of 10 Nigerian households cook!
- ▶ The growth of our per capita consumption to meet the regional average of 5kg represents 1 million MT or approximately US1 billion in economic activity.
- ▶ We continue to contemplate the way forward.

# Where is the growth?

## ▶ Industrial sector.

- ❖ Limited by the country's ability to grow.

## ▶ Commercial sector.

- Most commercial kitchens already utilize LPG
- Growth potential in non-cooking applications such as water heating and space cooling.

## ▶ Residential sector.

- Tremendous growth potential.

# LPG in the residential sector

- ▶ Driving more volumes through the established 10%
  - ❖ Encouraging non-cooking applications
    - ❖ Water heating
    - ❖ Power generation
- Encouraging the switch from dirty fuels to LPG in the 90% non-LPG users.

# Ready ingredients

- ▶ The population is **yearning** for upward mobility – they understand the value proposition in a healthier and more efficient lifestyle.
- ▶ The entrepreneurs in the industry recognize the locked in potential that exists in a population of 150mm where only 10% potential has been achieved.

# The constraints

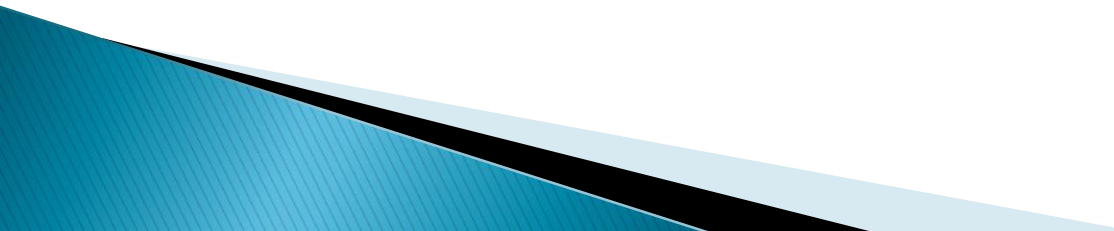
- ▶ **From consumer point of view**
  - ❖ An education gap
    - ❖ What LPG is or isn't.
    - ❖ Advantage of LPG over competing fuels.
  - ❖ A financial gap.
    - ❖ Entrance fee – acquisition of gas burning infrastructure
- ▶ **From the entrepreneur point of view**
  - ❖ Cowardice – the nature of capital.
    - ❖ Lack of professional courtesy – brand infringement.
    - ❖ Weak legal structures in the country.

# THE ROCK IN THE WAY

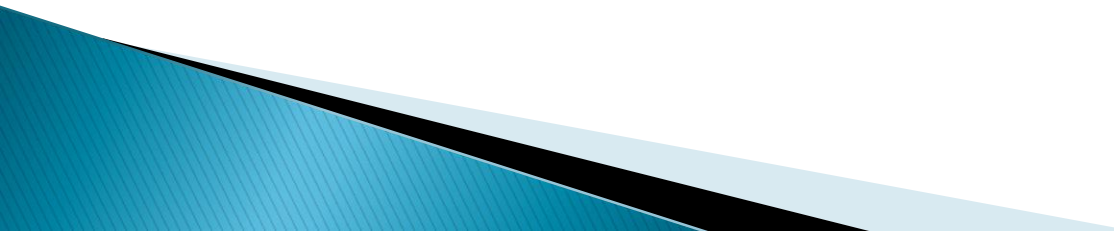
Who funds the cost of the conversion?



# TRADITIONALLY SUCCESSFUL WAYS OF GALVANIZING LPG DEMAND.

- ▶ Indefinite Government subsidies.
  - ▶ Phased Government subsidies.
  - ▶ One-time Government interventions.
    - ❖ Swap out programs
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# Benefits of a Government funded intervention

- ▶ Rapid market development
  - ▶ Ability of government to exit kerosene subsidy business.
  - ▶ Poverty alleviation.
  - ▶ Healthier population.
  - ▶ Reduction in healthcare spend.
  - ▶ Increased tax base due to healthier population.
  - ▶ Positive environmental impact.
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# Another way

- ▶ If we cannot **shift** the risk then let us *share* the risk.

# INDUSTRY DRIVEN MARKET DEVELOPMENT

- Fill the education gap.
  - Mass education campaign with presence in all local governments in the country.
  - Utilize traditional and non-traditional channels of communication.
  - The call to action being clear – drive them into swap-out program
  
- Champion a fuel swap-out program.
  - Acceptance of the reality that the ideal swap out price ranges from zero naira to the price of a gallon of kerosene.
  
- Manage LPG pricing
  - Negotiate forward contracts or utilize other market techniques to ensure trading within a narrow band.

# ACTING IN ENLIGHTENED SELF-INTEREST

- ▶ Self Imposed Levy on existing volumes
  - ❖ 80,000MT come from one vendor (NLNG), making it easy to capture at source.
  - ❖ N5/kg levy translates to approximately USD2.5mm which can be modestly leveraged to finance the acquisition of starter kits.
- ▶ Seek Multilateral funding grants for education.
  - ❖ UNIDO, UNICEF, WLPGA

# CHAMPIONING A SWAP-OUT PROGRAM

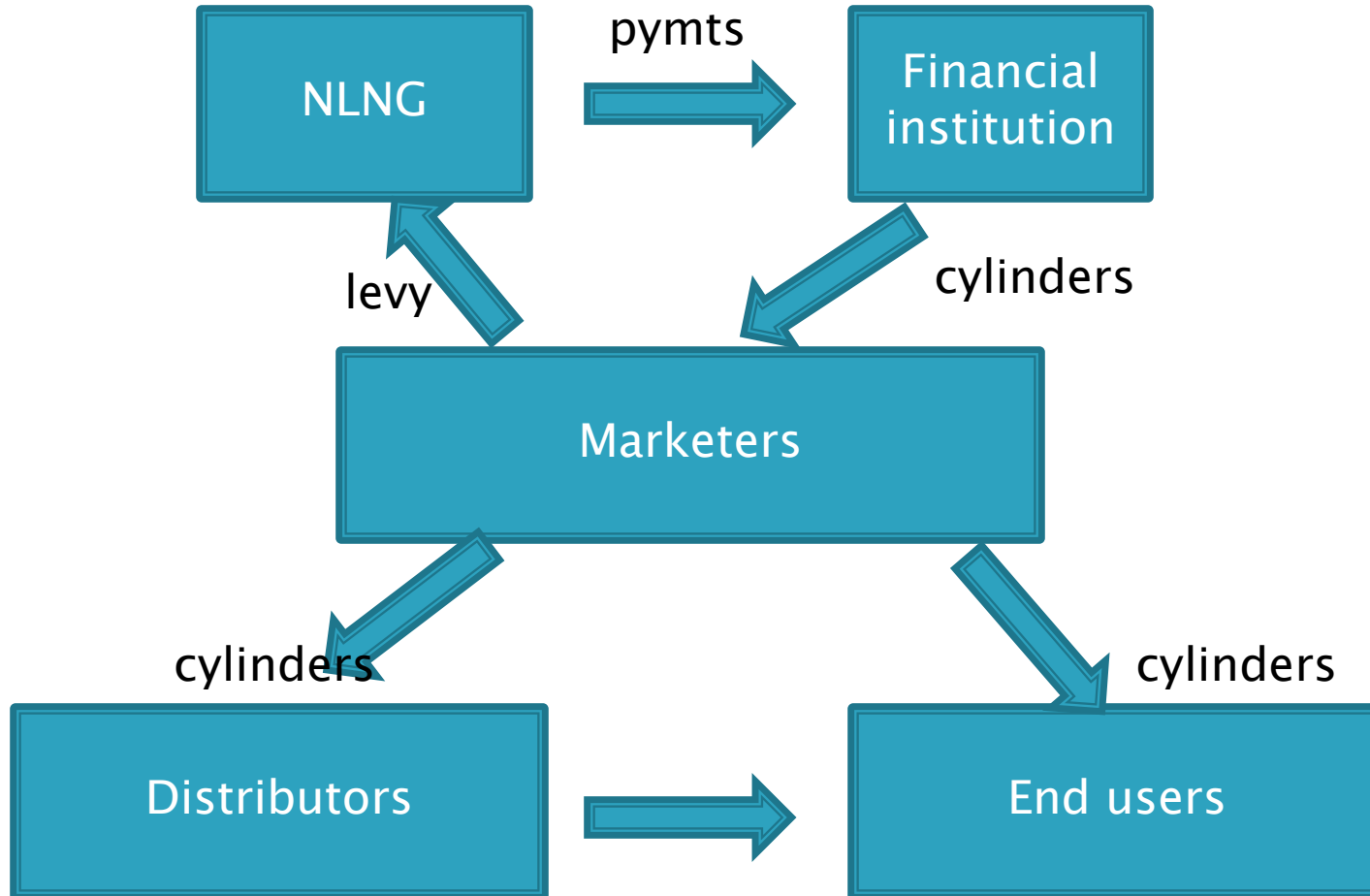
▶ Target  utilize ALL of NLNG allocation of 150,000MT.

▶ 2011 utilization  75,000MT

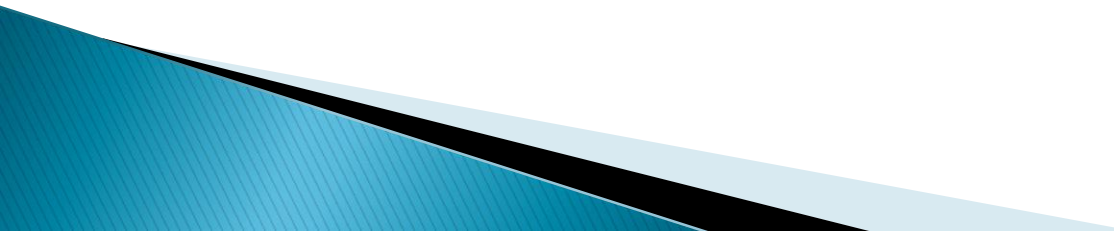
New users required  500,000  
(based on 150kg annual consumption)

# Model flow

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# ADVANTAGES OF COLLECTIVE APPROACH.

- ▶ Dilutes the risk of single operator funding a cylinder injection program.
  - ▶ Negotiate favorable rates with manufacturer based on volume commitments.
  - ▶ Allows a fair opportunity to maintain existing market shares because distribution of kits is according to contributed levy.
  - ▶ It will attract capital to other necessary areas of the industry.
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Better to light a wee little candle  
than to curse the darkness.

- Scottish proverb