

25 September, 2013

H.E. Dr. Goodluck Ebele Jonathan
President and Commander-in-Chief
Federal Republic of Nigeria
State House
Abuja

Your Excellency,

Subjects:

- Non-Repatriation to the Federation Account by Nigerian National Petroleum Corporation (NNPC) of \$49.8 Billion representing 76% of the value of Crude Oil liftings in 2012 and 2013
- Failure of NNPC to pay N22billion Nigerian Export Supervision Scheme (NESS) Levy
- Other Related matters

I am constrained to formally write your Excellency, documenting serious concerns of the Central Bank of Nigeria (CBN) on the continued failure of the Nigerian National Petroleum Corporation (NNPC) to repatriate significant proportions of the proceeds of crude oil shipments it made in gross violation of the law. Sources of Federation Account Revenues include proceeds from Export of Nigeria's crude oil by the NNPC, Petroleum Profits Taxes, and Penalties for gas flaring, oil exploration licenses and concession block allocations, etc.

Our analysis of the value of crude oil export proceeds based on the documentation received from pre-shipment inspectors shows that between January 2012 and July 2013, NNPC lifted 594,024,107 barrels of crude valued at \$65,332,350,514.57. Out of this amount, NNPC repatriated only \$15,528,410,098.77 representing 24% of the value. **This means the NNPC is yet to account for, and repatriate to the Federation Account, an amount in excess of \$49.804 billion or 76% of the value of oil lifted in the same period.**

Your Excellency, I have attached as an appendix, a table giving the analysis of the crude oil liftings and repatriations as prepared by staff of Trade & Exchange and Banking & Payments System Departments of the CBN based on the firm documentation in their possession. The failure of NNPC to repatriate these amounts constitutes not only a violation of constitutional provisions but also of both the Foreign Exchange

(Monitoring and Miscellaneous Provisions) Act No.17 of 1995 and the Pre-shipment Inspection of Exports Act No. 10 of 1996 which stipulates that "An exporter of goods, including petroleum products, shall open, maintain and operate a foreign currency domiciliary account in Nigeria into which shall be paid all exports proceeds corresponding to the entire proceeds of the exports concerned".

Your Excellency, you will recall that as far back as late 2010, I had verbally expressed deep concern about what appeared to be huge shortfalls in remittances to the Federation Account in spite of the strong recovery in oil price. At a recent NEMT meeting in the Presidency, I also expressed a strong view that while Government needs to continue its effort to combat oil thieves, vandals and illegal refineries in the Niger-Delta, the major problem is transactions taking place under legal cover with huge revenue leakages embedded therein.

Your Excellency, it is my respectful view that a place to begin is to insist on NNPC to account fully for all proceeds that were diverted away from its accounts with the CBN and the Federation Account. There are also other lines of inquiry which your Excellency may wish to authorise and pursue. These include;

1. A thorough audit of activity on any domiciliary accounts held by NNPC outside of the CBN. This is because the CBN has no record of either the dollar proceeds of these diverted sales or the naira equivalent being transferred to the Federation Account.
2. An examination of banking records of companies involved in Oil lifting and swap deals, including audit trails of regular payments to third-parties;
3. An independent review of the terms and condition of Oil lifting and swap contracts for fairness and equity and transparency;
4. Investigation and prosecution of Bureau de change (BDC) that have purchased hundreds of millions of dollars from the Inter-bank market and are unable to account for these monies. We have compiled a list of these companies with recommendations for prosecution under Anti-money Laundering Laws;
5. Investigation of obvious avenues for money laundering, such as companies that sell private jets to Nigerians.

The Central Bank stands ready to render full assistance and provide as much data as possible to assist these inquiries.

Your Excellency, as an indicator of how bad this situation has become, please note that in 2012 alone, the Federation Account received \$28.51 billion in Petroleum Profits and related taxes but only \$10.13 billion from crude oil proceeds. In the period January-July 2013 the corresponding figures are \$16.65 billion and \$5.39 billion, respectively. This means, Your Excellency, that in this first seven months of the year, taxes accounted for 76% of the total inflow from this sector, while NNPC crude oil proceeds, accounted for only 24%.

You will also note, Your Excellency, that NNPC liftings amounted to 46% of total oil liftings from Nigeria during the reference period, and yet its remittance represented only one-third of the taxes paid by the oil companies that exported the balance of 54%.

Finally, your Excellency, we would like to report that NNPC has failed to keep up with payments of its levies under Nigerian Export Supervision Scheme (NESS) in line with this law, and currently owes the Federal Government N22 billion.

As banker to the Federal Government and Economic adviser to the President, I am obliged to draw the President's attention to these serious issues of which you have most probably never been aware in this detail.

To summarise, my recommendations are to respectfully advise the President to;

1. Require NNPC to provide evidence for disposal of all proceeds of crude sales diverted from the CBN and the Federation Account;
2. Investigate crude oil lifting and swap contracts, as well as the financial transactions of counter-parties for equity, fairness and transparency; and
3. Authorise prosecution of suspects in money-laundering transactions, including but not limited to BDCs who are unable to account for hundreds of millions of dollars.

I trust your Excellency will find the content of this letter useful and hereby reaffirm the support of Central Bank of Nigeria for your Government's transformation agenda and effort to serve the Nigerian people.

While thanking you for your kind consideration, please accept, Mr. President, the renewed assurances of my highest regards.

Yours sincerely,

TABLE I: ANALYSIS OF VALUE OF CRUDE OIL EXPORTS AND PROCEEDS REPATRIATION BY NNPC FOR THE PERIOD JAN 2012 - JULY 2013

MONTH	TOTAL LIFTINGS INSPECTED (BARRELS)	TOTAL LIFTINGS FOB VALUE (US\$)	QTY OF NNPC LIFTINGS (BARRELS)	AVERAGE PRICE PER BARREL (US\$)	NNPC LIFTINGS FOB VALUE (US\$)	% OF NNPC TO TOTAL LIFTINGS	NNPC CRUDE OIL PROCEEDS REPATRIATIONS (US\$)	Variance btw NNPC Lifting and Repatriation	% Shortfall in NNPC repatriation
Jan-12	53,202,013.00	6,027,926,353.06	24,657,005	112.38	2,770,949,030.69	46%	861,200,429.60	(1,909,748,601.09)	-69%
Feb-12	54,541,981.00	6,319,199,190.70	28,873,143	113.37	3,273,462,269.77	52%	876,630,314.99	(2,396,831,954.78)	-73%
Mar-12	54,561,016.00	6,473,271,695.11	28,590,534	105.14	3,005,892,844.05	46%	805,670,794.61	(2,200,222,049.44)	-73%
Apr-12	61,813,373.00	7,095,063,032.68	27,964,084	104.94	2,934,464,274.48	41%	1,075,159,552.12	(1,859,304,722.36)	-63%
May-12	92,549,392.00	10,288,353,246.81	46,375,232	111.23	5,158,100,967.99	50%	830,271,899.73	(4,327,829,068.26)	-84%
Jun-12	103,528,136.00	10,313,194,454.61	46,828,918	105.13	4,922,981,137.25	48%	928,977,774.88	(3,993,973,362.37)	-81%
Jul-12	71,032,015.00	7,439,479,566.77	30,557,708	105.21	3,193,848,183.48	43%	1,190,350,632.02	(2,003,497,551.46)	-63%
Aug-12	78,642,057.00	8,965,553,683.76	35,489,199	114.71	4,071,102,476.88	45%	613,713,507.53	(3,457,388,969.35)	-85%
Sep-12	70,423,904.00	7,956,272,225.27	32,837,867	113.58	3,729,772,806.66	47%	745,698,069.67	(2,984,074,736.99)	-80%
Oct-12	65,343,224.00	7,338,930,434.22	31,156,454	112.71	3,511,559,625.18	48%	729,627,208.51	(2,781,932,416.67)	-79%
Nov-12	60,835,673.00	6,711,212,089.49	24,091,317	112.97	2,673,439,552.79	40%	559,149,097.12	(2,114,290,455.67)	-79%
Dec-12	74,564,323.00	8,256,230,085.83	32,094,991	110.98	3,561,869,227.23	43%	913,817,057.93	(2,648,052,169.30)	-74%
Jan-13	69,123,972.00	7,948,688,950.05	34,763,400	115.54	4,015,414,125.67	51%	787,766,784.56	(3,227,647,341.11)	-80%
Feb-13	53,945,873.00	6,370,915,977.93	20,772,740	118.09	2,452,987,504.48	39%	779,181,337.80	(1,673,806,166.66)	-89%
Mar-13	72,928,322.00	8,037,822,348.48	34,013,018	110.59	3,761,333,542.35	47%	798,491,909.18	(2,962,841,633.17)	-79%
Apr-13	65,218,802.00	6,780,813,779.10	27,173,595	103.92	2,823,990,274.19	42%	750,422,688.17	(2,073,567,586.02)	-73%
May-13	60,174,451.00	6,350,224,036.80	29,183,297	106.04	3,094,545,816.46	49%	520,728,481.93	(2,573,817,334.53)	-83%
Jun-13	58,204,737.00	6,148,419,104.50	27,158,631	106.09	2,881,357,808.55	47%	974,376,272.85	(1,906,981,535.70)	-68%
Jul-13	67,109,377.00	7,373,547,209.12	31,642,944	110.46	3,495,309,046.42	47%	787,176,285.57	(2,708,132,760.85)	-77%
Average	67,775,928.47	7,483,900,950.23	31,264,427	110.0544	3,438,544,764	46%	817,284,742.04	(49,803,940,415.80)	-76%
Total	1,287,742,641.00	142,194,118,054.29	594,024,107		65,332,350,544.57	46%	15,528,410,098.77		

Source: Trade & Exchange Department; Banking and Payments System Department

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CHART 1: Value of NNPC Liftings vs Repatriation Jan 2012-July 2013



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Table II: Trends in Crude Oil Receipts Vs. PPT and Other Oil Related Taxes from January-July 2013

Month	Crude Oil Proceeds (US\$ billion) (NMPC)	Crude oil proceeds as % of Total Receipts	Receipts from PPT+ (US\$ billion) (Oil Companies)	PPT+ as % of Total Receipts	Total Receipts (US\$ billion)
Jan-Dec 2012	10.13	26%	28.51	74%	38.64
Jan-July 2013	5.39	24%	16.65	76%	22.04
Total	15.52	26%	45.16	74%	60.68

Source: Trade & Exchange Department; Banking and Payments System Department

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