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Is Gas Utilization Incentive still necessary?

It is important to appreciate that fiscal incentive packages alone will not trigger the level of investment demanded under the GMP

Presently, the Nigerian economy is in need. It is in need of huge capital injection by way of foreign direct investment from foreigners or Nigerians in diaspora into critical sectors or industries. It is in need of serious infrastructural investment howsoever can be achieved. And despite the present challenges facing Nigeria's oil and gas sector, the sector is still very much relevant to Nigeria's progress. The pursuit of diversification and growth in the contribution of the non-oil sector to GDP is not and should not be treated as an abandonment of Nigeria's crown jewel source of revenue.

It is a fact that "Nigeria is endowed with abundant natural gas resources, which in energy terms, is in excess of the nation's proven crude oil reserve. Moreso, the gas was discovered whilst searching for crude oil, as no deliberate effort had been made to search for natural gas then. The current reserve estimate of the Nigerian gas is over 120 trillion cubic feet, with about 50/50 distribution ratio between Associated Gas (AG) and Non Associated Gas (NAG). Only a small fraction of this quantity is currently being utilized.[1]" This reserve estimate indicates an inherent possibility of exploiting Nigeria's gas reserves for at least the next 100 years with the potential for a further 600 tcf in undiscovered reserve.

Accordingly, one of the significantly big plans before the Federal Government of Nigeria is the Gas Master Plan (GMP). This is aimed at significantly improving the level of gas utilization in Nigeria and to provide stimulus for development and production of natural gas in Nigeria. It is noteworthy that about 63% of the AG produced during the production of crude oil is flared. Whilst this appears a considerable improvement relative to about 80% that was flared in the past, Nigeria loses an estimated 18.2 million U.S. dollars through gas flaring.

No surprise, applicable fiscal terms for gas utilization are a crucial component of the GMP even though some of these fiscal terms predate the adoption of the GMP. Nigeria's tax

framework thus contain incentives to gather the AG and to develop the NAG. Thus, it is stipulated that "all incentives granted in respect of investments in associated gas shall be applicable to investments in non-associated gas".

These incentives include:

- Equipment and machinery meant for gas project development are exempted from VAT and import duty
- Applicable tax rate under the PPT Act to be at the same rate as Companies Income Tax Act (CITA) currently at 30 %.
- Capital allowance at the rate 20 % per annum in the first four years, 19 % in the fifth year and remaining 1 % in the books
- Investment Tax Credit (ITC) at the current PPT rate of 50 % which was the same rate of credit granted to oil producing companies
- Royalty at the rate of 7 % on-shore and 5 % offshore
- Pioneer status for companies engaged in gas production, transmission and distribution for a period of 5 years
- An initial three years (renewable for an additional two years) tax holiday
- Accelerated capital allowances after the tax-free period in the form of annual allowance of 90% with 10% retention, for investment in plant and machinery
- Additional 15% investment allowance
- Tax free dividend during the tax free period
- As an alternative to the tax free period, companies may claim an additional investment allowance of 35%
- Interest payable on any loan obtained with the prior approval of the Minister for a gas project, shall be deductible for tax purposes

Gas utilization covers a range of projects involving marketing and distribution of natural gas for commercial purposes and includes power plant, liquefied natural gas, gas to liquid plant, fertilizer plant, gas transmission and distribution pipelines.

Despite that there are many gas utilization at various stages of completion in the country, the sad commentary is still that "existing gas infrastructure is insufficient to meet gas demand from the power sector, commercial customers, industrial and exports needs. There is still need for investments in new pipelines and other gas gathering, processing and storage infrastructures".[2] Inability to attain full commerciality in domestic gas prices has also hindered progress towards export parity. Even with the domestic gas supply obligation (DGSO), making gas available for domestic use at the appropriate level is yet to be achieved.

To the extent that fiscal incentive regime represents a form of subsidy by the Government, then it becomes imperative at a time when government seeks to eliminate leakages and improve its receipts to raise the following questions:

- What benefit accrues to the economy from the incentives already granted compared to the attrition in revenue that would have been due to Government had the incentives not been granted?
- Are there presently undeserving beneficiaries of the incentive regime?
- Are there presently companies that should be beneficiaries of the incentive regime but have been excluded due to some ambiguity in the definition of gas utilization?

It is important to appreciate that fiscal incentive packages alone will not trigger the level of investment demanded under the GMP. It is high time for Government to acknowledge that investors are not charities. They are profit maximisers. Good prices assure profitability for them.

Thus, if a sector can be made to cover its cost, then there is always an incentive for those with the requisite scarce capital to invest and seek out new markets that can be profitable.[3] This encourages both initial investment and enhance prospects for continuing investment.

While it is difficult to determine the effect of a single variable in the decision of an investor to locate his capital, the effect of any factor on investment decision would differ from one investor to another. The focus of government therefore should not be on fiscal incentives alone but in the regularisation of areas of disincentives such as subsidies, political instability, inadequate infrastructure etc.[5]

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1 *NAPIMS: http://www.napims.com/gasutilisation.html*

2 *http://allafrica.com/stories/201508140439.html*

3 *Bacon and Besant-Jones in Energy and Mining Sectors Board Discussion Paper Series, Paper No 2, (June, 2002)*

4 *Such a decision may depend on the strategic interest of the investor, its motivation, experience and size of investment*

5 *Joseph Ajibola Arogundade: Nigerian Income Tax & Its International Dimension, 2005 p 110-111*

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