

METHANOL FUEL

The National Policy on Methanol Fuel Production Technology: An Enabler for Flare Gas Utilisation

Introduction

Nigeria has the 9th largest proven natural gas reserves in the world with approximately 200 trillion cubic feet (tcf).¹ Despite having the largest reserves in Africa, only about 25% of those reserves are currently being developed.² Regrettably, the country has not blossomed from the raw materials value-chain industry catalysation in a similar manner as some OPEC member states, where in-country human capacity building and industrialisation have been by-products of the exploitation of natural resources. Due to a crippling lack of utilisation infrastructure, the country still flares about 331 billion cubic feet (bcf) of the natural gas it produces.³

With the country's signing of the Paris Agreement and its commitment under its Nationally Determined Contributions to cut emissions by 45% in the strategic sectors linked to the nation's continued economic survival,⁴ the Federal Government of Nigeria (FGN) recently issued the National Policy on Methanol Fuel Production Technology (the "**Policy**"). If appropriately implemented, it will facilitate the efficient and effective utilisation of the country's gas resources,

¹ Ministry of Petroleum Resources: Nigeria National Gas Policy, p 18.

² <https://www.shell.com.ng/media/nigeria-reports-and-publications-briefing-notes/potential-in-natural-gas.html>.

³ Ministry of Petroleum Resources: Nigeria National Gas Policy, p 60.

⁴ National Policy on Methanol Fuel Production Technology, p 6.

complement the FGN's efforts to commercialise flare gas, and reduce associated environmental pollution. Key aspects of the Policy include an expansion of the chemicals industry value-chain; provision of sustainable alternative fuel; a concerted focus on private sector driven investment; enabling additional tax generation and a clearly articulated regulatory framework aimed at fostering a conducive environment for players in the industry.

Apart from identifying the flare gas to methanol fuel value-chain, the Policy also contemplates the use of diversified sources of feedstock for the production of methanol fuel such as cellulosic materials from crops like cassava, sweet potato and maize; palm oil and jatropha and the beneficiation of abundant coal deposits and waste dumps.

The Policy clearly defines the path for permeation into the market of methanol fuel technology by prescribing a nurturing methanol fuels importation policy that will transition eventually into the complete domestication of methanol fuel production. It exhibits a strong reliance on the capacity of the Ministry of Petroleum Resources and the Ministry of Industry, Trade and Investment to provide leadership to the methanol fuel industry by way of policy setting, regulation and surveillance of standards and the holistic coordination of methanol fuel research and development.

Importantly, the Policy advances the Methanol Fuel Production Technology Programme (the "**Programme**") which is expected to raise additional tax revenue for the FGN from the economic activities attributable to the industry, stimulate economic development and job creation, empower rural communities through involvement in the methanol fuel value chain, and create spin-off industries from increased research and development activities in the industry.

Programme Structure

The 1st phase of the Programme is intended to commence through a seeding of the market with a blend of gasoline and methanol fuel known as M15 (initially in selected cities during the first 3 years of the Programme, followed by a national roll out). The 2nd phase of the Programme (which will coincide with the seeding phase) will involve the gathering of flare gas in anticipation of the construction of large-scale methanol fuel plants, with the aim

to achieve 100% domestic production of methanol fuels consumed in Nigeria by 2025.

The intrinsic vision of the Policy is to expand the currently existing chemicals industry value-chain, and to firmly establish a thriving methanol fuel industry geared towards improving the quality of automotive fossil-based fuels for transportation and power generation in Nigeria.

The Policy contemplates a reliance on flare gas as the primary feedstock for the methanol value chain. Although the Policy does not directly acknowledge that flare gas utilisation is already being regulated through the Nigerian Gas Flare Commercialisation Programme (NGFCP) and enabling laws, inescapably, significant collaboration with the NGFCP Steering Committee would be required for the successful implementation of the Programme.

The Policy envisions that methanol fuel will be imported to foster and develop requisite capacity and capability prior to the large-scale local production and establishment of methanol fuel plants. In express recognition of the stimulating effect that private sector investment can impress on economic growth in a liberalised economy, the Policy prescribes that investment in the domestic production of methanol fuel will be private sector driven, and impediments to private sector participation in the sub-sector will be addressed to ensure a robust and conducive local environment for industry players.

Institutional Framework

The Policy aspires to promote integrated methanol fuel operations whereby methanol

fuel producers would enter into long term contracts with feedstock providers.

Under the Policy, the Nigerian National Petroleum Corporation (NNPC) is expected to guarantee offtake of locally produced methanol blended fuels as the “buyer of last resort”, support the development of methanol fuel downstream sector activities, and invest in methanol blended fuel Joint Ventures and import/export facilities for the purpose of seeding the industry. While the contemplated NNPC guarantee of offtake is commendable, careful consideration must be given to the structure that will enable the certainty of payment from NNPC.

Regulatory Framework

Admittedly, the existing regulatory framework governing refined products in Nigeria is not robust enough to effectively implement and nurture the methanol fuel programme. In an attempt to fill this lacuna, and with the underlying aim of stimulating green economic development, the Policy tasks the Minister of Petroleum Resources with the creation of a specific regulatory framework for the methanol fuel value chain in Nigeria and administration of all methanol fuel activities. The Policy also tasks the Minister of Industry, Trade and Investment with the regulation of production, processing and value addition of methanol fuel activities. However, this task allocation matrix, if not meticulously balanced, heightens the risk of proliferation and duplication of regulation, when ultimately, the issuance of licences, permits and regulations governing the importation, handling, storage and distribution of petroleum products resides in the Minister of Petroleum Resources.

Industry Incentives

The Policy contemplates several tools to facilitate the market entry of methanol fuel including the grant of pioneer status; exemption from value added tax, withholding tax, and capital gains tax; enjoying the benefit of tax rebates under capital allowance and

exemption from payment of custom duties on importation and exportation of biofuels. The overall objective would be to ensure that methanol fuel projects can be economically viable from a fiscal viewpoint.

Methanol Production Funding

The Policy contemplates the availability of low interest preferential loan arrangements to aid the development of large-scale methanol value chain schemes and integrated operations.

Notwithstanding the general exemptions from taxes contemplated for the methanol fuel industry, in order to fund the preferential loans, the Policy proposes the institution of an Environmental Degradation Tax to be charged on oil and gas upstream operations. The basis and subsequent implementation of the tax is however unclear. Upstream producers will be keen to understand the scope of application and the basis of computation.

The Policy reflects the FGN’s wish to synergise the private and public sector in methanol fuel research and development. The Policy contemplates that the National Research Institute for Chemical Technology will lead and coordinate methanol fuel research while methanol fuel companies will be mandated to contribute 0.25% of their net revenue to fund such related research. While such investment in R&D is a welcome development, the criteria for eligibility and disbursement of funds must be such that further the Policy goals.

Implementation of Policy

The Policy stipulates initial steps for the immediate commencement of the methanol value chain programme which are contingent on the holistic collaboration of several government agencies and ministries.

The Policy also proposes that petroleum marketers would undertake a revamp of their retail outlets and obtain recertification by the Department of Petroleum Resources prior to sales and marketing of methanol-blended fuels.

Conclusion

Laudably, the Policy aims to create a framework which can attract foreign investment into the methanol fuel industry and anticipates the involvement of the domestic financial and commercial sectors of the economy in stimulating growth of the methanol fuel industry in Nigeria. If properly implemented, the Policy will birth a new era of sustainable alternate fuel, increased flare gas utilisation, reduced dependence on crude oil, and a cleaner environment.

Key Contacts

For more information regarding the information provided by this guide please contact:



Yemisi Awonuga
Partner
yemisi.awonuga@templars-law.com



Uba Emole
Associate
uba.emole@templars-law.com