

OIL SUBSIDY AND DEVELOPMENT OF LOCAL REFINERIES IN NIGERIA: A CRITICAL ANALYSIS

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Abstract

This study interrogated the nexus between fuel subsidy administration and Development of local Refineries in Nigeria. The study argued that the fuel subsidy regime hindered the development of local oil refineries in Nigeria and created room for expatriates' dominance of fuel importation and distribution. The study adopted explanatory research design. The data employed for the study were gathered from secondary source such as official documents; journals; magazines; Newspapers among others while content analysis and trend analytical techniques were employed for data analysis.

Keywords: Fuel subsidy, local refineries, Nigeria National Oil Company, Nigeria National Petroleum Corporation, Expatriate

Introduction

Nigeria is Africa's biggest oil producer and fifth supplier to the United States. She is rated among the 12 biggest oil producers in the Organization of Petroleum Exporting Countries (OPEC), contributing about 2.5 million barrels per day to the OPEC basket. She is the sixth largest oil exporter, with a total of 173 oil blocks in operation (Vanguard, 2013:5). The OPEC's Annual Statistical Bulletin 2012 shows that Nigeria has proven crude oil reserves of 37.2 billion barrels, while proven natural gas reserves stands at 5.154 million cubic meters, and by 1970, it had become the leading source of foreign exchange, accounting for 63.9 per cent and making it the eighth in the world gas reserves and first in Africa.

In Nigeria, oil was discovered in Ogoni land in 1956 and there are about fifty-six oil wells in Ogoni land which is the fifth largest oil producing community in River State. The first oil wells were in Ebubu and Bomu, where exploration activities by Shell and Chevron multinational oil companies started. Crude oil production and export commenced in Nigeria in 1958. It accounted for 7.1 per cent of total exports in 1961, which was dominated at that time by cocoa; groundnut; rubber and palm oil in that order. In 1965, oil constituted 13.5 per cent of the nation's export earnings hence; Nigeria's first oil refinery was established in 1965, in Alesa Eleme in Ogoni land (Osaghae, 1995:32). By 1979, petroleum sales had completely overshadowed non-oil exports, as it then contributed about 95 per cent of the country's export earnings. In 2012, oil and gas export accounted for almost 96 per cent of export earnings. In 2013, Nigeria's budget was framed on a reference oil price of \$79 per barrel, providing a wide safety margin in case of price volatility (U.S Energy Information Administration, 2013:1). Central Bank of Nigeria (CBN) reported in 2010 that petroleum accounted for approximately 96 per cent of the country's foreign exchange and 76 per cent of the total government revenue (CBN, 2010:3). It is no surprise then that it was observed that total oil revenue generated into the federation account amounted to

N34.2 trillion while non-oil revenue was N7.3 trillion, representing 82.36 per cent and 17.64 per cent respectively between 2000 and 2009 (Ogbonna and Ebimobowei, 2012:34).

However, despite the abundant oil resources and unprecedented wealth, Nigeria depends on eighty five (85) per cent and above on importation of petroleum products with massive infusion of subsidies, to stabilize the price of fuel and insulate Nigerians from the wild fluctuation of global market price. Nigeria imports estimated \$10 billion of fuel annually for domestic consumption. In 2012, Nigeria consumed 270,000 bbl/d and in 2013, she imported slightly more than 84,000 bbl/d of petroleum products (U.S. Energy Information Administration, 2013:13). She imports fuel from United States; United Kingdom; Venezuela; Canada; Brazil; Netherlands; the Persian Gulf countries and so on (Chimezie, 2009:7). Efforts to increase the refining capacity of the four refineries at Port-Harcourt; Warri and Kaduna in Nigeria for the past 40 years have proved abortive as subsidy on imported products became an avenue for patronage by successive Nigerian governments to their relatives and cronies. For instance, from 2006-2011, about N3.7 trillion was spent on subsidy. In 2011, N1.348 trillion was spent between January and October and it is expected to reach N1.436 trillion by the end of the year. This represents 30 per cent of total Federal Government expenditure; 118 per cent of the capital budget and 4.18 per cent of GDP (Okonjo-Iwuala, 2011:2).

Successive civilian and military administrations in Nigeria depend mostly on the importation of fuel. At independence in 1960, oil industry remained entirely in the hands of Multinational Oil Corporations (MNOCs), who control production; importation; shipment of fuel and pay taxes and royalties to Nigerian government. As such, Nigeria depended 100 per cent on these International Oil Companies (IOCs) till 1973 for her fuel importation. By 1971, the Nigerian government was able to import fuel through the Joint Venture (JV) participation agreement between the Multinational Oil Corporations (MNOCs) and Nigerian National Petroleum Corporation (NNPC) which represents the Nigerian government. NNPC sells its own share of oil allocation in the international market and uses the proceeds to import petroleum products (Nwokeji, 2007:33). However, joining the Organization of Petroleum Exporting Countries (OPEC), has two noticeable effects on the country's political economy. First, OPEC required member states to nationalize the oil industry. Second, it gave rise to the establishment of the Nigeria National Oil Company (NNOC) which effectively ensured direct marketing of its share of crude oil in 1971 and also direct importation of fuel from any country of her choice. Suspicion of corruption in importing and selling of crude oil led to the dissolution and replacement of NNOC by the General Olusegun Obasanjo military regime (1976-79), with Nigeria National Petroleum Corporation (NNPC) in 1977, following the recommendations of the panel set up by him to probe the company. With the establishment of NNPC by Decree 33, the Corporation has

since then been saddled with full control of the activities covering the upstream, midstream and downstream sectors of the petroleum industry in Nigeria (Nwokeji, 2007:34).

The civilian government of Shehu Shagari (1979-1983), imported an average of 71.5 per cent (NNPC Annual Statistical Bulletin 2005 and 2006) of fuel into Nigeria. The regime of General Buhari imported an average of 69.2 per cent (NZ'/PC Annual Statistical Bulletin 2005 and 2006) of fuel in Nigeria. General Babangida's regime (1985-1993), imported an average of 89.4 per cent (NNPC Annual Statistical Bulletin 2005 and 2006) of fuel in Nigeria. He was the first President to popularize the word "subsidy" in 1987. He announced the removal of 80 per cent of subsidy. When General Sani Abacha (1993-98) overthrew in another coup in 1993, fuel importation increased in magnitude and intensity with massive infusion of subsidies. For instance, he imported an average of 71.5 per cent (NNPC Annual Statistical Bulletin 2005 and 2006) of fuel in Nigeria. Like his predecessors, he removed subsidy and used it to establish Petroleum Trust Fund (PTF) to manage the extra money from the subsidy.

Nigeria returned to democracy in 1999 with Olusegun Obasanjo elected as President ending almost 16 years of military rule. Obasanjo abolished the monopoly of importation of fuel by NNPC and announced the take off of liberalization and deregulation of the oil industry by September 30th 2003, followed by the setting up of Petroleum Stabilization Fund later tagged Petroleum Support Fund (PSF) to finance subsidies. The incessant crises in the Niger Delta region; militant attacks; blowing up of oil facilities and hostage-taking of oil workers paralyzed the oil sector, making Nigeria to depend solely on importation of fuel. Thus, NNPC Group Managing Director (GMD), Mr. Funso Kupolokun declared that Nigeria depends 100 per cent on imported petroleum products for its fuel needs, that all the nation's four (4) refineries in Wari, Kaduna and Port Harcourt were closed and that Nigeria is importing all of its fuel because its oil refineries are not working, even though \$1 billion (about 129 billion) has been spent on Turn Around Maintenance (TAM) of the plants in the last eight years. They were closed after the attacks from militants fighting for local control of the Niger Delta's oil wealth (Izere, 2006:1).

The Yar'Adua's administration's amnesty deal in the Niger Delta resulted in minimal oil refining production in 2009. For example, "the Port-Harcourt refineries operated at about 9 per cent of capacity compared with about 18 per cent in 2008. Similarly, the Kaduna refinery operated at about 3 per cent of capacity compared to about 20 per cent in 2008. This reflected in the significant decrease in the output of refined petroleum products that was heavily subsidized by about 90 per cent of petroleum products needed in the country" (Mobs, 2011:23). In 2010, "the ailing refineries with a combined capacity of producing 445,000 barrels per day could only refine a mere 80,757 metric tones of petroleum products; 19,967 of Premium Motor Spirits; 53,223.4 of diesel and 7,567 of liquefied petroleum gas" (Ololade, 2011:47). The balance volume of 8.1 million of petroleum products was imported into the country.

In the early years of Jonathan's regime (2011-2012), "the state of refineries had considerably worsened and operated only 20-30 per cent capacity and importation of petrol increased to 70 per cent and above" (Agande, 2012:5). This era witnessed worsened importation of petrol. The Lawan led ad-hoc committee discovered that in 2011, Nigeria needs 35 million liters daily and government pays subsidy on these liters daily. The government was paying N76 in subsidy, to lower the cost of fuel imported into the country, that translated to N1.9 billion daily, and N667 billion annually. N667 billion are wasted annually for importing petrol consumed by Nigerians. In this light, this study sets out to investigate the lack of relationship between the dynamics of importation of fuel and the political economy of refineries development in Nigeria between the period 1999-2015 as a unit of observation, and unit of analysis.

The upstream oil and gas sector in Nigeria, involving exploration and production (E&P) of crude oil and natural gas from the well, has attracted vast competing investors around the world. Nigeria became the Jewel in the African oil crown, with the production capacity of 2.4 million to 2.85 million barrels per day in the past five years. The seven early traditional MNOCs that partner with Nigeria are: Shell-BP; Petroleum Development Company of Nigeria; Gulf (now Chevron); Mobil (now Exxon-Mobil); Agip; Texaco and Elf (now Total). These MNOCs have been scrambling for "388 oil blocks in the Niger Delta, out of which, 173 of them have been awarded to individuals and corporations, while 215 blocks were yet to be awarded (Vanguard, 2013:5). Out of the 173 oil blocks so far awarded, Nigerians owned 90 blocks while foreigners owned 83 blocks. These MNOCs pay the federal government royalties through the Joint-Venture (JV) agreement between the federal government and the MNOCs. All these MNOCs according to the data released in August 2013 by DPR "accounted for 90 per cent of Nigeria's total Crude Oil Production while Indigenous Oil Companies accounted for only 10 percent" (Eboh, 2013:24). The downstream oil and gas sector, involves refining the products from crude oil and distribution until it reaches the final consumer. The Nigerian government recognized the importance of the downstream sector of the petroleum industry which necessitated the building of four state owned refineries with an installed capacity of 446,000 barrels per day that scarcely function despite repeated investments in Turn-Around Maintenance (TAM).

In this light, the insidious link between the expatriates dominance of fuel importation and distribution and the contradiction of integration of research and development in Nigeria's petroleum technology development, is yet to attract systematic investigation and analysis. Overall, writers on the importation of fuel focus on imperative of lapses in the policy process. However, the relationship between the dynamics of importation of fuel and structural contradictions of Nigeria's political economy indicated by lack of investment, failure to adequately define the challenges hindering refineries development and integration of Research and Development in Nigeria's Petroleum Technology, are yet to be given adequate systematic scrutiny between 1999 and 2015. Despite the efforts of the successive Nigerian Governments,

their performances are still very low. Supporting the Scholars such as (Okonjo-Iweala, 2011:2; Chimezie, 2009:7 and Agbon, 2012:20), on the lapses in fuel importation and the challenges to new local oil refineries development, this study intends to unravel the problems that have hindered the Nigerian government from developing his own local oil refineries and depended on importation of fuel. Hence, we shall explore the following research questions;

I. How does oil importation affects the development of local oil refineries in Nigeria?

Fuel subsidy Administration in Nigeria

Fuel subsidy is one of the critical issues that dominate public debate in Nigeria. While most scholars have agreed that there is fuel subsidy and insisted that it must be removed in Nigeria, others are of the view that fuel subsidy should not be removed in Nigeria. According to the Academics Dictionary of Economics (2006), subsidy is defined as the cash incentive given by the government to an industry with a view to lower the price of the product of the concerned industry and to raise its competitive power. This may be given as a counter balancing measure to the imposition of the custom duty (In the nature of protection duty) by an importing country government. One important objective of subsidy is to keep its prices below the cost of production. Okonjo Iweala, (2011:12), for instance, who was the co-ordinating minister of economy in Nigeria, makes a strong politico-economic case to justify that there is fuel subsidy and that its removal is necessary in Nigeria. She found out that subsidy does not get to the poor, the middle and upper classes are the real beneficiaries. Nigeria, with its large population and small oil base, is comparatively poor, compared to other oil producers. With total crude oil production of approximately 2.5million barrels per day, Nigeria has a significantly lower GDP per capita. We will be better off using the amount spent on subsidy to target poorer groups and big infrastructure projects.

According to Okonjo Iweala, under the current downstream sector structure, prices are not determined by demand and supply. Pump price of premium motor spirit (PMS) is fixed at N65 per litre by the government. Oil subsidy is what is paid by government to keep prices below free market. The subsidy causes distortions that result in huge economic costs such as rent-seeking behaviour and smuggling. The amount of subsidy equals to the difference between the consumer pump price of fuel versus the total cost of producing or importing. The price of petrol is N65 per litre, but actual cost of supply is N139 per litre. This means that currently for every one litre of petrol purchased at the official price of N65, government contributes N74. Presently, only petrol and kerosene enjoy government subsidy. Diesel has already successfully been deregulated. Subsidy is a major fiscal and financial burden on the political economy of the nation. From 2006 to 2011, about N3.7 trillion was spent on subsidy (Okonjo-Iweala, 2011:12). In 2011, N1.348 trillion was spent between January and October and it is expected to reach N1.436trillion by the end of the year. This represents 30 per cent of total Federal Government Expenditure. Deregulation implies limited intervention by government; it allows for better regulation and transparency; allows for free operation activities in the sector; attracts new investors into the

market and it increases competition and promotes overall higher productivity; reduces scarcity by ensuring adequate supply of petroleum products and similar success story to the telecommunication sector (Okonjo-Iweala, 2011:22). She concluded by enumerating some social safety nets that the government will implement if the subsidy is removed which include the following: Launching of Subsidy Reinvestment and Empowerment Programme (SURE); Maternal and child health services; Public works/youth employment programme; Urban mass transit scheme; Vocational training schemes; and High-profile infrastructure projects: Roads and rail; water resources; power and development of full functioning refineries.

In the same vein, Soyode (2001:6) also shared the above view that fuel subsidy in Nigeria should be removed. He found out that the argument of the opponents that fuel subsidy should remain is an expression of pure sentiment, and lack of economic sense. That it is ridiculous to expect the nation's resources to be invested in oil production only for just recovering the cost of production at the end of the day. He discovered that fuel subsidy is a loss of revenue that should have accrued to the federation account if the crude oil allocated for domestic consumption were to be sold at international market prices instead of the price at which it is sold to the Nigerian National Petroleum Corporation (NNPC). He concludes that removal of fuel subsidy will ultimately guarantee success and bring permanent solution to lingering fuel scarcity problem in Nigeria.

National Petroleum Corporation (1993:3) supported this viewpoint when they declared that: The issue does not require sentimental arguments, but, a close look at the major facts and figures both in domestic economy and comparative economies of other countries of the world. It noted that there is need to remove subsidy on fuel price so as to minimize the excruciating effects of fuel scarcity by improving the supply and delivery system. That fuel subsidy is not fair to all because it favours the rich who own cars and use more of fuel. They concluded that fuel subsidy removal will discourage wasteful consumption and smuggling. The amount of money realized from it will be used to provide world class mass transit and road systems, improved health care, good schools, food security and new job opportunities, transforming the economy by building infrastructure, establishing new refineries and maintaining the old ones through improved technology management among others.

In another way, Adelabu (2012:45), argues that there is fuel subsidy in Nigeria and examined the political economy of oil deregulation in Nigeria. He found out some of the leading problems of the deregulation of the downstream sector to the ruling elites as: continuing deterioration of public services; growing inequality; overdependence on oil and the Niger Delta crises. Removal of subsidies and full deregulation at this point in time could compound the already unbearable economic hardship that Nigerian people are currently experiencing. This includes hikes in transport fare; prices of food and services; closure of local industries and job losses and unemployment; deepening of the poverty level and poor standard of living of most Nigerians. He

concluded that until the challenge of infrastructural bottlenecks is addressed any attempt to deregulate will suffer major setbacks that will impact negatively on the economy.

On a moderate note, Adenikinju, (2011:2), while asserting that there is fuel subsidy, at a recent Symposium organized by Academic Staff Union of Universities in Ibadan, insisted that fuel subsidy “has moved from implicit subsidy to explicit subsidy, with the exchange rate used in the importation of oil, depleting the foreign reserves, thus making removal of the subsidy a necessity. If we are to refine locally, all these costs spent on importation will not be necessary”. He discovered the implications of the subsidy removal on the economy in general and the populace in particular. It is wrong to consider removal of fuel subsidy when the nation’s refineries are operating far below their installed capacities. The low production cannot be used to determine prices as the advantages of economy of scale will be missing. He concluded that until the nation’s refineries are repaired and made to work at full capacity, one should not talk of fuel subsidy.

Fuel Importation and Development of Local Oil Refineries in Nigeria

The study discussed the issue of fuel importation and development of local oil refineries inconsideration of the ways fuel import licenses are allocated to the independent marketers. This has been examined in the following ways by scholars. Thurber et al (2010:6), for instance, examined NNPC and Nigeria’s oil patronage ecosystem. They found out that NNPC functions well as instrument of patronage to the ruling elites and privileged Nigerians with political connections; that this oil-based patronage ecosystem affects its organization; functioning and performance; NNPC’s role as distributor of licenses for export of crude oil and import of products also helps make it a locus for patronage activities. Indeed, the implicit government goal for the oil sector appears to be the maximization of patronage opportunities; government policies have been inconsistent to allow discernment of any more explicit objectives. NNPC plays an important role in this ecosystem of patronage, though it is hardly the only institution with this function. They concluded that the gap between market prices and subsidized official prices for both crude oil and products creates enormous profit opportunities for holders of these licenses and the existence of this patronage ecosystem is responsible for the non utilization of the refineries in Nigeria.

Nwokeji (2007:75) also shared the same view that the way oil licenses (export/import) are allocated underpinned patronage. He discovered that the Nigerian political class and senior civil service have historically viewed the oil industry as important source of patronage which should not be over looked. He also found out that, access to oil money (import/ export); patronage; fields and contracts have been used as an instrument of politics in Nigeria since the civil war. This phenomenon has been most pronounced under Abacha and Obasanjo. When Abiola was jailed for claiming his mandate in the 1993 election, the Abacha regime cancelled his licenses. The Abacha government used the grant of oil import license for political patronage. In 1998,

Abacha was also reported to have offered oil-trading contracts and concessions to federal legislators and other influential figures to ensure his transformation to civilian president. Obasanjo also resorted to this method in 2005-2006, during his unsuccessful bid to amend the constitution, to allow him a third term in office (Nwokeji, 2007:78). He concluded that officials who sabotage the refineries to promote fuel importation benefit in two main ways: first, funds for maintaining the refineries go into private pockets, guaranteeing low capacity utilization or complete breakdown and inevitable shortages. Second, heavily inflated supply term contracts and import licenses are awarded to cronies for the importation of products from abroad. Bribes are also collected from retailers, who then pass the cost to consumers.

The study is against the views of (Thurber, et al 2010:6 & Nwokeji, 2007:75) because, ever since Nigeria's independence in 1960 the country has evolved a host of patronage mechanisms that defuse threats to power. NNPC is supposed to allocate fuel import licenses to independent marketers instead they officials in collaboration with politicians distribute such licenses both for individual gain and to buy support of politicians in the legislature, who in turn use the proceeds for patronage among their home constituencies. Nigeria's failure to develop operational, policymaking, and regulatory capacity reflect the patronage equilibrium that has entrenched itself in Nigeria's governing institution.

In the same vein: the House of Representative Ad-Hoc Committee Report (HRACR) (2012) supported the above view that allocation of fuel import licenses were turned to avenue of all forms of government patronage through Petroleum Product Pricing Regulatory Authority (PPRA). They discovered that PPPRA guidelines for the allocation of fuel import licenses were watered down by the Agency. They further noted that some marketers were found not to have made any application to PPPRA for supplies of petroleum products before they got their first allocation. For a valid contract, there must be an offer and acceptance. The allocation process through the Petroleum Support Fund (PSF) guidelines on prequalification and monitoring completely broke down and the scheme became an avenue for all forms of patronage. The number of importers increased from an initial figure of 6 in 2006, 36 in 2007, 49 in 2009, and 140 in 2011 the executive secretaries that served between 2009 and October 2011 created room for the violation of the processes, abuse of the procedure, and fraudulent increase in the number of importers (HRACR, 2012:72). They also noted that despite the noticeable non-viability of the policy of proliferation of oil marketers and the unbearable pressure of the ensuing corrupt practices on the economy, the PPPRA never deemed it fit to modify or reconsider its decision for the betterment of the system. They further noted that the PSF scheme became free for all manner of companies which engaged in every conceivable business and not necessarily "oil marketing/trading company", as required by the PSF guidelines. Before this period, a potential importer must have a history of oil marketing or investment in the industry (such as storage facility of minimum of 5000 MT and 5 retail outlets). They further observed that the guidelines of the PSF scheme, even as watered down by the Board in 2009, could have salvaged the scheme if

they were observed and enforced. The committee concluded with serious concern and suggested measures to ensure that impunity is no longer condoned. First, those marketers that had short-changed Nigerians were identified and recommended to make refunds with a time-frame of three months. Secondly, civil servants were to be sanctioned in accordance with the civil service rules as well as under extant laws. Thirdly, management and staff and top government officials were, based on the gravity of their offences, to be reprimanded, re-deployed, dismissed and, in specific cases, prosecuted for abuse of office and fraudulent practices.

In his analysis of the implications of Nigeria's International fuel marketers on Nigeria's oil industry and economy, Otedola (2009) noted, that over \$300 million has been overpaid by NNPC for fuel imports, and that many leading international traders are involved. He noted that bills of lading were altered to reflect loading, on days of high market prices and those discrepancies were found when comparing dates on the bills of lading with dates of landing in Lagos. He confirms this with an illustration of a tanker loading fuel at a refinery in Bahrain which usually takes four weeks to arrive in Lagos, but comparisons between the bills of lading and dates of arrival of some shipments reflected, only a four day difference, and in other cases, if taken at face value, indicated the journey took nine months. He further noted that 73 shipments from refineries in the Persia Gulf, England and Venezuela listed delivery times of only one day and that NNPC is attempting to get compensation for the over-charge. In this wise, he concluded that these traders arrange for the vandalization of crude oil feeder pipelines, which keep the refineries at Port-Harcourt, Warri and Kaduna closed or under-capacity. Those international traders generally receive at least one million dollars per ship load of fuel to Nigeria and have grown accustomed to the easy money Nigeria offers as long as its refineries remain down (Otedola, 2009:21).

Similarly, Gboyega *et al.* (2011:15) discussing the crisis in the energy sector of the Nigerian political economy, noted that Nigerian politics have evolved directly from the struggle by various interest groups to get access to oil revenue. They further noted that Nigerian politics is all about control of the federal government, which has power to grant access to the oil wealth. In terms of allocation of fuel import licenses, they state as follows: The federal government's control over oil and gas resources was achieved when Nigeria was ruled by a military regime. They concluded by saying that this regime did not invest the revenues to create conditions for sustainable development. Instead, the oil and gas resources became instrument of politics. Successive regimes could buy political support through the award of oil blocks, crude oil lifting contracts, and licenses for imports of products (Gboyega *et al.*, 2011:16).

Gillies (2009:17) also noted how complex corruption pervades the allocation of oil licenses (import/export) in Nigeria. He attempts to shed light on how public institutions governing the Nigerian oil sector permit the existence of corruption. He found out that, NNPC awards licenses to import petroleum products such as petrol, kerosene, and diesel. These export and import transactions yield high levels of fungible returns, and the lack of transparency surrounding them

creates considerable opportunities for corruption. He concluded that reducing oil sector corruption and improving the quality of oil revenues, expenditure remain great challenges. Nigeria exhibits characteristics of the “rentier state”: the driving logic of governance is the allocation of resources and opportunities in ways that strengthen the position of those in power. Such a system, operating over decades, creates seats of wealth and influence which depend on these distributional patterns for their continued existence. Therefore, reforms that advance due process, transparency and oversight should be pursued. The above review of extant literature on the issue of importation of fuel and the political economy of refineries development has shown that scholars have not examined the relationship between allocation of importation of fuel licenses to independent marketers and discouragement of investors in the development of new refineries in Nigeria.

Expatriates dominance of fuel importation and distribution in Nigeria

For a nation that has oil as its mainstay, it is expected that serious attention would have been paid to actual exploration, production and distribution of fuel. Unfortunately, the ruling class has made the expatriates to dominate the exploration; production; importation and distribution of fuel in Nigeria. Aturu, (2010:106) in his analysis of “National Interest and Economic Development” expressed the negative implications of this on oil industry. He noted that what is surprising is that 59 years after the discovery of oil in Oloibiri in 1956, the participation of Nigeria in oil industry is still very low. Government control of petroleum product prices has been a major issue especially in the face of the unprecedented failure by government to get existing refineries working to full capacity. For many years now, and with the near-total collapse of the refineries, Nigeria, a major producer of crude oil in the world has depended on the importation of petroleum products to meet its domestic needs. He concluded that investors, who had wanted to invest in the establishment of refineries, were scared away by what they saw as unfriendly pricing and leaving product marketers with low or no margins.

Similarly, Chima, (2002:22) evaluates the strategy and effort of training adopted by Nigerian government as a means of transferring the acquisition of oil technology by Nigerians. He found out that the assessments of the nature of the transfer and acquisition of oil technology in the Nigerian oil industry show that learning of technology was initiated and achieved through the Petroleum Technology Development Fund (PTDF). The fund provided scholarships for Nigerians to study engineering and technology courses within the country and abroad. In relation to technology development, he discovered that: Foreign oil company management resists the transfer of technology for use in the processing of crude and gas into petroleum product as part of its effort to avoid displacement in the upstream and downstream areas. If an oil exporting government establishes an export refinery, not only does the oil companies lose a portion of their crude supply and get displaced in the refining industry, but their international product markets may be penetrated and taken over by the “newcomer” state oil company. He concluded that, threat to market control is especially serious since state oil corporation have access to crude at no

more than the set production, and therefore can afford to engage in price competition (Chima, 2002:23). Hence, the study suggested that the lack of political will of government to regulate the oil industry is chiefly responsible for corporate abuse by oil multinationals who take advantage of Nigerian state weakness to maximize profit at all costs.

The above view corroborated with that of Hutchful (1998:122-124) who identified several difficulties of the petroleum inspectorate which reflect those generally faced by most third world countries that regulate critical resource sectors and powerful multinationals. He discovered that, they found it difficult to regulate a critical resource exploitation in which the Nigerian state was extensively involved. Particularly, it was difficult to regulate the negative externalities of oil and gas exploitation, which itself constituted the revenue base of the government. He concluded that in the struggle to get the Nigerian government to stop gas flaring, the manipulations of the multinational oil corporations can be defeated if the civil society coalition against gas flaring is united and committed. The above literature has tried with the view of how the expatriates dominance on fuel importation and distribution undermine the establishment of local refineries in Nigeria within the period under review, scholars have not adequately addressed the subject as to how the link between the expatriates dominance of fuel importation and distribution and the contradiction of development of local refineries in Nigeria.

Discussion and Analysis

Government importation of fuel has been a major issue before now, especially in the face of the unprecedented failure by government to get existing refineries working to full capacity. For many years now, and with the near-total collapse of the refineries, Nigeria, a major producer of crude oil in the world has depended on the importation of petroleum products to meet its domestic needs (Christopher, 2011:20). Investors, who had wanted to invest in the establishment of refineries, were scared away by what they saw as unfriendly pricing, leaving product marketers with low or no margins. The Nigerian government stepped in with a heavy subsidy so as to lower the fuel price for the people. Although started with the best of intentions, the subsidies have become a real problem for the governments. The problem is that crude oil prices are very volatile and have risen to astronomical heights. Since the subsidies are usually in the form of fixed prices for fuel, the burden on government could easily become unbearable. The over N1.3 trillion spent on the subsidy in the year 2014 alone in Nigeria amounts to 20 percent of the federal budget - a scenario which is absurd, in a country like Nigeria, in dire need of crucial infrastructure, this big amount of money could be used in the development of oil refineries if not used in fuel subsidy (Obasa, 2007).

Having recognized the significance of energy for development, many governments subsidize electricity or various fuels, so that their price to the final consumer is lower than the cost of production and delivery. In many developing countries, energy prices and tariffs are much lower than in industrialized countries, although the cost of producing and delivering energy is by no

means lower. For the developing countries this has the double effect of discouraging energy conservation and creating a barrier to the introduction of new forms of energy, renewables in particular, which are not equally subsidized. Moreover, generalized subsidies (as opposed to targeted subsidies), although originally meant to alleviate poverty, actually favour the richer layers of the population. Only the rich can afford consuming substantial quantities of energy; thus, they have little incentive to spare energy or to use it more effectively, yet the resulting general costs are spread among the entire population. Obikili, (2011:19)observed that poor people often have no access to commercial energy anyway, and political prices of energy as a whole discourage private entrepreneurs from extending energy services to areas judged not profitable enough. Basically, there are two main problems with imposed energy prices. The first is that they do not allow the market to function. They have no place for competition and, therefore, either the final user pays a higher price, or public finance spends more money, or both. The second problem is that imposed energy prices are generally not instruments of an *energy* policy, but rather of other policies (social, industrial, or others). As a result, they distort the energy market and orient it towards undesired solutions. Specifically, subsidized energy prices will diminish or cancel the advantage of increasing the efficiency of energy utilization and encourage waste. Since such subsidies are generally applied to traditional fuels or energy forms, they act as disincentives for new energy sources, renewables in particular, and for new ways of producing energy, such as decentralized power production or cogeneration of heat and power. Imposed energy prices are an obstacle to the introduction of sustainable energy systems (Kramer, 2011:17).

Prices of conventional fuels and electricity need to be based on marginal-cost pricing theory. In this way, price “forces” the consumer to use energy efficiently. If economic support has to be given to any economic agent(s) then, instruments other than “political” energy prices need to be used. Although it is agreed that energy subsidies are generally wasteful in many countries, marginal-cost pricing application often meets with severe difficulties. Increasing the price of largely used commodities is always unpopular and often politically sensitive. People used to paying little for the fuel they use are likely to consider a sharp rise in its price unacceptable. Political crises have been triggered in the recent past by increases in the prices of energy. For example, increases in electricity tariffs in Ghana generated a wave of protests, resulting in their prompt suspension by the government and in Indonesia, mass protests by students forced former President Soeharto to resign in May, 1998 for introducing unpopular economic policies, including the removal of fuel subsidies (Sanusi, B. 2003:12). Consequently, we have the shame of an oil-producing nation that imports virtually all her refined requirements. The more we got cheap refined products over the years, the more the opportunity cost. Because of our hypocrisy successive governments’ policies have ensured that we remain poor, because we could not compete. The refineries, as a symptom of the rot in government’s business, could not develop sophistication in their business operation and the nation could not provide the business environment needed for global competitiveness. The refineries, for most of the time, were

operating very inefficiently, therefore, unsustainably. They were run like a civil service. Presently, the four refineries in Nigeria, most of the storage depots, about 5,000 kilometers of pipelines, four jetties and two import terminals are owned by the federal government, through NNPC. When the four refineries operate at full capacity, they can only meet about 60 percent of national demand for petrol. In the past 20 years or so, they have operated under 40 percent capacity and currently supply only about 20 percent of Nigeria's gasoline demand (McKenzie and Tullock (1978:123).

Conclusion and Recommendations

This paper has critically reviewed the pros and cons of fuel subsidy in Nigeria. The empirical result shows that phasing out fuel subsidy will reduce indiscriminate fuel consumption which will lead to reduction in carbon emission, and money saved could be channeled towards infrastructural development, revitalizing the local refineries among other factors that will transform Nigerian economy. However, the strong and transparent institutional framework that could transform the money saved from subsidy removal to economic growth is very weak in Nigeria. Nigeria government should ensure that policies that will improve the welfare of the low income citizens, strong institutional framework and improved refinery technology are enforced before fuel subsidy is totally phased out.

The Nigerian government should firstly focus on various ways to improve the performance of the local refineries since none of them is working at optimum. Government should provide a conducive environment and policies that will motivate the development of various renewable energies. Furthermore, there should be an effective publicity campaign that lasts for a long period sensitizing the citizens about the benefits of removing fuel subsidy and the cost of leaving subsidy. The campaign should cut across the Academic Staff Union of Universities; polytechnics; all the labour unions and the entire ministries. This should then be followed by the transparent policy on how the government will spend the money saved from subsidy on infrastructure such as good roads; on targeted education; on health care; on job creation; on electricity provision among others that will benefit the low income earners. Afterwards, the subsidy can then be removed gradually before it is finally phased out. Nigerian government should engage independent consultant who will audit the activities surrounding the price of fuel and also how the money saved is spent. The consultant will then publish its reports regularly for public accessibility.

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