The Political Economy Of Fuel Subsidy Removal In Nigeria

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Abstract

The study examines the political economy of fuel subsidy removal in Nigeria and its implications on the economy in generate and the populace in particular. It addresses the arguments for and against fuel subsidy removal in Nigeria as a political discourse. This article relies on secondary data. This method enabled the researcher draw heavily on recorded data thus making for an in-depth analysis. It was found that rampant corruption in the nation's sprawling oil sector is hugely responsible for the intractable economic development slow-motion that has worsened the plight of ordinary Nigerians. While the country's refineries remain moribund, fuel subsidy has, instead created leeway for the criminally-minded elite to squander the commonwealth. Government has demonstrated little or no political will to stem the decay in the oil sector, as underlined by the reluctance to prosecute oil thieves, some of whom are directly or indirectly connected to the apparatus of the state. Unlike in Ghana where government engaged the people and introduced measures to cushion the harsh effects of fuel subsidy phase-out on the poor, in Nigeria, government has often increased the cost of petrol before ever addressing its impacts on vulnerable groups. The paper therefore recommends the revamping of the country's refineries, the strengthening of the fight against corruption and the establishment of a regulatory framework to protect citizens as necessary measures to help improve the poor state Nigeria's economy and society.

Keywords: fuel subsidy: fuel removal subsidy: corruption: economic reconstruction

Petroleum (oil) product remains the bench mark of Nigeria's socio-economic, education, foreign and defense policies. To anyone remotely acquainted with Nigerian politics, oil resources occupy a prominent place in the nation's power equation. The struggle for power is a clear struggle to control the oil resources and improve the lots of one's ethnic group through development opportunities. Politics in Nigeria cannot be divorced from oil. National and individual dreams, hopes and aspirations are built around oil.

Available literature has shown that Nigeria is the largest in Africa and the sixth largest oil producing in the world. The country's economic strength is derived largely from its oil and gas wealth, which contribute 99% of government revenues and 38.8% of GDP (FGN, 2010). This has generated billions of dollars in revenue over the last fifty years since oil was found in Nigeria. However, as in most developing countries, this has not translated into an improved welfare condition for the people. Instead through inefficiencies, corruption, abuse of national monopoly powers, mismanagement, smuggling, bureaucratic bottlenecks and excessive subsidizing the supply of refined crude oil products in the country has Virtually collapsed (Ibanga, 2011; Balouga, 2012).

The issue of petroleum products pricing has always been sensitive in Nigeria that it ought to always be carefully and tactfully handled. Due to low income of the people and poor infrastructural development especially in transportation, communication system and electric power system, the effect of petroleum products price increase is easily felt by people. For five decades now, Nigeria's economic policies, growth and other related activities have been largely influenced by the oil industry. To say that the economy is heavily dependent on the oil industry will amount to an understatement as the oil industry is nothing short of a life-blood for the Nigerian economy (Adelabu, 2012).

Despite Nigeria being the largest in Africa and the sixth largest oil producing country in the world, successive Nigerian governments have been unable to use the oil wealth to significantly reduce poverty, provide basic social and economic services her citizens need (Ering&Akpan 2012). Fuel sbsidy was, before the coming of the Goodluck Jonathan's administration, a policy of the Federal Government meant to assist the people of Nigeria to cushion the effects of economic hardship. The Federal government has always canvassed and lobby for fuel subsidy removal, it happened in Goodluck's administration and now in Buharia's regime. An interesting matter from the economy is the issue of fuel subsidy removal, which has been a great controversy for Nigerians. The issue of fuel subsidy removal has been in Nigeria for some decades of which different governments have tried to implement the reform but were unsuccessful due to fierce public demonstration of disapproval. This has often led to mass protests by the citizens and the civil society who regard such policy as a measure to further subjugate and impoverish the masses.

Notwithstanding, it seems that the longer the subsidies have existed, the more entrenched the opposition to reduce them. This paper therefore examines critically the politics of fuel subsidy in Nigeria and its implications for the socio-economic development of the country.

Theoretical Framework

The study adopted the theory of the "Rentier state". The theory of the rentier state emerged in the 1960s, and became fully formed in the 1980s, and has since then undergone some adjustments. Although the central economic factor of an abundant reserve of natural resources remains the constant element around which the definition is structured, its political and economic implications have been under discussion. Reductive, automatic reflexes are no longer appropriate; If they are not already being addressed, anomalies need to be reconsidered and their context taken into account.

The elaboration of the concept of the "rentier state" began around the turn of the 1970s, when energy demand was continuously increasing and the rapid hike in energy prices inflated the economies of oil and gas producing states. The attention was focused on the middle-East area, since these countries were dominating the energy market during this period. The first analysts to employ the expression "rentier state" did so with reference to Libya (Robert Mabro in 1969) and Iran (HosseinMahdavy in 1970), while HazemBablawi and Giacomo Luciani in 1987 proposed more general bases with regard to the Arab oil states.

The particular case of Gulf countries was and still is at the cornerstone of this concept since they own the most important share of energy resources in the world. Indeed according to the Energy International Administration's (EIA) statistics, Bahrein, Kuweit, Oman, Qatar, Saudi Arabia and United Arabs Emirates, constituting the Gulf Cooperation Council (GCC) own 55% of the world crude oil reserves and 44% of gas reserves. Already in 1990, ¼ of the global energy production and 45% of total energy exports originated from these 6 countries. Moreover, in 2012, four of them were ranked within the tenth biggest oil producer countries. Thus, the Gulf area has been experiencing an economic expansion based on the exploitation of its non-renewable energy reserves.

From the 1960 to 1972, the economic growth rate was really high with an average of 10% per year. In that context, economic prosperity gained through the production and exports of the “black gold” started to bring attention to the way this surplus was being managed by resource-rich government. The risks related to this kind of new economic models for GCC countries were many .Analysts first of all kept in mind the transformations and negative socio-economic impacts following the discoveries of gas reserves in the Netherlands in 1964. This phenomenon has been abundantly described in the economic literature as the so- called “Dutch Disease”. Emphasizing the shift of the labour force and the physical capital toward the new energy sector after the discovery of natural resources, economists concluded that oil wealth can represent a curse for production growth and employment. They spoke about the “paradox of plenty” which national resources discoveries were supposed to be a new source of wealth for the country, the focus and the restructuration of the economy around this energy sector paradoxically brings economic distortion, under-development and increase disparities within the population.

In the 1970s, the brutal increase of price conferment the economic centrality of oil as an almost irreplaceable element of western economic system of production, while highlighting the concentration of supply in a highly politically unstable region. The concentration of supply in a highly politically unstable region. The particular geopolitical matrix that formed the backdrop to the elaboration of the first writing on the rentier state is thus significant: the two oil crises of 1973 and 1979 were caused by the Yom Kippur war (part of the Arab-Israeli conflict) and the National Revolution of Iran respectively two major strategic events that happened in the middle East and whose stock waves were felt far beyond the region's borders.

The theory of the rentier state, put forward by Giacomo Luciano and HazemBelawi in 1987 was to become the simple model dominating middle Eastern studies for a quarter of a century. Rent became the cornerstone of a general system of organization and was used to explain not only the economies and state bureaucracies but also the functioning of societies at large. Describing Iran at the very end of the 1960s, Iranian academic Hussein Mahdavi, characterized the rentier state as one which receives substantial revenue in the form of external rent in the instance in exchange for the sale of oil. Bablawi and Luciani attributed four essential characteristics to the rentier state: rent constitutes the predominant national revenue, the domestic production sectors is weak and the economy is extremely specialized on one product; a limited proportion of the population participates in the generation of rents; the state is the principal recipient of revenue.

Relating this theory to the subject matter (Nigeria) the rentiers theorists advocate for an economic diversification, Bahrain discovered its oil resources earlier than the others (1932) and was the first to exploit its non- renewable energy reserves. Being a small country with low reserves as compared to its neighbours, Bahrain was conscious of this frailty and became the first to focus on a diversification strategy from the 1970's on. The diversification efforts led the country to be considered as the most open and liberal economy of the GCC area and the most diversified economy with Gulf countries. In 2010, Bahrain generated more than 92% of its value-added in the non- oil sector.

Nigerian government should diversify her economy and depend less on oil so that the country will be integrated in the global economy and trade. The government should also allow more rooms to the private sector in the national economy to create new jobs for the national economy workforce by reducing barriers to private sector activities, to attract more FDI in knowledge based and high value adding companies and to increase the living standards of the people.

Politico-Economy Of Fuel Subsidy In Nigeria

The issue of fuel crisis has become a common phenomenon in Nigeria that is richly endowed with large crude oil deposit and a greater exporter of the God-given commodity. It is pathetic to observe that no other OPEC member or even country that does not produce oil, share similar ugly experience with Nigeria (Badmus, 2009). Subsidy in economic sense exists when consumers of a given commodity are assisted by the government to pay less than the pump price per litre of petroleum product. On the other hand, fuel subsidy could be described as the difference between the actual market price of petroleum products per litre and what the final consumers are paying for the same products.

Today, the difference, which is borne by the government, is caused by eight imports – induced costs. These costs, according to Afonne (2011) have been discovered to be responsible for the high prices of petroleum products in present day Nigeria. Fuel subsidy was before the coming of the Jonathan administration, a policy of federal government meant to assist the people of Nigeria to cushion the effects of their economic hardship.

Fuel subsidy seeks to enhance financial capacity but also to accept the implied financial losses by it in the spirit of its national responsibility to ensure the well being of the populace. In other words, if a product like fuel, is to be sold for N141 per litre, but for some considerations, it cannot be sold at that rate but atN97 per litre and if government then accepts to pay the difference between N141 and N191, that is N44, this simply means that there is a subsidy to the tune of N85 for every litre purchased at the filling stations (Onyishi, 2012).

Nigerian oil and gas downstream sector is dominated by cartels who manipulate prices, through artificial supply restriction. These cartels determine volume of importation and the proportion that should be released to the market. At times, they only allow a few products holders to supply the market, while others hoard. Peter Akpatasan former president of NUPENG has stated thus: Deregulation cannot work in a market dominated by cartels. This cartel is so strong that it can continue to manipulate prices out of the reach of common man. You cannot deregulate when you have no refineries. There will be serious economic crisis" (Democratic Socialist Movement, 2009).

The Nigeria's first refineries have a maximum nominal or installed capacity to process 445,000 barrels of crude oil per day. This is less than 40% of the daily national consumption requirement such relatively low production capacity is further hampered by maintenance and operational shortcomings. This has resulted in inevitable severe product shortages. The situation is further compounded by the price disparity between the Nigeria markets and her sub-regional neighbours, which encourage product smuggling and further widen the gap between supply and local demand.

Today, more than 90% of petroleum products consumed in the domestic market are imported usually at costs, which naturally reflect international crude oil prices. This is clearly a dysfunctional state of affairs for a policy which is one of the top ten oil producers in the world. The history of fuel subsidy removal in Nigeria is rather a long one particularly with the negative effects it has on the polity.

The table below shows the history of subsidy removal in Nigeria. The table below x-rays the various petro- adjustments in Nigeria since 2000.

S/N	Date	Administration	Price	Percentage change
1	2000	Obasanjo	N20.00	-
2	2000	Obasanjo	N22.00	10%
3	2001	Obasanjo	N26.00	18%
4	2003	Obasanjo	N40.00	54%
5	2004	Obasanjo	N45.00	13%
6	2007	Obasanjo	N70.00	56%
7	2007	Yar'Adua	N56.00	0.0%
8	2010-2012	Jonathan	N65.00	-
9	2012-2015	Jonathan	N141.00	117%
10	2016	Buharia	N145.00	

Source: Adagba; Ugwu and Eme, 2012.

It was only under Yar'dua's administration that Nigerians were spared the ordeal of price increase. Others before and after him inflicted enormous pains on Nigerians as a result of the increase in fuel prices these are particularly significant about the fuel subsidy are its politics and its national and international implications. At the domestic level, both the proponents and opponents of fuel subsidy have valid theses, secondly, both of them also maintain a non compromising altitude. That is, while the government is talking about no alternative to removal of petrol subsidy to the opponents insist on negotiation with government until government restores fuel subsidy which was removed on January 1, 2012 (Onyishi, 2012).

There are contending arguments on the merits and demerits of fuel subsidy increases or removal. The protagonists argued that fuel subsidy removal was a step in the right direction and in the interest of Nigerians. They maintained that it will help eliminate incentives for corruption and excess profiteering by an unpatriotic cartel in the petroleum sub sector.

The State And Oil In Nigeria

Onuh (1983) describes the oil sector as the most dynamic sector in Nigeria and the development of the oil sector as the most significant event in recent years. Indeed, oil has significantly shaped the nature of the Nigerian state. The various ways in which it has shaped the political economy of the state has been described by Turner (1978) as one involving the compradors and state elites. Jeyifo (2009) alludes to this when he observed that Nigeria's political economy is underpinned by oil, which is the basis of its insertion into the global capitalist system.

It is noteworthy that Nigeria has been described as a rentier state in the literature on politics and development (Akhaine, 2010; Frynas, 1998; Etete 1995; Khan, 1994). The state collects rents from the sales of oil and these are merely distributed through the bureaucratic mill where they are appropriated, misappropriated and siphoned. Local participation in the oil production process is negligible, which explains the dependency on expatriates in the sector and the country's continuing reliance on imports of refined oil into the country, to the detriment of her current account balance.

Political scientist glibly remark that politics is about the state and what it does. This assertion has continued to vindicate itself in both advanced and peripheral socio-economic formation (Akhaine, 2010). Not even the vaunting of globalization with its "roll back" mantra has been able to tame the state. Nowhere else can the politics of oil be understood better than in the state's relations to the oil industry, the oil owning communities and the general citizenry. Apart from the oil majors with whom it is in partnership, the state allocates oil blocks on the basis of patronage or political considerations (Nwachukwu and Chike: Okogu, 2005) and oil theft also known as illegal bunkering is perpetrated by persons connected to the apparatus of the state (Daily Independent, 2006). The Ogomudia Special Security Committee referred to them as a "cartel or Mafia" composed of highly placed and powerful individuals within society.

These powerful persons include a few criminally mined former military personnel (Jeyifo, 2009).

Local consumption of refined oil products such as petroleum, kerosene and diesel has been influenced by the imaginary economics known as fuel subsidy (Akhaine, 2010). Often driven by agencies of global governance such as the IMF and the World Bank, it has continued to fuel circles of inflation in an economy in which the informal sector is preponderant. Disagreements over the appropriate derivations formula stalemated the 2005 National Political Conference that sought to address critical national questions plaguing the federation. The dynamics of oil exploration and exploitation in Nigeria has been undermined by panoply of legal frameworks such as the Petroleum Act of 1969 which vests the entire ownership of all petroleum in the state. The land use decree of 1978 also vests land ownership the state (Myer; 1991 Mabogunje, 2009). In 2003, the controversial on shores/off shore dichotomy sought to further increase the state's control of oil resources. The 13% derivation enshrined in the 1999 constitution and the Petroleum Industry (PIB) with promises of a new fiscal regimes of transparency and accountability in the oil sector, reduced the incentives for conflict with oil-owning communities.

The importance of oil in Nigeria is such that we can in fact talk about the permeability of oil in ways in which senator Charles W.T obey conceived of it in the American context:"oil permeates a great deal of our life"; it permeates the halls of legislatures: it permeates the Congress (Atiri,2007:17) interestingly in the last few decades, Nigeria has made over US$500 billion dollars from oil, but this has not transformed the fortunes of its citizenry as the earnings are in the hands of a small percentage of the population who have largely embezzled it (Akhaine,2010). This is perhaps why Lubeck , Watts and Lipschutz (2007) citing Ross opined that: Nigeria offers an archetypal example of the paradox of oil by which vast oil wealth begets extravagant corruption, deep poverty, polarized income distribution and poor economic performance.

The Case Of Subsidy Removal In Nigeria

It is opined that developing countries, by and large tend to be less energy efficient than they could be, because of subsidies (Okogu, 1993). Even when rationalized principally on grounds of income distribution, it is noted that subsidies for fuel usually tend to favour the rich more than the poor because the former own more cars and use more fuel (Nwachukwu and Chike, 2011:1). In this wise, the NNPC (1993:3) averts that "the subsidy that would be beneficial would be in health care, mass transit and education".

Hotelling (1931) advocated the need to price fuel in a way that recognizes its temporariness since a barrel of oil once lifted is gone forever and is no longer available for lifting at a future date. In this context, there should be a "user" cost to compensate for the fact that future generations are permanently denied access to the same barrel. A consumption tax or subsidy phase out could prove useful in making up for this by releasing resources with which to transform the economy. Because oil and fossil fuels have a limited lifespan, they fall into a category known as exhaustible resources. In this vein Akhaine (2010:90) notes that:

As for Nigeria, its proven reserves are estimated at 40 billion barrels. This figure could be augmented by new offshore findings. At the rate of 2.5 million barrels per day, the life index of the oil can be put about 43 years. This merely brings home the fact that oil is finite and that the well will soon dry up. The common argument advanced for having subsidy for fuel in Nigeria is that it is endowed with huge oil reserves and thus making energy cheap could enhance economic growth and protect the populace from needless hardships arising from exorbitant prices.

This is nevertheless untenable, as nothing is passed on to future generations. Accordingly, the best way to ensure continuity and inter-generational equity is to exploit the resources optimally and use proceeds from it to transform the economy so that long after the point of reserve exhaustion, the society can continue to be self sustaining (Solow, 1986; Hartwick, 1977). It is ridiculous to expect the nation to invest heavily in oil production only for just recovering the cost of production at the end of the day. According to Soyodo (2001: 55), "the cost of producing crude is irrelevant in the calculation of fuel subsidy". Further, he describes fuel subsidy as the loss of revenue that should have accrued to the federation account were the crude allocated for domestic consumption sold at international market prices, rather than at the price for which it sold to the NNPC.

It is further argued that the importance of appropriately pricing fuel is underlined by the fact that firstly, it provides arbitrage opportunity for marketers who buy cheaply at home and sell exorbitantly at the border. Thus, it is generally accepted that rational energy pricing (avoidance of subsidies) constitutes the most viable long- term options for bringing about efficiency because low domestic prices work against efficiency improvements (Okogu, 1993). It is also averred that there is a sense in which the existence of subsidy accentuates the activities of smugglers. The neighbouring countries of Chad and Cameroon have much higher prices than Nigeria, a scenario which has increased smuggling activities across the borders with these countries. Moreover, the National Treasury is allegedly denied funds amounting to the level of the implied subsidy, part of which appears in the form of huge profits for smugglers (Akhaine, 2010).

The classical argument for having a subsidy, relates to the need for accelerated development and to improve income distribution. However, the income distribution argument is faulted on grounds that petroleum subsidies are blazed in favour of the urban sector. It is not surprising therefore that it has been concluded that fuel subsidy policy benefits the rich more than the poor (Kosmo,1989). Accordingly, the diversion of scarce resources from other deserving sector such as education and health in the name of fuel subsidy is believed to exacerbate inequality and poverty.

Conclusions

The politics of fuel subsidy removal has showed that Nigeria is a country of paradox. How can citizens of an oil producing country pay more for fuel which is found in abundance in the country? Successive government appears adamant in the quest to remove fuel subsidy. The people are equally resolved in its opposition to the removal of subsidy. Nigeria is up for the rough times ahead, the time has come for the final determination whether those in government drive their power from the people or whether they are independent and own their stay in power to other entities other than the people.

The removal of subsidy, ostensibly to halt the activities of corrupt oil marketers/smugglers and make money available for infrastructural development appears to have worsened the economic conditions of Nigerians, particularly the poor. With the removal of fuel subsidy comes indiscriminate and exponential surge in fuel pump prices along with increases in the cost of food, rent and transport and so on. Moreover, unlike in Ghana, imperative measures were not put in place to cushion the harsh effects of fuel subsidy phase-out on poor and vulnerable groups before embarking on the policy which has to resistance and protects.

In Nigeria, increases in fuel pump prices have historically dovetailed with promises for economic reconstruction since the 1970s (Okogu, 1993). However, the sacrifices made hardly ever yield considerable benefits, this development has ruptured the social contract between the people and the government which has led to the former's distrust for the latter's institutions and programmes.

Recommendations

Nigerian government should build more refineries through PPP while effort should also be made to ensure proper maintenance, the strengthening of the fight against corruption and the establishment of a regulatory framework to protect citizens as necessary measures to increased capacity utilization on the existing refineries to stem the tide of petroleum products importation to improve the poor state Nigeria's economy and society

Government should create an enabling environment to engender private investor's for the purpose of improving the local refining capacity to meet the ever increasing local demand of petroleum products and indeed for exportation purpose. Related to the above is the need to use the oil windfall proceeds and the savings realized by the federal government and from the withdrawal of subsidy to be channeled towards fixing the refineries, building new ones or upgrading and developing of infrastructure within the polity in areas such as water ways, rail and mass transit system, thus providing cheaper alternative transportation methods. There is also the need to budget more funds towards improving both education and the health care delivery system in Nigeria.

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