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RECENT DEVELOPMENTS IN NIGERIA'S OIL INDUSTRY AND THEIR IMPLICATIONS FOR GOVERNMENT FINANCE

The oil industry has become so critical to government revenue and the level of the country's external assets that any developments in the industry are bound to affect vitally, the financial position and the level and tempo of domestic economic activity. For instance, the contribution of oil-revenue to total federally-collected government revenue ranged between 82 per cent in 1979 and 65 per cent in 1982. Given the continuing oil glut in the world market since 1981 and the accompanying changes in the use of fossil energy, a review of developments in our petroleum industry should provide a useful guide for re-ordering Government's socio-economic priorities and shaping future policy stance.

AN OVERVIEW

Crude petroleum production declined persistently from a daily average of 2.3 million barrels in 1979 to 2.1, 1.4 and 1.3 in 1980, 1981 and 1982, respectively. The export of crude oil followed the same downward trend, moving from a daily average position of 2.2 million barrels to 1.1 million barrels in the same period. The official selling price of Nigerian marker crude rose from $20.95 per barrel in 1979 through $35.41 in 1980 to $38.75 in 1981 but dropped to $35.67 in 1982. The average spot market price of African Light Crude displayed the same pattern of movement, rising from $32.11 in 1979 to $35.49 in 1981 and dropping to $33.40 in 1982. As a result of these developments, Government oil-derived revenue increased from ₦8.9 billion in 1979 to ₦12.3 billion in 1980 and thereafter declined through ₦8.6 billion in 1981 to ₦6.9 billion in 1982. Estimates of the performance of the industry in 1983 strongly indicate a continuation of the adverse trends sketched above. (See table attached).

Causative factors

The configuration of oil prices, production, exports and revenue depicted above emanated from a situation in which oil supply substantially exceeded its demand — the so-called oil glut. The glut is, however, traceable to a number of factors.

First, the reduction in Iran's oil production due to the Iranian revolution of 1979 led to the raising of oil prices by OPEC from a range of $18–$22 per barrel in 1979 to $32–$40 in 1982. Second, the oil price escalation resulted in a greater exploitation of non-OPEC oil sources such as the Northsea, Alaskan and Mexican crudes. Development of marginal fields and alternative sources of energy became economically feasible, especially nuclear and solar energy, syncrudes, etc. Third, the industrial countries, especially, members of the International Energy Agency (IEA) supported the developments in 2 above and in addition adopted energy conservation and oil inventory destocking strategies. These developments in turn coincided with a world-wide economic recession experienced since about the second quarter of 1981. Some of these developments — energy substitution and conservation — are likely to continue even after the end of the oil glut and/or economic recession.

In reaction to the oil glut, OPEC in October 1981 unified its multi-tier price system which had ranged between $32 and $36 per barrel. Consequently, in October 1981, a base price of $34 per barrel was fixed for the Arabian marker crude. A set of value differentials to allow for specific gravity and proximity to consuming centres was also established at a range of 20¢ and 70¢ for the Middle East Gulf crudes while a range of $3–$4 per barrel was stipulated for the light, low sulphur, short-haul crudes of the African members.

The unification of OPEC prices did not provide a solution to the continuing oil glut nor did it cure the global economic recession which continued unabated. Indeed OPEC decisions on production and price levels could not in any way alter the domestic policies of oil importing countries which constituted a potent factor in the oil glut. The persistence of the oil glut and global economic recession exerted a downward pressure on oil spot prices and on the demand for OPEC oil. As a result, OPEC's share in world oil supply fell from 47.7 per cent in 1979 to 43.9 and 39.4 per cent in 1980 and 1981, respectively.[1]

In a bid to check the downward trend of oil production which stood at 26.9 million barrels per day at end – 1981 and 17.4 million barrels per day in March 1982, OPEC, for the first time since its inception in September 1960, imposed an aggregate production ceiling of 17.50 million barrels per day which was prorationed among its members, effective April 1, 1982. This attempt by OPEC to stabilise the market was unsuccessful partly because the continuing oil glut and global economic recession could not be solved only by OPEC decisions on pricing and production levels and partly because of the unofficial pricing and production tactics adopted by some of its members. Under the pressure for additional financial resources, some OPEC members, notably, Iran, Libya, Algeria and Venezuela engaged in unofficial pricing and consistently produced over and above their respective assigned ceilings. Consequently, aggregate OPEC production, averaging 18.2 million barrels per day, tended to compound the weakness of the oil market.

Indeed, market prices were demonstrably lower than OPEC official selling prices in 1982. The spot market prices for the African Light Crudes fell from $35.49 in 1981 to an average of $33.40 in 1982 and the Middle East Light from $34.28 in 1981 to $30.75 in 1982. It was therefore expected that OPEC members would reduce their official prices. At their meeting in Vienna in December 1982, they agreed to defend their base price of $34 per barrel for the Arabian Light and to raise their production ceiling by 1 million barrels per day to 18.50 million barrels per day. Allocation of the increased production was left to a subsequent meeting which ended in a fiasco in January 1983. The failure to reach an accord posed a real danger of a slump in oil prices as spot market prices fell further. The spot market prices of Middle East Light fell from their level of $30.10 in December to $29.40 in February and the African Light Crudes from $31.55 to $29.55.

In reaction to the oil price assymmetry, and pressures from contractual buyers on both OPEC and Non-OPEC producers to reduce official prices across the board, the

[1]See IMF: *World Economic Outlook*, Occasional Papers No. 4 (June 1981, p.145, Table 40) and No. 9 (1982, p.206, Table 72). Also *OPEC Annual Report*, 1980; p.196.

major Northsea oil producers, Britain and Norway, announced on February 18, 1983 the reduction of their official selling price from $33.50 to $30.50 per barrel. Nigeria immediately followed suit by reducing the price of its marker crude, Bonny Light (37°API) from $35.50 to $30.00 per barrel. This unilateral action of Nigeria triggered a series of consultative meetings for the purpose of averting a price war among the oil producers — OPEC and Non-OPEC. These meetings culminated in OPEC London Conference (March 8–14, 1983). The conference decided, *inter alia,* to reduce the price of the marker crude, Arabian Light (34°API) from $34.00 to $29.00 per barrel and to limit OPEC aggregate oil production to 17.50 million barrels per day.

Effects on Federal Government Revenue and Expenditure

Following the spurt in oil production in 1979 as well as the high oil prices in that year and in 1980 — an event which occurred entirely from a crisis situation in the international oil market — federally-collected revenue increased to a phenomenal level. Rising by 48.0 and 39.6 per cent annually, federally-collected current revenue totalled ₦10.9 and ₦15.2 billion in 1979 and 1980, respectively. Of the aggregate amount, oil revenue accounted for ₦8.9 billion or 81.6 per cent in 1979 and ₦12.4 billion or 81.1 per cent in 1980. Reflecting the sharp decline in oil production and export, total revenue declined to ₦12.2 billion in 1981 and to ₦10.6 billion in 1982. In particular, revenue accruing from crude oil declined to ₦8.6 and ₦6.9 billion in 1981 and 1982, respectively. As a proportion of total current revenue, oil derived revenue accounted for 70.3 and 64.7 per cent in 1981 and 1982, respectively.

The huge increases in revenue in 1979 and 1980 were accompanied by sharp increases in Federal Government expenditure which at ₦14.1 billion in 1980 almost doubled the outlay in 1979. In the same period, capital expenditure at ₦8.1 billion, rose by 91.8 per cent and accounted for 57.3 per cent of total expenditure. With current expenditures increasing to ₦6.0 billion — almost doubling the 1979 level — the budget surplus of ₦1.5 billion in 1979 turned into a deficit of about ₦2.0 billion in 1980. In spite of the lower level of revenue of about ₦12 billion compared to the position in 1980, total Federal Government expenditure estimates amounted to ₦14.2 billion in 1981. Thus the estimated budget deficit of ₦6.7 billion was ₦4.7 billion or 235 per cent higher than the deficit for 1980. This was followed by a comparable budget deficit of ₦6.2 billion in 1982.

Summary and Conclusion

This brief review has focused on the movements of oil prices, production and exports in the 1979–82 period, highlighting the implications of such movements for Federal Government revenue and expenditure. While expenditure declined only in 1982, the revenue of the Federal Government declined progressively from the 1980 level in sympathy with the fall in receipts from Nigeria's main foreign exchange earner — the oil industry. The fall in oil receipts was traced to a combination of factors that produced the glut in the world oil market and the protracted world economic recession.

The important conclusion which emerges from the analysis in this short review is that the economic and financial fortunes of the country have become overwhelmingly dominated by the performance of the oil industry. Thus, the reduced levels of government revenue associated with the decline in revenue from the oil industry has imposed severe financial strains on the public sector and through it to the private sector. It cannot therefore be over-emphasized that as of necessity government should make concerted effort to diversify its revenue resource base such that the non-oil sources of revenue should also contribute an equally sizeable proportion to total revenue. There is also a compelling need to relate the level of government expenditure programme to that of its revenue.

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DATA ON NIGERIAN OIL INDUSTRY AND GOVERNMENT FINANCES

	1979	1980	1981	1982
1. Oil Production (million barrels)	842.47	752.46	525.60	471.15
Oil Production (mbd)	2.3	2.1	1.4	1.3
2. Oil Export (million barrels)	817.19	700.14	445.11	394.70
Oil Export (mbd)	2.2	1.9	1.2	1.1
3. Official Selling Price of Nigerian Bonny Light (US $ per barrel)	20.95	35.41	38.75	35.67
4. Average Spot Market Price of African Light Crudes (US $ per barrel)	32.11	34.64	35.49	33.40
5. Federally Collected Government Revenue (₦ million)	10,912.4	15,230.1	12,182.9	10,617.7
6. Of which oil-derived Revenue (₦ million)	8,880.8	12,353.8	8,564.4	6,867.8
7. Federal Government Expenditure (₦ million)	7,406.6	14,120.8	14,179.4	12,379.7
8. Current Expenditure (₦ million)	3,187.0	6,029.0	4,975.5	4,860.3
9. Overall Budget Deficit (−)/Surplus (+)	+1,461.8	−1,986.0	−6,665.0	−6,178.6

Sources: Oil production, exports and price, Nigerian National Petroleum Corporation (NNPC) and Lagos Chamber of Commerce.
Spot Market Prices, Petroleum Intelligence Weekly (PIW).
Federal Government Finances, based on Official Gazettes and Approved Estimates of the Federal Government.