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E. I. K. Sule
Central Bank of Nigeria

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OIL IN THE POLITICAL ECONOMY OF NIGERIA

INTRODUCTION

The oil industry is perhaps one of the most important and largest industries in the world. Through its wide areas of operation, nature of product demand and international network of operating companies, the industry affects every country in today's civilised world. As a result, a day hardly passes without oil being in the news. The industry has bestowed great financial power on oil producers some of which belong to the third world. This new found financial power has posed a challenge to the ability of third world oil producers to evolve and execute development strategies designed to accelerate the pace of their economic development. An important factor of this new found financial power is the formation of the Organisation of Petroleum Exporting Countries (OPEC) in 1960. Nigeria became one of its members in 1971. OPEC provided a welcome opportunity for third world countries constituting its membership to learn to co-operate in defence of their production and pricing strategies. Following the sharp and rapid upward adjustment in oil prices in 1973/74 and since then, OPEC members acquired a new voice and bargaining power in the comity of nations. An assessment of these developments provides a good insight into the way in which oil exerts its tremendous influence on the economy of major oil producers, with particular reference to Nigeria. This paper is divided into five sections. Section I deals with the growth and development of the oil industry in Nigeria. Activities of the participating international oil companies and the intervention of the Nigerian government in oil industry are in Section II. Section III analyses the pricing policy i.e. the role of OPEC in Nigeria's oil pricing as well as the influence of the major oil consumers. Section IV deals with the role of oil in the development of the Nigerian economy, while Section V concludes the study.

Section I
GROWTH AND DEVELOPMENT OF THE OIL INDUSTRY IN NIGERIA

The development of the petroleum industry in Nigeria dates back to 1937 when the country was under the British rule. In that year, the colonial government considered granting exploratory rights to Shell D'Arcy company — a consortium owned by Royal Dutch Shell and British Petroleum Company.

This consortium later became Shell BP Petroleum Development Company of Nigeria (Shell-BP). The emerging exploratory license which covered the entire area of Nigeria was granted to the company in 1938.[1] The incidence of World War II necessitated the suspension of prospecting activities which were not resumed until 1946. Following geological and geophysical tests, Shell-BP in 1957 reduced its concession area from 925,380.0 square kilometres to only 103,648 square kilometres, in the Niger Delta which indicated the greatest promise for crude oil finds. It was from this area, (Oloibiri, Rivers State) that Shell-BP exported its first crude in 1958 and thereby launched Nigeria into the community of crude oil producers and exporters. The Shell-BP was forced by law to surrender to the Nigerian Government in 1957 other areas of oil exploration. These were picked up by other companies notably Mobil which by 1955 had been licensed to explore for petroleum over the entire Northern Region and most of the Western Region. Several other companies mostly foreign transnational corporations thereafter sought and obtained licences to search for and exploit Nigerian crude petroleum, first on-shore and from 1961 off-shore as well. Currently, foreign companies producing oil in Nigeria include Shell, Gulf, Mobil, AGIP, Phillips, ELF, Tennenco, Ashland and Sunray.[2]

Indigenous private companies also participate in the development of the oil industry in Nigeria. For example, Henry Stephen's and Sons Limited started exploratory activities on 12th February, 1972. After five odd years of intensive activities, it folded up at the expiration of its concession on 11th February, 1977 without discovering any oil deposits. Addo Ibrahim's NIGUS, the only indigenous company currently in the oil industry, commenced exploratory activities in 1979. It is still searching. Other private individuals in the oil industry are engaged in the distributive sector or are liaising between buyers and sellers in the crude oil market for a commission.

Public sector participation in the industry was initially limited mainly to granting exploratory licenses to prospective oil companies as well as regulating company activities. As government gained more insight into the operations of this strategic industry and in line with its desire to control the "commanding heights" of the Nigerian economy and in order to obtain the maximum benefits from the industry to accelerate its pace of economic development designed to raise the general standards of living of the Nigerian population, specialist agencies were set up. The characteristics and functions of these agencies have varied or grown over time. In the main, they are charged with the responsibility not only of monitoring the activities of the oil companies but also of taking charge of implementing government equity participation interests in the industry as well as other agreements. Further they are to enter into joint venture operations with the oil companies, prospect, explore for oil and to engage in both upstream and downstream activities, i.e. all the ramifications of the oil industry.

Production and Exports

In the period 1958-1966, there was a continuous increase in crude oil production. From barely 1.876 million barrels in 1958 or an average daily production of 5,000 barrels, the level of annual production rose to 152,428 mb or to an average daily output of about 418,000 barrels in 1966 (see Table I). The reduced levels of production in 1967 and 1968 was the result of the outbreak of civil war which disrupted the activities of the companies located in the war affected areas. Since the end of the civil war in 1970 however, there was a steady increase between 1969 and 1974. Production levels rose continuously from 197.204 million barrels in 1969 to 823.318 million barrels or 2.3 mbd in 1974. As against this, production levels since 1975 have fluctuated. Having declined to 651.507 mb, or 1.8 mbd in 1975, production rose through 1976 to 776.054 mb in 1977. It plummeted to 667.609 mb in 1978 and then rose to 842.474 mb benchmark or 2.308 mbd the highest level ever. From there production nose-dived through 1980 to 522.102 mb or 1.4 mbd in 1981 — the lowest level in ten years. The fluctuating levels of production since 1975 can be traced among other factors to economic depression in the major oil importing countries in 1975, 1978 and since the third quarter of 1981 as well as the exploitation of North Sea, Alaskan and Mexican crude which because they have a high percentage of light components as the Nigerian crude are therefore its direct competitors.

Crude oil produced in Nigeria used to be exported in full. This situation has changed remarkably since the commissioning of the country's three refineries — attesting to economic development efforts of the government. The first refinery, opened in 1965 at Alasa Eleme (near Port-Harcourt) was built at a cost of ₦21.0 million by the Nigeria Petroleum Refining Company (N.P.R.C.) as a joint venture between the Nigerian governments and two multinational oil companies, the British Petroleum and the Royal Dutch Shell. The Federal government now owns it completely having paid up the other shareholders. The refinery's initial installed capacity of 31,000 bd was expanded to 55,000 bd following repairs to civil war damage which put the plant out of action. Its installed capacity was finally raised to 60,000 bd in 1978. The other two refineries also owned by the Federal Government are located at Warri and Kaduna, respectively. Completed in June 1978, the Warri refinery went into operation in September of that year with a daily installed capacity of 100,000 bd. The refinery at Kaduna was commissioned on 25th October 1980 with identical capacity as the Warri Refinery. Its special advantage lies in its ability to handle the processing of heavier crudes. Together the three refineries provide the country with an installed refining capacity of 260,000 bd.

Crude oil deliveries to the local refineries have grown phenomenally since the war (see Table below). From 7.611 mb or a monthly average of 0.634 mb in 1970, the level of deliveries rose continuously to 20.985 mb or 1.749 mb monthly in 1973. Thereafter, it fluctuated downwards through 1974 to 17.667 mb in 1975 owning to a major breakdown which resulted in a temporary closure of the plant. After repairs, deliveries peaked up reaching 21.320 mb benchmark in 1976. From there the level declined to 19.988 mb when the plant was again shut down temporarily for repairs.

Crude Oil Deliveries to the Nigeria's Local Refineries

		Monthly Average	Proportion of Total Production %
1970	7.611	0.634	1.9
1971	14.510	1.209	2.6
1972	16.431	1.369	2.6
1973	20.985	1.749	2.8
1974	18.864	1.715	2.3
1975	17.667	1.473	2.7
1976	21.320	1.777	2.8
1977	19.888	1.657	2.6
1978	24.868	2.072	3.7
1979	32.667	2.722	3.9
1980	50.852	4.238	6.8
1981	58.542	4.8796	11.2

Source: Lagos Chambers of Commerce and Industry

Deliveries attained unprecedented levels since 1978, rising from 24.868 mb during the year through 1979 to 50.852 mb or 4.238 mb monthly in 1980 and to 58.542 mb or 4.879 mb monthly in 1981. The rise in the level of deliveries was due mainly to the two new refineries at Warri and Kaduna which started operations during the period.

Against the background of projected local demand, refining activities have grown enormously since the war. Refined products at about 3 million tonnes between 1973 and 1978 doubled, attaining about 6 million tonnes in 1980 and about 7 million tonnes in 1981 (see Table below).

Nigeria's Consumption of Petroleum Products (1972-1981) (tonnes)

Period	Total domestic Consumption of petroleum products	Locally Refined products	Exports	Quantity of Locally Refined products consumed	Imports Dependence Ratio
1972	1,898,657	1,088,837	660,560	482,279	74.6
1973	2,330,012	2,692,597	668,089	2,024,508	13.1
1974	2,637,824	2,632,890	193,465	2,439,425	7.5
1975	3,136,909	2,204,150	276,440	1,927,710	38.5
1976	3,398,385	2,721,981	627,128	2,094,853	38.4
1977	4,835,519	2,504,642	734,619	1,770,023	63.4
1978	6,172,223	2,646,707	182,154	2,464,553	60.1
1979	6,474,614	5,035,906	227,151	4,808,755	25.7
1980	7,551,533	5,927,323	957,301	4,970,022	34.2
1981[1]	8,588,568	7,253,016	69,031	7,183,985	16.3

[1]Provisional
Source: NNPC Monthly Petroleum Information (1973-1981)
Notes: Domestic consumption refers to quantity of locally refined products consumed plus imports.

In the period, total consumption of petroleum products attained unprecedented levels. At 2.3 million tonnes in 1973, it more than doubled to 4.8 million tonnes 1977. From there it rose by 1.7 times to 8.6 million tonnes in 1981.

Products of the refineries have curtailed Nigeria's dependence on imported petroleum products such as cooking gas, aviation oil, kerosene, petrol of varying qualities, etc. The refineries have thus reduced Nigeria's import dependence ratio from an annual average of 41.1 per cent between 1972 and 1977 to 39.4 per cent in 1978-1980 and to 16.3 per cent in 1981. In absolute terms, importation of petroleum products which averaged 1.25 million tonnes between 1972 and 1977 rose to 2.65 million tonnes in 1978-1980 and declined to 1.4 million tonnes in 1981 under the combined effects of the three refineries.

Exports

From a low level of 1.820 mb in 1958, crude oil exports rose persistently to 139.550 mb in 1966. It declined through 1967 to 52.130 mb in 1968. After disruption caused by the civil war, the volume of exports rose to a peak of 795.710 million barrels in 1974 and thereafter fluctuated in a generally downward direction with the exception of 1979 when it established its highest ever peak of 812.727 mb. In value terms, oil exports rose persistently from ₦1.8 million in 1958 to ₦184.0 million in 1966 but dropped sharply to ₦77.6 million in 1968 as a result of the civil war. From 1969 crude oil exports again maintained a continuous upward movement rising from ₦301.2 million to a peak of ₦5,366 million in 1974. Since then on, the pattern of movement has been characterised by sharp fluctuations. It fluctuated between a trough of ₦4,565 million in 1975 and the highest ever peak of ₦13,523 million in 1980. The pattern of fluctuations in oil exports follow that which was observed in production levels and are explained by the same factors.

In general, there has been an impressive performance which must be related not so much to growth in volume but to record increases in crude oil prices. As a proportion of total exports, crude oil was only 0.7 per cent in 1958. From there it rose continuously to 33.1 per cent in 1966. Since 1970, the share of oil exports has risen significantly reaching a record level of 98 per cent in 1980 (see Table 2).

Section II
ACTIVITIES OF THE PARTICIPATING AGENTS

This section is devoted to the analysis of the characteristics, motivation and activities of the transnational corporations in the Nigerian oil industry on the one hand and those of the Nigerian government on the other. The analysis starts with the companies.

The Oil Companies

Some economists see the presence of transnational corporations (TNCs) in the third world countries as vital for the rapid growth and development of the latter's economies. There are, of course, those who see the TNCs as the most important aspect of the imperialist penetration of the LDCs, heightening their dependency and deepening the process of dependent development.[3]

One of the major features of the TNC is the pre-dominance of large sized firms. It is not only its size and scope of operations that is important but also its structure, organisation and its view of the world economy and its role in the development of that economy.[4] TNCs are often stronger financially than most host countries in which they operate. For example, the value added by each of the top ten TNCs in 1971 was greater than $3 billion which is more than the GNP of over 80 UN member countries. The value added of all TNCs was estimated at $500 billion in 1971, which was approximately 20 per cent of world GNP (excluding the centrally planned economies).[5] Estimates vary as to the size of stock of foreign direct investment in LDCs. Reuber (1973) estimated the book value of private foreign investment to be approximately $40 billion at the end of 1970.[6] The United Nations estimated the total stock of direct foreign investment to be $165 billion of which approximately $52 billion was located in LDCs.[7] According to Reuber's estimate, investment in petroleum amounted to $13.0 billion or 33.3 per cent of the total investment in LDCs.

Another striking characteristic of TNCs is the overwhelmingly oligopolistic nature of the industries in which they operate. Their mode of operations, characterized by technological innovation, product innovation and differentiation, heavy advertising and brand identification reflect and reinforce their oligopolistic structure. The activities of the seven major TNCs in the oil industry exhibit conspicuous backward and forward integration, encompassing exploration, production, transportation, refining and marketing of petroleum products. In 1966, Exxon, one of the major companies had 35 per cent of its refining operations in Latin America, 28 per cent in USA and Canada and 37 per cent in Europe and Africa.[8] In 1972, the oil major companies together controlled 72 per cent of the total world crude oil production. Although, Adejugbe (1976) feels that the concentration ratio of the majors may decline owing to the operations of expanding national oil companies of the OPEC member countries, he showed that whereas in 1964 the seven majors controlled 63 per cent of crude oil production, they controlled 72 and 70 per cent in 1972 and 1973, respectively.[9]

The basic objective of TNC is to maximise profits from their global operations. Thus they should not therefore be viewed as coming into Nigeria with the objective of fostering her development. If the influences at the power base of governments are not in collusion with the oil companies, it is almost inevitable that conflicts will arise between the host governments and the TNC subsidiaries. Because of the subservience of these subsidiaries to their parent companies, their operations may give rise to a structure of inputs, outputs, cost, prices and profits that may be inconsistent with either the needs of the host country or the desires of its government.

TNC normally prefers 100 per cent ownership of its subsidiary especially when new technologies and/or products are being exported. However, new form of ownership are constantly appearing. Joint ventures (with either LDC governments or private capital), minority participation, management contracts, etc. This process has been assisted by increased intensity of economic nationalism in LDCs.

Although the development of their host countries is not the preoccupation of the TNCs, they nevertheless can make considerable contribution to the development processes of these countries. The main contributions include the access they provide to modern technology, foreign markets and to scarce managerial as well as technical skills. Given the low level of organisational and technical skills in Nigeria as in many LDCs, these may indeed be indispensable elements in the country's development process. In many cases (in the Western World) only TNCs have the financial resources and know-how to develop new and better products which may be essential for agricultural development (for example, pesticides); exploit mineral resources and undertake large-scale construction projects. It is therefore of paramount importance to seek to maximise the benefits from these factors in government-negotiated agreements with the multinational oil corporations.

The Nigerian Government Intervention in the oil Industry

What are the government's objectives in its dealing with the oil companies? What guidelines and institutions have been established for achieving those objectives and what are the results? These questions call for very carefully considered answers.

The overall ultimate objective of the Nigerian Government's involvement in the oil industry is the progressive attainment of maximum degree of management, control and direction of its hydrocarbon resources. Long-term as well as short-term objectives can be identified. The pursuit of these objectives has been illuminated up to the late 1970's by O. Lolomari.[10] P.C. Asiodu's comments on Lolomari's work, indicated short-term objectives of government at different stages of involvement or participation.[11] The attempt here is to outline a theoretical framework for analysing government oil policies and then apply it for a critical assessment of the policies.

Stages of Development in Oil Policy

A model underlying the policy pursued by important oil producing third world countries appears to lend itself to five stages of development.[12] The first stage is characterised by offer of maximum incentives to oil exploring companies by the host country. The purpose is to attract the companies that have capital and know-how which the host country does not possess.

After the initial discovery of oil in commercial quantities and its production establishes the country as a proven oil producer, the second stage sets in.

During the second stage, the generous incentives earlier given for exploration are gradually and progressively modified and replaced by new exploration agreements. Simultaneously the country increasingly gains insight into the nature and operations of the oil industry. Given increased understanding, the traditional concession agreements are replaced by risk-bearing and production-sharing contracts. The foreign oil company bears the initial risk of exploration and it is only when oil is discovered in commercially viable quantities that the host country begins to share in production costs.

The third stage is predicated upon the attainment of adequate know-how in exploration and production, access to sources of equipment and knowledge of actual costs. The country is thus placed in a position to negotiate and monitor advantageous agreements with the specialist contractors involved in oil exploration and production. When the country attains this stage, it grants neither concession nor production sharing contracts and instead uses only service contracts and bears all risks of exploration.

In the course of stage one through three, the country is acquiring know-how and through specialist agency or bodies, it monitors developments in the oil industry. The fourth stage is entered into when the country on its own is able to undertake exploration, production, refining and marketing. In spite of this, however, the country remains heavily dependent on foreign partnerships especially in the area of marketing and technology until the fifth stage is reached.

The fifth and final stage presupposes availability within the host country of sufficient technical and managerial know-how as well as marketing experience. If financial resources permit, the country could take over the oil industry completely and practically carry out all operations without any compulsion to rely on foreign expertise. Algeria may be regarded as having approached this stage.[13] Whether a country in fact, takes this step depends on factors which are beyond the scope of this exercise but includes such things as the country's diplomatic alignment which influences available contracts, nature of available world energy supply, international political conditions, etc.

The Nigerian Government oil Policy

Nigeria's oil policy since 1937 fits into the first three stages and it is believed that the country is currently at the third stage.[14] In the Nigerian experience, the first stage in the development of oil policy started in earnest in 1937 and terminated with the Petroleum Decree of 1969. The first part of this period until late 1950s was the period of wooing foreign oil companies and the Nigerian oil scene was completely dominated by Anglo-Dutch interests. The maximum incentives include, concessions, generous depreciation allowances, etc. By 1958 when Nigeria was fully entrenched as an important oil producer, the companies were required to give up some of their areas of concessions. The areas which they relinquished were made available to other companies notably American, Italian and French oil interests.

This period also marked the foundation of official bodies or agency charged with the responsibility for petroleum affairs.[15] In the circumstances of Nigeria in the late 1950s, perhaps only a few people could be found with any professional knowledge of the oil industry. The then Chief Inspector of Mines who was professionally more familiar with solid minerals than with petroleum was put in charge of the administration of the young industry. He was assisted by a retired BP staff recruited by the colonial government to set up the hydrocarbon section of the Ministry of Mines and Power. This one-man section had the responsibility of co-ordinating all the activities of the oil industry.

The second stage of Nigeria's participation in the oil industry was heralded by the Petroleum Decree of 1969 which also set new horizons for official policy objectives. The Decree reduced the period of concessions from 30 to 20 years and more explicitly regulated periods and obligations for training and indigenisation of staff, etc. In 1971 a series of negotiations culminated in drastic reductions in annual capital and depreciation allowances and government declaration of its ownership of gas resources. In 1971 and 1972 when activities extended to the off-shore areas, the government in its desire to limit the activities of the oil majors in Nigeria made the offer to oil minors. These oil minors included Occidental, Deminex and Japan Petroleum. Their terms were more beneficial to government in the sense that they agreed to explore for oil at their own risk, until commercial production was established before government could come in as a partner and be obliged to pay its share of prediscovery expenses. Following high expectations from these off-shore areas at the time, government obtained terms beyond the usual clauses. For example, the companies agreed to offer stated number of scholarships to Nigerians annually and to finance exchange of university lecturers in petroleum related subjects.

In 1973, the first Product-sharing contract was concluded with Ashland Oil company. Ashland was to look for and produce oil at its own expense. Thereafter government would take a certain proportion of the production leaving the balance for Ashland to recoup its costs with a margin of profits. This modality was first operated in Indonesia.

As regards the institutional setting, the one-man section in the then Ministry of Lagos Affairs, Mines and Power was upgraded to a Department and finally to a full-fledged Ministry of Petroleum Resources in 1975. The Ministry was charged with the responsibility for formulating the policies to guide the operations of the industry. In furtherance of the aims and objectives in respect of control and participation in the oil industry, the Nigerian National Oil Corporation (NNOC) was established in 1971. The Corporation did not, however, take off until 1973.

Foundations of the third stage in the evolutionary process of Nigerian's involvement in the oil industry began when NNOC started operations.[16] By 1974 NNOC had carried out some seismic work off-shore, using specialist contractors and had also started drilling. The NNOC was charged with the responsibilities to explore, prospect, win, produce, transport, store and market crude petroleum and its refined products. The corporation took over all the unallocated and relinquished concessions and awarded new concessions only on partnership basis, with the government having 51 per cent interest. Following OPEC decisions, NNOC acquired participation interests in all the operating oil companies. By 1974, NNOC had acquired 55 per cent in Shell-BP, Gulf and Mobil and had brought participation in all producing concessionaires in the country to this level.

However, NNOC could not justify the high expectations placed on it. This was partly due to institutional, structural inadequacies and partly to a lack of executive capacity. When NNOC started operations in 1973, government's oil policy was pursued at two levels: the regulatory role of the oil industry was played by the Ministry and the operational role by NNOC. This resulted in unanticipated unhealthy rivalry. The Corporation had a part-time Chairman and no general manager to supervise its day to day affairs. The operations of the Corporation was often hampered by excessive government interference. Since NNOC was largely ineffective, it was replaced in 1977 by a new agency which combined the functions of NNOC and the Ministry of Petroleum Resources.

The new agency known as Nigerian National Petroleum Corporation (NNPC) is charged with the responsibility for oil exploration, production, transportation, selling and refining of petroleum products, marketing of petroleum products and derivatives, and research. NNPC was thus envisaged as a fully integrated oil company. Its role so far is impressive in relation to the level of geophysical and drilling activities. For example, kilometres of seismic lines shot increased from 255 in 1975 to 3,173 in 1979. In production, its efforts are still not significant since the existing fields are yet to be developed and necessary installations for production established. However, the Corporation is involved in joint venture production with the other oil companies although in sum, its role is still limited to mere supervision and overseeing operations in the fields.

NNPC has been quite active in the distribution sector. It took over effectively the distribution and transportation of petroleum products hitherto controlled by private companies. It owns National and African Petroleum and 60 per cent of Unipetrol. To date, NNPC has constructed 23 depots and 3,000 km of pipelines to facilitate oil distribution. In International crude transportation, NNPC activity is so far unimpressive. Only one ship has been procured and the ship is not being used to carry Nigeria crudes but as a store.

The involvement of the NNPC in the refining sector is more impressive. By the end of 1978, NNPC has bought over all the shares in the Alesa-Eleme refinery. To increase the supplies of petroleum products to match domestic demand and produce excess for export, two new refineries at Warri and Kaduna were constructed under the control of NNPC.

The involvement of NNPC in the other downstream activities of petrochemicals, liquified natural gas, exports refineries, etc., has not been quite impressive and this may not be unconnected with the lack of clear guidelines from the government.

NNPC pricing policy has been criticised variously for not being sufficiently aggressive since the prices of Nigerian crudes are slow in adjusting to demand trends in the international market — witness the behaviour of the Nigerian prices in the face of the current oil glut. The Corporation is also criticised in the way it handles the marketing of its shares of crude oil which results in over-dependence on foreign oil companies. Not only has the NNPC failed to develop its own marketing networks, it is also criticised for being inept in its supervisory role which allows the oil companies to get away with obnoxious practices such as oil spillages and pollution. NNPC direct participation with the oil companies are also seen as mere window dressing since they do not expose the Corporation to real decision making in the partnerships. In the event, the country's majority share holding functions no more than minority share.[17]

While these criticisms are well meant, they appear to be oblivious of the constraints under which NNPC operates. Some of these relate to shortage of executive capacity; availability of experienced Nigerians to handle the increasingly heavy responsibilities of the oil industry. The country's membership of OPEC imposes constraints on unilateral action on crude oil pricing and production. The Corporation's freedom of action is also highly circumscribed by government directives. Such government intervention, for example, makes aggressive pricing decisions difficult. One energy analyst maintains that staff deployment like other major decisions are predicated upon the prevailing political climate.[18]

Section III
NIGERIAN OIL PRICING POLICY

Nigeria joined OPEC in 1971. Before then the Petroleum Profit Tax Ordinance of 1959 operative in the country was based on 50/50 profit sharing with the oil companies — a Venezuelan innovation in 1948 which was subsequently adopted by Saudi Arabia and Iraq. Use of posted prices for calculating the oil companies tax payments was also adopted by Nigeria in 1966. Before 1966, the companies based taxes on realised prices which had several disadvantages. Realised prices fluctuated widely from company to company and from oil shipment to oil shipment. There was no means of ascertaining at what price oil was in reality sold. Producer governments could not therefore effectively plan their budgets. The advantage of posted price was that it sets a figure below which companies would not want to sell their oil. Initially posted prices were fixed by the companies alone. This changed in 1959 and more fundamentally in 1973. When Nigeria joined OPEC in 1971 it was obliged to implement OPEC resolutions on prices. Before then, Nigeria relied on the most favoured nation principle whereby any better terms given to another producer country automatically became applicable to Nigeria. The need to join OPEC was necessitated by the shame of being a "free rider" and the fact that Nigeria was denied the back-ground information to published OPEC decisions. On joining OPEC, Nigeria negotiated the Lagos Agreement of 1971 based on the pattern of the Tehran and Tripoli Agreements modified by the subsequent Geneva Agreement. Under the agreements, monthly payments by the oil companies replaced quarterly payments, the tax rate was raised to 55 per cent and periodic increases in the posted price was provided for while the capital allowances enjoyed by the companies were realigned to realistic levels. Although the provisions of these agreements between 1970 and 1972 resulted in approximate doubling of oil export price, they were quickly found to be inadequate in most respects. For instance, the adjustment for inflation was fixed at 2.5 per cent per year. In actual fact, inflation turned out to be many times that figure. Posted prices lagged far behind market prices and it was clear that new arrangements had to be made.

OPEC resolved to enter into new negotiations with the oil companies, and in fact, the member countries of the Gulf had commenced their negotiations. No progress was being made and during a temporary break, the Yom — Kippur war of October 1973 intervened. The subsequent events are well-known. The affected member countries placed an embargo on their oil being exported to certain unfriendly countries. There was thus an increase in the demand for available oil and market prices rose sharply. It was therefore inevitable that there should be a corresponding adjustment in posted prices. Another new element in the events was that government of exporting countries fixed in their own right and for the first time and ever since, the posted prices. Subsequent price increases since 1973 resulted in an average annual export price estimated at $10.50 a barrel in 1974 — about seven times as high as in 1970.[19] In bringing about this price escalation, OPEC maintained the same ratio between posted and marketing prices that existed before the Tehran Agreement — indeed the same ratio was maintained when new prices were again fixed in 1974.

In defending the price increases, OPEC maintained that in the determination of crude oil prices, one should consider oil's intrinsic value, the non-renewable nature of the resource and the cost of developing and producing alternatives. On these bases, it is further pointed out that the cost of oil had been unduly low, encouraging a large and wasteful consumption of a finite resource.

At the end of 1974, OPEC members introduced important changes in the structure of oil prices and in the tax and royalty rates. The new pricing system was based on the official selling prices rather than posted price. The benchmark in the system was the price of the marker crude (Arabian Light 34° API) which had been changed from time to time by decisions of OPEC members. Prices of particular crude oil have been determined by the individual exporting countries taking acount of differences in specific gravity and other crude oil characteristics as well as geographical location i.e. proximity to consuming centres. OPEC member countries then determine their posted prices on the basis of a mathematical relationship to official selling price using OPEC approved formula.[20]

This then is the general framework of OPEC price determination. Through collective decisions, the price of the marker crude is fixed and other grades of crude accordingly take their cue. Since the Nigerian crude variety with low sulphur content is considered to be relatively superior to other grades with high sulphur content, it attracts a higher price in the international oil market. Together with Algerian and Libyan crude, the Nigerian oil enjoys a range of price differential fixed by OPEC. Within this range, individual country's prevailing price is free to vary. Ruling OPEC prices vis-a-vis Nigerian prices since 1972 are shown in Table 3. In the decade 1972-1981, average posted price for Nigerian oil increased continuously from US $3.32 to US $42.70 while export prices in the same period rose from 3.23 to US $38.52.

In general, although prevailing prices of OPEC member countries have moved in line with the marker crude, there have been deviations associated with changes in demand for various crude oils and other factors. For example, a split price structure was in force during the first half of 1977 following a 5 per cent price mark-up by Abu Dhabi and Saudi Arabia while the other eleven members raised their prices by 10 per cent. Again during 1979 and 1980 oil prices rose sharply both in nominal and real terms and the world oil market was characterised by unsettled market conditions. The immediate events which triggered these developments was the political revolution in Iran in early 1978 and early 1979 and the consequent interruptions of crude oil supplied from that country which in 1976 through 1978 had accounted for 20 per cent of the total crude oil output of oil exporting countries (OEC). This event coincided with others like the structural changes in world oil trade system involving a substantial loss in secure long-term supplies by the major oil refining and marketing companies. Consequently, security of supply rather than price was the dominant factor for many buyers of oil. In the face of the panic buying which resulted a multi-tier price system emerged in OPEC pricing. It was not until the extra-ordinary conference of OPEC held in Kuwait in late October 1981 and the subsequent conference in Abu Dhabi in early December 1981 that a unified OPEC price structure was re-established at a base price of $34 per barrel for the Arabian marker crude.

Other factors — sometimes chance events — have implications for OPEC pricing. The oil price escalation in 1979 was very much influenced by the protracted war between Iran and Iraq — a war which was not envisaged by the planners of OPEC oil price strategy. These two events also coincided with the recession in the economies of major oil importing countries which was also not envisaged in the planning calculations of OPEC strategies. But the combined effects of these developments have precipitated unprecedented changes — energy conservation, slower economic growth, fuel substitution and stock draw-downs, etc — which currently characterise the international oil market leading to falling spot market prices. These developments have placed OPEC under great pressure to maintain a substainable base price and have adversely affected foreign exchange earnings.

Section IV
THE EFFECTS OF OIL ON SOME SOCIAL AND ECONOMIC INDICATORS IN NIGERIA

The oil industry as would be shown in the following analysis has exerted a tremendous impact on the Nigerian economy. However, from the point of view of inter-sectoral resource flow, its link with the rest of the economy is largely negligible. This is partly due to the fact that the industry is capital intensive and requires sophisticated technology for efficient and competitive performance. Owing to the lack of a symmetrical sophistication in the other sectors of the economy, the country is not yet in a position to capture what Hirschman (1958) has described as backward and forward linkages.[21] The oil industry can thus be regarded as an 'enclave industry' since it has little or no ties with the rest of the Nigerian economy. The activities of the NNPC and its precursor notwithstanding, the know-how, machinery and equipment and most of the managerial personnel in use in the industry are imported wholesale. The enclave nature of the industry is such that Iwayemi (1981) opined:

> An industry that was the most important in the economy could only employ 29,000 workers, less than 10 per cent of employed labour in the manufacturing sector and less than 0.1 per cent of the total labour force. If government related payments are excluded, local payments (by the industry) is less than 0.05 per cent of the total local expenditure.[22]

In spite of its low linkage, the oil industry since 1970 has become the most dominant factor in the revenue of Nigerian governments. In absolute terms, government revenue from oil has grown significantly from ₦166.4 million or 26.3 per cent of total revenue in 1970 to ₦3,726.7 million or 82.1 per cent of total Federal Government revenue in 1974. Although the proportion has since declined from this peak and fluctuated between 62.4 (1981) and 81.4 (1979) in the period 1975 to 1981, the oil industry remains pre-eminent as a source of government revenue (see Table 4).

The federally-collected revenue of the government is allocated according to an agreed formula among the three tiers of government, namely local, state and federal. Following Okigbo Commission's Recommendation on Revenue Allocation (1979) and the subsequent Act passed by the National Assembly, the current formula is as follows: Federal Government 55 per cent, states 35 per cent and local government 10 per cent. The allocations are spent by the Federal and State governments on their capital and recurrent budgets. The capital budgets may be viewed as the annual implementation of the development projects included in National Development plans, dating from the First National

Development Plan, 1962-68 to the current Fourth Development Plan, 1981-85.

The First Development Plan (1962-68) provided for a capital expenditure of ₦2,366 million. Of this total, 50 per cent was projected to come from abroad. The Plan later faced difficulties as only 25 per cent of the expected foreign loans materialised. Out of the ₦3.2 billion capital expenditure of the Second Development Plan (1970-74) only 19 per cent was expected to come from external sources. The Third Development Plan (1975-80) was estimated to cost ₦53.0 billion about sixteen times the size of the Second Plan. It was estimated that this colossal amount would be obtained locally as a result of projected oil revenues. A resort to the Euro-dollar market to raise ₦2 billion in 1978 was necessitated by the oil glut in the international market reflecting world economic recession. In the Fourth Plan period (1981-85) capital expenditure was projected at ₦82 billion. The oil industry was expected to generate the bulk of the financial resources needed, with external borrowing contributing only a projected ₦6 billion.[23]

The spending of colossal sums of oil revenue to prosecute the various development plans as reflected in governments' budgetary outlay on capital and recurrent account, has resulted in rapid monetary expansion that is not matched by domestic productivity. Consequently the economy has been subjected to over-heating and high inflationary pressures. If local supplies are inadequate, essential commodities especially inputs of goods and services could be imported. In this sense, the external sector can provide a measure of the country's productive effort. In the Nigerian case, import of needed inputs faces serious competition for scarce foreign exchange resources from the imports of all sorts of consumer goods into the country. Where official regulations prohibit the importation of certain items, these are smuggled in and sold openly to the detriment of local manufacturing industries which are thus confronted with unfair competition. Given this high propensity to consume foreign goods and services, the country is faced with a high import bill. For example, while total earnings of the country fluctuated between ₦9.551 billion and ₦11.554 billion in 1979 and 1981 respectively imports rose steadily from ₦7.473 billion to ₦12.013 billion in the same period.[24] Following these developments, total foreign exchange disbursements in 1981 up to April 1982 was running at a monthly average of ₦1.2 billion as against total earnings of about ₦800 million monthly. As a result, the country's foreign exchange reserves are under severe pressures as they are whittled down to main unsustainable level of imports. Thus at the end of 1981, the country's balance of payments was plunged into a deficit of about ₦3.0 billion.[25]

For the rest of this section, some tentative observations about the mixed effects of Nigeria's oil wealth on the country's socio-economic environment are highlighted. The oil industry as can readily be inferred has provided ample financial resources for the prosecution of the various development programmes especially since the war. Notable examples of achievement under the various plans include the expansion of infrastructural developments, i.e. roads, bridges, construction including the monumental Nigeria's Arts Theatre and Stadia complexes located in urban areas. Without the revenue from crude petroleum, it would have been utterly impossible to contemplate the iron and steel complex (sections of which have become operative since 1981) the Liquefied Natural Gas (LNG) project and the Petrochemical industry, etc. However, escalated government expenditures following implementation of the plans has resulted in excessive monetary expansion which has given rise to inflationary problems. Indeed as a proportion of projected capital investment under the first three development plans, actual expenditure by the public sector is estimated at 68 per cent. Of this, about 60 per cent was devoted to infrastructural development. Since investment in infrastructure is not productive investment, there has been a tendency for productivity to rise less than might be. It is important to note that when it is stated that investment in infrastructure is not 'productive' in the sense that such investment can be looked upon as capital widening, it must not be inferred that such investment is not useful or needed. Development of infrastructure can facilitate rising productivity of factors.

Per capita income in the country has grown significantly. Thanks to the oil industry. Nigeria's per capita income is currently estimated at $800 having risen from $400 in 1976 or $140 in 1971.[26]

In spite of this, there is a strong indication that the oil wealth has made income distribution more skewed. Trade union activities, minimum wage legislation as well as social conventions have helped to raise the remuneration of employees in the modern sector while the majority of the population remain under-employed in peasant agriculture or are eking out a subsistence life in the urban informal sector. Similarly unequal distribution of social amenities in favour of the urban areas is postulated to have exacerbated the problem of rural/urban migration.

The oil industry has imparted to the economy greater self-reliance. The indigenisation programme and the gradual taking over by government of the 'commanding heights' of the Nigerian economy is a case in point.

CONCLUSION

From the analysis produced in this paper the following conclusions may be drawn:

1. The economic and financial objectives of the oil companies cannot be assumed to be identical to those of the Federal Government; in fact they are more often than not in conflict. While the companies pursue rational global profit maximisation in a ruthless manner, the Nigerian Government seeks to obtain maximum benefits from operations of the companies located in its territory. The situation is complicated; it calls for complex negotiations and sometimes diplomatic arm-twisting and takes into consideration a host of factors which are both economic and political.
2. The Federal Government has availed itself of the advantages offered by OPEC which it joined in 1971.
3. It is clear from the analysis that the short-term objective of government is to extract from the oil industry maximum benefits. This objective is inspired by a desire to accelerate the pace of Nigeria's economic development and to raise quickly the standards or quality of living of the people of Nigeria. Similarly, the long-term objective are designed to promote economic self-reliance through diversification of the economy which would then facilitate the growth of employment, increase in the supply of high-level manpower and a more equitable income distribution. Only then would government truely realise its avowed policy to control the 'commanding heights' of the Nigerian economy.
4. The oil price escalation which characterised the international oil market since 1973/74 has brought about certain policies — conservation, fuel substitution, de-stockpiling, etc., — in the major oil consuming countries.

In more recent times since 1979 such policies have coincided with protracted economic recession in the industrialised nations and have exacerbated the current oil glut. The glut together with the politics of oil poses a serious threat to the solidarity of OPEC while putting Nigeria, the weakest link in the OPEC chain, in a foreign exchange strait jacket.

5. The cumulative impact of the achievements under the various development plans have been seen to have resulted in a lop-sided economic development which has intensified urban/rural divergence and migration from the rural into urban areas.
6. Greater skewness of income distribution is also believed to have resulted from the concentration of oil wealth in the hands of the more powerful but small group of economic interests.

E.I.K. Sule
Assistant Director of Research
Petroleum Studies Office
Research Department

NOTES AND REFERENCES

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Also Ezerioha, T.E.
Optimal Rate of Exploitation of Nigeria Petroleum: A mathematical Introduction, 1975,
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2 Lagos Chamber of commerce, February 2, 1982.

3 For details, see D. Colman and F. Nixson (1978), ch. 9, pp. 217-19.

4 Barnet, R.J. and Muller, R.E. (1974), *Global Reach.* p. 18.

5 United Nations Dept. of Econ. and Social Affairs: *Multinational Corporations in World Development*, 1974, Praeger, ch. 1.

6 Reuber, G.L. *Private Foreign Investment in Development*, Clarendon Press, 1973.

7 *Ibid*, UN. 1974.

8 Adejugbe, A. 'Multinational Oil Corporations and the Development of Nigeria's Economy' in Proceedings of the Annual Conference of the Nigerian Economic Society, 1976, p. 234.

9 *Op. cit.* Adejugbe, 1976, p. 236.

10 Lolomari, O. (1976) 'Evolution of Nigerian Oil Policy' Proceedings of 1976 Annual Conference (PAC) of the Nigerian Economic Society (NEC), pp. 13-26.

11 Asiodu, P.C. 'Comments and Criticisms of Evolution of Nigerian Oil Policy' PAC, NEC, 1976, p. 27 *et seq.*

12 How long a country stays in one stage depends on many factors such as how quickly it masters operations in the industry, political will, etc. Whether a country must pass through all the stages also depends on political will, availability of skilled personnels and financial resources.

13 Algeria through its state owned agency, the Sonatrech of Algeria may by described as having one foot on the fourth stage and the second foot on the fifth. As of now Algeria is known to control upwards of 90% of all the technical management and supervisory cadres of all oil multinationals. Should it become necessary, Algeria is in a position to take over and manage its oil industry.

14 *Op. cit.*, Asiodu, P.C. 1976, p. 28.

15 Before 1958, the role of government in oil industry revolved around the regulations of importation, storage and transportation of petroleum products. Government agencies such as the Governors Office, The Inspectorate arms of the Ministries of Trade and Public Works were responsible for the enforcement of Petroleum regulations. *Vide* O.A. Okanla (1977). *The Nigeria Trade Journal*, Vol. 24, No. 3, pp. 31-35.

16 The first uncertain steps towards participation were taken in 1971 when government exercised the option of taking 33⅓% offer with the Agip Oil Company. In the same year, Safrap had to surrender 35% of its interest to the Nigerian government as a penalty for French involvement in the Nigerian Civil War. Subsequent agreements with other Oil companies like Diminex, Japan Petroleum, etc, provided for 51% government participation on the discovery of oil.

17 *Op. cit.* Adejugbe, p. 23.

18 Joe Nwokedi, *National Concord*, 15/2/82, p. 2.

19 *World Economic Outlook*, IMF Occasional Paper 4, 1981, p. 92.

20 $$PP = \frac{OSP - 0.965}{0.88}$$
where pp = posted price
osp = official selling price.

21 Hirschman, A.O. *The Strategy of Economic Development* New Haven: Yale Uni. Press, 1958, pp. 293 ff.

22 Iwayemi, A. 'Planning and Performance in the Nigerian Petroleum Industry'; Nigerian Economic Society Annual Conference, held in Ilorin, May 13-16, 1981, p. 13.

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26 *World Bank Atlas,* 1980.

TABLE 1

CRUDE OIL STATISTICS

Period	Production (Barrels 000) (1)	Average Daily Production (Barrels 000) (2)	EXPORTS Barrels (000) (3)	Value (N ' million) (4)
1958	1,876	5	1,820	1.8
1959	4,096	11	3,957	5.2
1960	6,367	17	6,244	8.4
1961	16,802	46	16,505	22.6
1962	24,624	68	24,680	34.4
1963	27,913	76	27,701	40.4
1964	43,997	120	43,432	64.0
1965	99,354	270	96,985	136.2
1966	152,428	418	139,550	184.0
1967	116,553	319	109,275	142.0
1968	51,907	142	52,130	77.6
1969	197,204	540	197,246	301.2
1970	395,836	1,084	383,455	509.6
1971	558,679	1,531	542,545	1,053.0
1972	643,207	1,757	650,980	1,176.2
1973	750,593	2,056	723,314	1,893.5
1974	823,318	2,256	795,710	5,365.7
1975	651,507	1,785	627,839	4,565.1
1976	758,058	2,071	736,823	6,321.7
1977	766,054	2,099	744,413	7,072.8
1978	667,609	1,829	667,387	5,401.6
1979	842,474	2,308	812,727	10,166.8
1980	752,498	2,056	701,260	13,523.0
1981	522,102	1,430	458,162	10,280.3

Source: Compiled from Central Bank files and returns from Lagos Chambers of Commerce.

TABLE 2

NIGERIA'S CRUDE OIL EXPORTS: 1958-1981

(₦ million)

	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969
Traditional export Commodities	263.6	315.6	322.4	317.2	294.6	329.3	356.6	390.4	372.4	324.2	332.3	367.2
Growth Rate %		19.7	2.2	−1.6	−1.7	11.7	8.2	9.5	−4.4	−10.5	−0.4	10.3
Crude Oil Exports	1.8	5.2	8.4	22.6	34.4	40.4	64.0	136.2	184.0	142.4	77.6	301.6
Growth Rate %	—	188.9	61.5	161.4	45.2	21.0	58.9	112.2	35.1	−22.8	−45.4	237.6
Total Export	265.4	321.0	330.8	339.8	329.0	369.6	420.6	526.6	556.4	466.2	410.4	668.8
Growth Rate %	—	20.9	3.1	2.7	−3.6	12.7	13.9	25.2	5.7	−16.2	−12.0	63.0
Proportion of Crude oil in total export	0.7	1.6	2.5	6.7	10.5	10.9	15.2	25.9	33.1	30.6	18.9	45.1

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Traditional export Commodities	367.8	340.4	172.0	230.9	276.0	230.6	274.1	375.7	412.8	468.0	340.1	13.2
Growth Rate %	0.2	−7.5	−49.4	45.4	10.4	−16.5	18.9	37.1	9.9	13.4	−27.3	−66.7
Crude Oil Exports	509.6	1053.0	1176.2	1893.5	5365.7	4565.1	6321.7	7072.8	5401.6	10166.8	13523.0	10280.3
Growth Rate %	94.5	87.0	0.1	61.0	183.4	−15.0	38.5	11.9	−23.6	88.2	33.0	−24.0
Total Export	877.4	1393.4	1348.2	2143.6	5641.7	4793.7	6595.8	7448.5	5814.4	10634.8	13863.1	10470.1
Growth Rate %	31.2	58.8	−3.2	59.0	163.2	−15.0	37.6	12.9	−21.9	82.9	30.4	−25.0
Proportion of Crude oil in total export	58.1	75.6	87.2	88.3	95.1	95.2	95.8	95.0	92.9	95.6	97.6	98.2

Sources: (1) 1958-1968 L.H. Shatzl, *Petroleum in Nigeria*, Ibadan, 1969, p. 153
(2) 1968-71 Federal Office of Statistics
(3) Central Bank of Nigeria.

TABLE 3

NIGERIAN CRUDE-OIL PRICES: 1972-81

(US $/bbl)

Period	Average Posted Prices	Average Export Prices	Average Bonny Light (37° API) Prices	Average Saudi Arabia Light (34° API) Prices
1972	3.316	3.233	3.221	2.479
1973	4.649	4.135	4.111	5.036
1974	14.661	12.623	12.038	11.251
1975	12.944	11.855	11.866	12.376
1976	13.775	13.131	13.590	12.376
1977	15.231	14.744	15.216	13.000
1978	14.816	13.981	14.155	14.000
1979	21.560	20.722	20.952	16.288
1980	39.233	35.183	35.406	29.000
1981	42.695	38.518	38.750	34.000

Sources: (1) Petroleum Intelligence Weekly.
(2) N.N.P.C.'s Monthly Petroleum Information.
(3) Petroleum Economist OPEC Report, p. 49.

TABLE 4

FEDERAL GOVERNMENT REVENUE FROM CRUDE PETROLEUM

1970-1981

(₦ million)

Year	Oil Revenue	Total Current Revenue	Oil Revenue as Percentage of Total
1970	166.4	633.2	26.3
1971	510.2	1,169.0	43.6
1972	764.3	1,404.8	54.4
1973	1,016.0	1,695.3	59.9
1974	3,726.7	4,537.0	82.1
1975	4,271.5	5,514.7	77.5
1976	5,365.2	6,765.9	79.3
1977	6,080.6	8,080.6	75.2
1978	4,654.1	7,371.1	63.1
1979	8,880.9	10,913.1	81.4
1980	10,990.2	15,813.1*	69.5
1981	9,193.6	14,745.7*	62.4

* Budget Estimates:
Source: Federal Ministry of Finance Lagos; C.B.N. Economic and Financial Review.