IMPLICATION OF INTENDED PETROLEUM PRICES AND NIGERIA SUBSIDY REMOVAL: A REVIEW STUDY OF 2012

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Abstract

Nigeria is a country blessed with abundant human and material resources. Pre-independent Nigeria had agriculture as the major foreign exchange and revenue earner. Other resources such as revenue and minerals were explored and used to support government expenditures. Immediately oil was discovered in 1956 at Olobiri in the Niger Delta, other resources were abandoned and crude oil became the determinant of Nigeria's economic status both within and outside the country. This led this study to peruse the implications of petroleum prices and Nigeria's subsidy removal. The issue of price appropriation and removal of fuel subsidies have become controversial public policy issues. So to all successive governments. A flipover from the economy is the issue of fuel subsidy removal, which many Nigerians felt very touched about. The paper, therefore, examines the implications of subsidy removal on the economy in general and the populace in particular. To achieve this objective, the first section of the study explores conceptual issues of subsidy removal about oil deregulation. The next section examines the theoretical framework of analysis upon which the conceptual issues were based. Neo-liberalism was used in anchoring this study. The study adopted documentary research. There has been vociferous undaunted in trying to convince Nigerians to buy into the subsidy removal is the claim that the economy may crash if the subsidy is not removed. From the time the memorial government brought up the issue of removing what it's called subsidy on petroleum products to date, feathers have been ruffled both in the National Assembly, among civil society groups, the opposition political parties, professional associations, and many other interests in the polity. Proponents of the subsidy posit that the subsidy has to go because we need the money to rebuild the economy. Opponents of the policy argued that there is nothing like a subsidy ever existed in Nigeria and that it was surreptitiously being promoted by the government as the removal of subsidy was an increase of petrol prices under a deceptive guise, which has been the basis findings of this study. The study thereby recommends corruption removal, fixing of refineries and economic diversifications in Nigeria.

Keywords: *Subsidy, Deregulation, International economic relations, Neo-liberalism, privatization, and industrial action.*

Introduction

Subsidy policy across the globe has been a welcomed idea for the populace. Nigerians got a shocking New Year gift from the Federal Government on January 1st 2012. They found long queues at the filling stations where petrol was sold above N140 per litre. Gone was fuel subsidy, which gave way to deregulation. Fuel subsidy removal which the Federal Government under President Goodluck Jonathan has canvassed and lobbied for since he was sworn in last May 29, appeared to have finally got to the blast off stage, Monday, December 12, 2011. That was when the National Economic Council (NEC), headed by Vice President Namadi Sambo decided that the government should finally remove the subsidy come January 2012. The body which consists of the Vice President, governors, strategic ministers and the Central Bank of Nigeria (CBN), claimed that subsidy removal had become inevitable to avert the collapse of the Nigerian economy.Briefly, the media at the end of their meeting held in Abuja, Governor Peter Obi of Anambra State had said the removal of subsidy was the best option left for the polity to take at the current scheme of things if it must avert bankruptcy. On the side of Obi were government officials, including Finance Minister, Dr. Ngozi Okonjo Iweala, Petroleum Minister, Mrs. Diezani Alison-Madueke, Central Bank Governor, Sanusi Lamido Sanusi and others. They explained why the subsidy which the government says cost about N1.3 trillion in 2011, should go. According to Sanusi Lamido: If we borrow to subsidize today, it is our children that are subsidizing us let us take a difficult decision today and make tomorrow better by supporting the removal of subsidy (Onanuga, 2011:3) Governor Obi, however, lamented that what had made the current situation most difficult for the government was the fact that Nigerians no longer trust government on issues; a situation which he said could be traced to the disappointments they have suffered under past and present governments. Corroboratory Obi's thesis, the finance minister Dr. Ngozi Okonjo-Iweala while speaking at the Town Hall meeting of the Newspapers Proprietors' Association of Nigeria, NPAN, in Lagos, December 22, 2011, adds that: There is a lot of cynicism about everything the government says and dues. What we are saying is give us a chance to rebuild that confidence. You have a programme that is correcting this (Sobowale, 2012:42). Countering the Minister's thesis, I.F Stone, who in 1929 on the eve of the great depression, wrote that, "Every government is run by liars and nothing they say should be believed (Sobowale, 2012:42). One need not go as far as stone but our national history since independence is strewn with unfulfilled government promises. For instance, Jonathan was vice president of a government which reached an agreement with the Academic Staff Union of Universities in 2009. The government had failed to fulfil its part of the agreement. Similarly, the Petroleum Industrial Bill (PIB) which the government has announced would be signed into law by May 2011, expired with the sixth National Assembly. A new bill has not been sent to the National Assembly till today. Meanwhile, the minister of petroleum resources recently declared that the new bill had been made "more equitable" to all stakeholders. Dr Okonjo-Iweala was also the minister of finance in 2004; when the National Economic Empowerment Development Strategies (NEEDS), was launched filled with promises and very few of which were redeemed. One cardinal promise related to the launching of NEEDS II. Nobody in government discusses NEEDS I any more, certainly NEEDS II has been consigned to the dustbin. Incidentally, the declaration made by NEC did not make much impact on Nigerians as was the budget presentation to the joint session of the National Assembly on December 13, 2011 by President Jonathan. To many angry Nigerians that budget presentation convinced them that the government was indeed ready to dare Nigerians on the issue of fuel subsidy. The development provided grounds for many Nigerians and groups to express suspicion that the president's silence on the subsidy issue was an indication that he has, indeed, decided to do away with the subsidy. Supervising minister on the economy and Minister of Finance, Dr Okonjo-Iweala, however, tried to calm the frayed nerves of the Nigerian populace when she came out on the 14th day of December 2011 to declare that the Presidency had not really decided on the subsidy issue, but was still consulting with Nigerians. The president has been making consultations. In a recent meeting with Civil Society Organizations, the president had told them that his mind was made up and that without removing the subsidy, the polity would be broken in two years. He therefore, said, "Even if we deregulate and I am shamed, posterity will be there to judge me, that I did the right thing; and I will be vindicated when Nigerians start enjoying the benefits of my decision (Maduabuchi, 2011:15). Again, President Goodluck Jonathan told Nigerians to brace up for a tough year. The President spoke at the First Baptist Church, Garki, where he attended the New Year Service at the church. He said: The Journey will be tough, but it is not going to be too painful. Anyway, I know that leaders who inflict pain on the people always end up badly. Leaders who think they are so powerful always end up badly and no leader will want to be reckoned with as one who inflicted pain on the people. So, nobody will bring pain to Nigerians (Ofikhenua, 2012:4). Notwithstanding their explanations, it is not lost on many Nigerians that the consultations had not been to seek the input of the people, or to gauge their feelings and opinions concerning the issue, instead analysts felt that was meant to reform them if their resolve to go ahead with the intended policy. To this, the central objective of the study seeks to address the implications of the intended removal of oil subsidies on its effects on various segments of the Nigerian economy.

Conceptual Clarification

Deregulation

In popular parlance, to deregulate means to do away with the regulations concerning financial markets and trades. Ernest and Young (1988) posit that deregulation and privatization are elements of economic reform programmes charged with the ultimate goal of improving the overall economy through properly spelt-out ways. For example, freeing the government from the bondage of continuous financing of 60 extensive projects which are best suited for private investment by the sale of such enterprises; encouraging efficiency and effectiveness in resource utilization; reducing government borrowing while raising revenue; promoting healthy market competition in a free market environment; improving returns from investment and broadening enterprises share ownership thus engendering capital market development (Izibili and Aiya, 2007:228). Put differently, deregulation in the economic sense means freedom from government control. According to Akinwumi et al (2005), deregulation is the removal of government interference in the running of a system. This means that government rules and regulations governing the operations of the system are relaxed or held constant for the system to decide its optimum level through the forces of supply and demand (Ajayi and Ekundayo, 2008:212).

Deregulation allows enterprises and services to be restricted as little as possible. For our purpose, deregulation means either the partial or total withdrawal of government controls in the allocation and production of goods and services. The question that should be asked at this juncture is what are the gains of deregulation in Nigeria? This question cannot be convincingly answered in isolation of the theoretical foundation of deregulation. The most contentious issue in Nigeria is arguably the question of deregulation of the oil sector which has been generating heated debates from its protagonists and antagonists. The protagonists posit that the liberalization and deregulation of the downstream sector of the petroleum industry would finally actualize the objective of ending perennial fuel scarcity and maintaining sustainable fuel supply across the polity. It also added that liberalization and deregulation of the sector would open it up for foreign

investments, and, the incidents of petroleum products smuggling and inefficiencies in the sector. Besides, the thesis argues that petroleum products in Nigeria were the lowest in the world and with deregulation; the government would be able to channel funds to other sectors of the economy.
Furthermore, the protagonists equally posit that deregulation would break the monopoly of fuel supply by the Nigerian National Petroleum Corporation (NNPC). As the refineries were not working, the liberalization and deregulation would enable stakeholders, including major and independent marketers, to import and market products. As the NNPC cannot import enough petroleum products for the country, coupled with the perennial malfunctioning of the refineries, the government's introduction of the Petroleum Support Fund (PEF), from which it draws money to pay the excess expenditure incurred by the marketers for importing and selling petrol at regulated price and distributing it to every part of the country, should be stopped the thesis concludes. The major proponents of this thesis include the Federal Government, the Presidential Steering Committee on the Global Financial Crisis, and the Nigerian Economic Summit Group (NESG). The antagonist believes that the Nigeria petroleum industry must not be liberalized, deregulated, or privatized completely, for whatever reason and that the status quo should remain, maybe with minor fine-tuning "here and there" to improve efficiency, as appropriate, "in the overall national interest". This thesis also posits that the low capacity utilization of Nigeria's state-owned refineries and petrochemical plants in Kaduna, Warri and Port Harcourt, the sorry state of despair, neglect and repeated vandalization of the state-run petroleum product pipelines and oil movement infrastructure nationwide, the collateral damage of institutionalized corruption, with the frightening emergence of local nouveau riche, oil mafia that controls, and coordinates crude oil, and refined petroleum product, pipeline sabotage and theft (illegal bunkering) nationwide, the insatiably corrupt Task force operatives that assist diversions of both crude oil and petroleum products, large–scale cross–border smuggling of petroleum products, of all of which are the root causes of the protracted and seemingly intractable fuel crises that have bedeviled the polity relentlessly for close to a decade now, are all predictable outcome of government involvement in the downstream sectors of the Nigerian petroleum industry. Finally, they posit that deregulation helps increase profit margins for the importers. Essentially, this extreme is the implied position of the Nigerian Labour Congress (NLC) and the organized civil society. Between this extreme is the third thesis that believes that deregulation is desirable in freeing the government of its concurrent control and involvement in the business of refining, importation and distribution of refined petroleum products in the Nigerian market. In the opinion of this proponent, the deregulation of the petroleum industry in Nigeria should be implemented in phases, to enable the state-owned monopolies to regain efficiency, before full privatization. Fuel subsidy was before the coming of the Jonathan administration, a policy of the federal government meant to assist the people of Nigeria to cushion the effects of their economic hardship. Conceptually, fuel subsidy seeks to enhance financial capacity but also to accept the implied financial capacity but also to accept the implied financial losses 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 sell for N141 per litre, but for some considerations, it cannot be sold at that rate but at N97 per litre and if the government then accepts to pay the difference between N141 and N97, that is N44, this simply means that there is a subsidy to the tune of N85 for every litre purchased at the filling stations. What is 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 subsidies have valid theses. Secondly, both of them also maintain a non-compromising attitude. That is, while the government is talking about no alternative to the removal of the petrol subsidy the opponents insist on no negotiation

with the government until the government restores the fuel subsidy which was removed on January 1, 2012. Thirdly, the disagreement over the removal of fuel subsidies has led to a nationwide strike whose implications have now gone beyond the economic considerations of oil subsidies. The international dimensions are such that Nigeria's international image has become the first victim. Beyond these considerations, the removal of oil subsidies has provided a good platform for national
Reflection. One of the issues is the extent of political sovereignty. This is because true sovereignty Belongs to the people. The paper concludes by positing that there is no disputing the fact that both the politics of oil subsidy removal and the strike have become compelling factors for governmental accountability and good governance. It will go a long way in defining the success of President Jonathan in 2015 and the regimes after.

Theoretical Framework of Analysis

The theory to be adapted for this study is the neo-liberalism theory. Neoliberalism is a Contemporary form of economic liberalism that emphasizes the efficiency of private enterprise, liberalized trade and relatively open markets to promote globalization. Neoliberals therefore seek to maximize the role of the private sector in determining the political and economic priorities of the world. Neoliberalism seeks to transfer control of the economy from the public to the private sector, (Cohen, 2007) under the belief that it will produce a more efficient government and improve the economic health of the nation (Prasad,2006). The definitive statement of the concrete policies advocated by neoliberalism is often taken to be John Williamson’s (Williamson, 1990) "Washington Consensus", a list of policy proposals that appeared to have gained consensus approval among the Washington-based international economic organizations (like the International Monetary Fund (IMF) and World Bank). Williamson's list included ten points:

- Fiscal policy Governments should not run large deficits that have to be paid back by future citizens, and such deficits can only have a short-term effect on the level of employment in the economy. Constant deficits will lead to higher inflation and lower productivity and should be avoided. Deficits should only be used for occasional stabilization purposes.
- Redirection of public spending from subsidies (especially what neoliberals call "indiscriminate Subsidies") and other spending neoliberals deem wasteful toward broad-based provision of key regrowth, pro-poor services like primary education, primary health care and infrastructure investment.
- Tax reform– broadening the tax base and adopting moderate marginal tax rates to encourage Innovation and efficiency; Interest rates that are market determined and positive (but moderate) in real terms; Floating exchange rates; Trade liberalization – liberalization of imports, with particular emphasis on elimination of quantitative Restrictions (licensing, etc.); any trade protection to be provided by low and relatively uniform tariffs; thus encouraging competition and long term growth. Liberalization of the "capital account" of the balance of payments, that is, allowing people the opportunity to invest funds overseas and allowing foreign funds to be invested in the home country Privatization of state enterprises; Promoting market provision of goods and services which the government cannot provide as effectively or efficiently, such as telecommunications, where having many service providers promotes choice and competition. Deregulation – abolition of regulations that impede market entry or restrict competition, except for those justified on safety, environmental and consumer protection grounds, and prudent oversight of financial institutions; Legal security for property rights; and, Financialisation of capital (Williamson, 1990:80) Put

differently, Neoliberalism is a philosophy in which the existence and operation of a market are valued in themselves, separately from any previous relationship with the production of goods and services, and without any attempt to justify them in terms of their effect on the production of goods and services; and where the operation of a market or market-like structure is seen as an ethic in itself, capable of acting as a guide for all human action, and substituting for all previously existing ethical beliefs.

The main points of neo-liberalism include:

1. **The Rule of the Market;** Liberating "free" enterprise or private enterprise from any bonds imposed by the government (the state) no matter how much social damage this causes. Greater openness to international trade and investment, as in International Economic Relations. Reduce wages by de-unionizing workers and eliminating workers' rights that had been won over many years of struggle. No more price controls. All in all, total freedom of movement for capital, goods and services. To convince us this is good for us, they say "an unregulated market is the best way to increase economic growth, which will ultimately benefit everyone.
2. **Cutting Public Expenditure for Social Services;** like education and health care. REDUCING THE SAFETY-NET FOR THE POOR, and even maintenance of roads, bridges, Water supply -- again in the name of reducing the government's role. Of course, they don't oppose Government subsidies and tax benefits for business.
3. **Deregulation;** Reduce government regulation of everything that could diminish profits, Including protecting the environment and safety on the job.
4. **Privatization;** Sell state-owned enterprises, goods and services to private investors. This includes banks, key industries, railroads, toll highways, electricity, schools, hospitals and even fresh water. Although usually done in the name of greater efficiency, which is often needed, privatization has mainly had the effect of concentrating wealth even more in a few hands and making the public pay even more for its needs.

5. **Eliminating the Concept of "The Public Good" Or "Community"** and replacing it with "individual responsibility." Pressuring the poorest people in a society to find solutions to their lack of health care, education and social security all by themselves -- then blaming them, if they fail, as "lazy." Around the world, neo-liberalism has been imposed by powerful financial institutions like the International Monetary Fund (IMF), the World Bank and the Inter-American Development Bank. It is raging all over Latin America. The first clear example of neo-liberalism at work came in Chile (with thanks to University of Chicago economist Milton Friedman), after the CIA-supported coup against the popularly elected Allende regime in 1973. Other countries followed, with some of the worst effects in Mexico where wages declined 40 to 50% in the first year of NAFTA while the cost of living rose by 80%. Over 20,000 small and medium businesses have failed and more than 1,000 state-owned enterprises have been privatized in Mexico. As one scholar said, "Neoliberalism means the neo-colonization of Latin America."

In the United States, neo-liberalism is destroying welfare programs, attacking the rights of labour (Including all immigrant workers); and cut back on social programs. The Republican "Contract" on America is pure neo-liberalism. Its supporters are working hard to deny protection to children, youth, women, and the planet itself -- and trying to trick us into acceptance by saying this will "get the government off my back." The beneficiaries of neo-liberalism are a minority of the world's people. For the vast majority, it brings even more suffering than before. Applying this theory to the Nigerian situation, it is axiomatic to posit that in Nigeria today, the most contentious issue is, unarguably, the deregulation of the prices of petroleum products. The debate acquired added impetus in January 2012, when the Senate, the highest legislative organ of government in Nigeria, supported the deregulation of the downstream of the oil and gas industry, which is an important component of the Petroleum Industry Bill (PIB). This move, some perspectives say is evidence to drive the reform, of the industry spearheaded by the then Minister of Petroleum Resources, Alhaji RilwanuLukman.

However, the reform in the oil sector being spearheaded by the Oil and Gas Implementation Committee (OGIC) is largely made of technically competent technocrats. The fallout of the efforts is the conclusion that deregulation of the sector would serve the best economic interest of the polity. Corroborating the view of the senate, the National Economic Council (NEC), the highest economic policy organ of the government in Nigeria, in its analysis stated that it costs the countries Treasury one trillion Naira yearly to subsidize petroleum products in Nigeria. NEC stated therefore that it would be better if this huge sum of money spent on subsidy is used in smoothing potholed roads, providing hospitals, rehabilitating and building health facilities and schools or supplying portable drinking water. Already, the deregulation effort had earlier received the support of the largest oil and gas industry unions, the National Union of Petroleum and Natural Gas Workers (NUPENG), Independent Petroleum Marketers Association of Nigeria (IPMAN), the multinational companies as well as oil companies operating in the industry. Largely, their thesis is that deregulating the downstream sector of the industry will finally end the perennial fuel scarcity as well as maintain sustainable fuel supply across the nation. This deregulation dance is the one Nigeria has been dancing since 1999. The dancers are the same, and the music is also the same. The stage is the same and the musical instruments continue to remain the same. The only difference is the fact that new drummers are handling the drums and they may be doing a remix of the old beat, which may sound monotonously awful. Put differently, on a serious note, the issues have been the same for almost a decade now. Deregulation with all its grammatical and technical paraphernalia boils down to price increases or price deregulation. Civil society and organized labour's response has been the same as captured in this excerpt from one of its NLC's statements during the Olusegun Obasanjo's civilian regime. The recent hike in fuel prices and deregulation of the downstream petroleum sector or, more precisely, the full-scale deregulation of fuel prices and labour's retreat from unwillingness to organize mass actions, including strikes to fight this anti-poor, anti-growth policy is one sure process that at least, in the short and medium terms will worsen the socio-economic plights of the vast majority of the working class people (Otaigbe, 2009:24).

Traditionally, in Nigeria, pump prices of petroleum products have been regulated.

Some of the reasons why some stakeholders have advocated and continue to advocate price regulation include the following: a) Consumer protection. b) Protection for the poor. C) Uniform. d) Pricing across regions. f) Political gains (Ajumogobia, 2008: C9).

However, these theses according to Ajumogobia (2008) are more of perception than reality. The Reality tends to be that: Prices are higher when control is in effect There is often a need to create "stabilization Funds" Distortions in Pricing/Adulteration It discourages competition and creates a rent mentality amongst operators (Ajumogobia, 2008: C9). In the year 2000, the Nigerian government began a journey of partial deregulation of Nigeria's downstream sub-sector. According to Ajumogobia (2008), Nigeria has been through two phases in its pricing policy over the last decade: First, total regulation of prices for all products until 2004 and then the regulation of PMS and DPK only from 2004.

The policy was designed to: Move to a market-based pricing regime and eliminate regulatory distortions. Open/Liberalize the downstream petroleum market in a manner that allows private sector investment as well as a level playing ground for competition by industry participants Maintaining self–sufficiency in product supply and distribution and Attracting foreign and domestic investment (Ajumogobia, 2008:C9). The semi-deregulation phase in an atmosphere of regulation for the majority of products has led to inconsistency in policy approach and implementation with the resultant effect of entrenched inefficiencies and high operation costs. Although only partial deregulation was achieved, the effort recorded some albeit short-lived, gains, including short–term improvement in product availability in most of the country Temporary reduction in black market operations and adulteration of products Attraction of some investments, especially in storage, retail and haulage aspects of the business and Employment (Ajumogobia, 2008:C9). Unfortunately, these gains were not sustained as the international price of crude oil started rising.

In the meantime, between 1999 and 2008, we saw crude oil prices GO from $113 to $147 per barrel and then retreat to current levels under $70 per barrel. We have thus witnessed the extremes of the main factors that affect product pricing. At the same time, the relatively low price does present a window to implement a pricing policy that works without adverse social repercussions. To reduce the shock of the oil price increases, the government established the Petroleum Support Funds (PSF) in 2006. The objectives of the PSF were to: Stabilize the domestic price of petroleum products against volatility in international crude and products markets. Create a level-playing field for the active participation of NNPC and other marketers in product importation

and guarantee effective, product availability and distribution nationwide (Eme, 2009, and Ajumogobia, 2008; C9). According to Ajumogobia, the initial budget for the PSF was N150 billion. This has since grown to over N1.5 trillion in 2007; clearly, subsidizing prices over the years has not only led to an unacceptably high fiscal burden on the government but has also bred several unintended consequences and practices, including Smuggling of petroleum products out of the country; generating rents that must likely accrue to upper-income groups. Petroleum subsidies largely benefited the consumption of upper-income groups. Substantial evidence indicates that the poor and the near poor consume only a small fraction of these products. Another problem in the implementation of petroleum subsidies in Nigeria is the confirmed decline in the downstream industry for over two decades. This has also resulted in huge losses on account of low capacity utilization of installed capacity by the refineries as well as a sub-optimal mix of products. Similarly, low capacity utilization in pipelines and storage deports and widespread leakages in the pipelines and networks units owing to difficulties in operations and maintenance. Inappropriate pricing of products has made the sector unattractive to private sector investors, thus resulting in frequent shortages of products in the economy (Ajumogobia, 2008:C3).

However, the government is exerting so much energy on deregulating the importation side of the so-called deregulation with less attention on the refining demand of the policy. This does not make sense, because it is clear that if the government issues licenses to independent marketers with the understanding that they can give whatever price they believe will connect with their profit margin (which only makes sense to those in the business importation), whose interest the government is supposedly pursuing is a bizarre policy. This bizarre policy finds expression in various ways. For instance, currently, kerosene sells at a minimum of N120 per litre. And the government knows that, due to the highly inflation–sensitive nature and the spiral effect of petroleum products increase on the price of goods and services in the market, any little increase in the price of petroleum products will tear down the purchasing power of the naira. The consequence of this will

mean that the cost of transportation will rise, the market men and women will have to increase the prices of their goods and services; and school fees will have to jump higher to reflect the additional cost of petroleum products. If government officials and appointees can afford it now because they are making good and cheap money in government or earning good salaries, what about the majority, who are not as privileged as they are? This is probably the reason behind the organized labour agitation for the N100,000 minimum wage for Nigerian workers. The issue here is that the downstream sector has gone beyond mere business theses to an essential social issue that affects the very nerve of the polity, and only a blind or dumb government will pretend not to be aware of this glaring fact. Given the above theses, it is axiomatic to posit that the current state of the downstream subsector of Nigeria's oil and gas industry requires urgent attention. To appreciate the enormity of the challenges, especially as they impact on availability and affordability of petroleum products, a brief description of the status of the oil and gas industry today will suffice. Currently, the demand-driven average consumption of the three main refinery products steams are as follows: Premium Motor Spirit (petrol) 32,500,000 litres, automotive gas oil (Diesel) 12,000,000 litres, Household kerosene 10,000,000 litres (Ajumogobia, 2008: C9). Nigeria's four refineries have a maximum nominal or installed capacity to process 445,000 barrels of crude oil per day. This is less than 40 per cent 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 encourages product smuggling and further widens the gap between supply and local demand. Today, more than 90 per cent of petroleum products consumed in the domestic market are imported, usually at costs, which naturally reflect international crude oil prices. This is a dysfunctional state of affairs for a polity, which is one of the top 10 oil producers in the world (see Table 1&3 showing refinery ownership and consumption in oil-producing and Exporting countries OPEC). Nigeria distributes its refined products through a network of storage depots and finished product pipelines. The inadequacy of the distribution infrastructures is shown by the frequent and often severe shortages in some states of the federation even products that exist in others. Table 2 captures the ratio between consumption capacity and refining capacity in OPEC states to add currency to support severe
Shortages thesis. More recently, the lack of maintenance and vandalism of the pipelines have compromised the integrity of the pipeline network resulting in significant dependence on haulage by road with all the attendant impact on the integrity of the roads and the whims of aggrieved petroleum tanker drivers. Imported products face similar constraints in the inadequacy of receiving jetties, leading to significant demurrage costs and adding ultimately to the pump price of the product. The federal government has argued that it spends huge sums of money to
subsidize oil importation. The Presidency claimed that the government spent about N640 billion on oil subsidies last year. The Presidential Committee on Deregulation said that the current template of the Petroleum Products Pricing Regulatory Agency (PRA) puts the cost of imported petrol at N85 per litre as against N65 the product is being dispensed at filling stations. This represents N20 per litre as a subsidy paid by the government. Oil marketers who import more than half of daily oil consumption in the polity have until recently suspended importation as the result of an unsettled subsidy payment of about N70 billion (see Eme, 2009 and Alozie, 2009).

Implications of the subsidy on the Nigerian economy: domestic And international

The Domestic Dimensions:
The campaign for the removal of petroleum products through the deregulation of the downstream oil sector of the industry has finally been consummated. The Federal Government first gave a hint that it would not accept any further delay of the plan when, last December, President Goodluck Jonathan presented the 2012 budget to the National Assembly. The usually huge subsidy provision was missing. It was clear to all that the government had no intention of carrying the burden in the New Year. On January 1, 2012, the agency responsible for taking the decision, the Petroleum Product Pricing Regulatory Agency (PPPRA), told a largely unprepared and bewildered polity that no fuel importer should expect to be paid for supplying the products henceforth. The response was spontaneous. While studying the situation; the fuel stations shut down. The general public panicked. What is to follow is also fairly predictable. First, fuel, in the interim would be sold in the black market and prices would reach the roof. Reports across Nigeria had it that motorists bought between N138 and N250 per litre of petrol on Monday, January 2, 2012. In Kano State, black market operators sold at N250 per litre. Nigeria National Petroleum Corporation (NNPC) stations had a uniform price of N138 across the country but for other marketers, prices were varied. The table below captures pump prices in some major cities:
Table I: Prices of Fuel across Nigerian Cities after Subsidy Removal
City Prices per Litre
Benin N140 – N150,Ibadan N140, Ilorin N140, Kano N140 – N175, Kaduna N140 – N150, Oyo N150, Osogbo N145, Abakiliki N200, Lagos N141 – N158, Umuahia N150, Jos N150, Warri N160, Akure N150 – N170, Compiled by the authors. The increase would provoke hyperinflation of prices in the consumer products market and thus, compounded poverty. For instance, according to Daily Nation, the fare from Ilorin – to Abuja ranged between N3,500.00 – N4,000.00, for busses and N5,000.00 for cars. The old price was N2, 000.00. Ilorin–Lagos cost N5,000.00 instead of the old N1,600 charged by private operators. A trip from Kano to Lagos costs N8,500.00 as against the old N5,500.00. Kano to Ibadan rose from N4,500 to N7,750. Kano to Bayelsa, which was N8, 500.00 is now N17, 000.00. The removal of fuel subsidies has equally affected the cost of commodities at the various markets in the metropolis. Commercial motorcyclists instantly adjusted their fares as soon as the subsidy removal was announced. There could also be an increase in fire incidents nationwide as people are likely to store Premium Motor Spirit at home. Thus, lives and properties could be lost. The government posited that the prices would only rise in the interim. Comparing the situation to the development in the telecommunications industry, the government argues that the only way to arrest and correct the structural distortions in the sector is liberalization that would encourage businessmen to invest in building refineries and importing products to sell at prices dictated by the market. However, this is an argument not supported by empirical evidence. Diesel and engine oil prices have been deregulated for years. Yet unlike the situation in the telecommunication industry, the prices have been going up. The cost of doing business will equally respond to the trend. Businesses in the past few years have been relocating to Neighboring countries, with Ghana as the major beneficiary. The Manufacturers’ Association of Nigeria (MAN) reports that 834 industries closed in 2010. It cited erratic power as the major reason for these closures. Many industries ran to neighbouring West African countries because of low production costs (Eme, 2011. The Kano chapter of MAN said 86 industries have closed down in the state due to unfriendly government policies. The branch chairman, Alhaji Sanni Umar lamented that thousands of workers have lost their jobs, saying "We consider it necessary to associate the current problems bedevilling the development of industries in Kano to the absence of clear government's industrial policy" (Saladdeen 2011:6).

Put differently, Nigerians have lost small-scale industries that are supposed to serve as the backbone of our economy. Business enterprise with lofty ideas hardly survives in this country because of the unconducive environment in which they operate. They have to source their energy supply by spending a fortune on diesel to power their machines and struggle to pay staff salaries. Nigeria encourages small-scale industries to grow in other countries at the expense of our economy and the growing unemployment at home. Related to the above is the fact that since many companies have official cars that then have to be fueled for their senior officers, the operating environment may be more stuffed in the post-subsidy removal epoch. The middle class that is just about bouncing back to life is likely to be at the receiving end of the new policy. While the low-income earners can only be indirectly hit by the policy, the upper class can easily absorb the effect as their employers will bear the cost. But, for the middle class that has no access to alternative transport, an increase of more than 100 per cent rise in price can only make life more difficult. Artisans and technicians who rely on PMS to power generators to earn their daily meals will be forced to pass the cost to customers where this is feasible. Otherwise, they will be forced to close shop, with the consequent implication of unemployment – one of the evils the government says subsidy removal will fight. Also considered critical to the economy as the fuel subsidy issue is the provision of employment for teeming Nigerian graduates being churned out yearly by tertiary institutions. Unemployment has resulted in so much brain drain that there are so many Nigerians working in, and contributing to the development of other countries. But since it is not everybody that can leave the shores of the country, unemployment has continued to rise in the country. According to Salaudeen (2011:6), the national unemployment rate rose from 4.3 percent in 1970 to 6.4 percent in 1980; 40 percent in 1992 and 41.6 percent in 2011. The high rate of unemployment recorded last year is attributed largely to depression in the economy. As identified earlier, over the years, hundreds of factories that hitherto employed graduates and artisans have collapsed. This is because the energy supply which serves as the main engine of production has been comatose, thus forcing the surviving industries to depend on power generators

While the polity becomes a dumping ground for all imported items. Many artisans like welders, aluminium window filters, and tailors, who cannot afford power generators are today out of work. In desperation, many Nigerian youths have taken to riding commercial motorcycles and tricycles while others went into street hawking just to keep body and soul together. Nigeria is faced with gross abuse and under-utilization of human resources with a direct impact on national production and competitiveness. Brain drain in all professions has become common. Early December last year, President Jonathan noted that the nation was faced with the danger of youth revolt in its hands unless the government provided jobs for the teeming unemployed youths roaming the streets of the country. He promised that his government was poised with the provision of 50, 000 jobs in the New Year. How much he would be able to do this is another matter, as Nigerians had seen government after government make promises in the past which they never got to keep. President Jonathan has repeatedly said that subsidy withdrawal is necessary to safeguard Nigeria's future. He said the total deregulation of the downstream sector will open the oil industry for foreign investments; which will lead to massive jobs creation and development. For instance, the government's Subsidy Reinvestment and Employment Programme (SURE), under which it listed among other projects, the construction or completion of eight major roads and two bridges, provision of health care for three million pregnant women, six railway projects, youth employment, mass transit, 19 irrigation projects, rural and urban water supply (Ofikhenn, 2011:4). Labour said its response to the planned palliative measures is that "out of the projected N1.134 trillion to be saved from the subsidy removal, the local government allocation is N202.23 billion, states isN411.03 billion and the Federal Government N478.49 billion and concluded that even if the Federal Government alone were to spend entire N1.134 trillion, it cannot execute even a fifth of the projects it had listed" (Ofikhenn, 2011:4). Anti-Subsidy removal thesis concludes by positing that the presidency's palliative presentation was simply a repetition of the presentations made by the Babangida, Abacha and Obasanjo regimes and that more of those promises were kept. Specifically, Jonathan's palliative measures are faulty because of the under-listed unresolved questions: [1] Since there is no cash allocated to petrol subsidy in Budget 2012, where will the money to be reinvested by the Christopher Kolade Committee come from? [2] Any cash for subsidy in the NNPC's budget? [3] NNPC's budget and those of the 34 other Federal Government agencies are usually not made public. How will the government redress this lack of transparency? Finally, anti-subsidy protests will weaken the already fragile Nigerian economy. Employers of labour have warned of the implication of protests over the planned removal of fuel subsidies. According to the Director General of the Nigerian Employers Consultative Association (NECA), Mr. Olusegun Osinowo: Any crisis will worsen the economic situation. You know that salaries are paid from the daily income of the companies – the manufacturers – and it will be difficult for the employer to honour his salary obligations if businesses are put on hold due to labour protests (Oladesin, et al, 2011:1). For instance, Nigeria lost about 4.75 million Man-days to strike in six years. President of the National Industrial Court, NIC, Justice Babatunde Adejumo, has disclosed that no less than four million, Seven Hundred and Fifty Thousand, One Hundred and Ninty-One man-days (4,750,191) were lost to industrial actions in six years in Nigeria. Justice Adejumo in a paper on Building Effective Conflict Management Mechanism for Sustainable Development in Nigeria, at the 7th National Labour Relations Summit organized by the Michael Imoudu National Institute for Labour Studies, MINILS, gave details of the man-days lost in six years as follows: 2004 – 539,809; 2005 – 708,659; 2006 – 111,310; 2007 – 2,329,946;2008 – 495,860 and 2009 – 564,607 (Ahiuma-Young, 2011:17). He explained that man-days are calculated on the simple logic of multiplying the number of days a strike action lasted by the strikers i.e. the workers embarking on the strike, saying "in other words, each striking worker's loss of a day is treated separately from that of a fellow worker."

The International Dimensions

The opposition to the removal of fuel subsidies and workers' strikes should be seen as a healthy development in the transformation agenda of President GoodLuck Jonathan. First, the president has shown democratic disposition and courage in telling the Nigerian populace his econo-political direction. His foreign policy is pro-West. For instance, President Jonathan's co-ordinating Minister, Ngozi Okonjo-Iweala- Iweala is familiar with the ways of international finance from the standpoint of the West. In those institutions, they look at the developing world from two platforms. One, they want to know how it will benefit them. Two, they "help" with what is called a paternalist attitude. That means they look at us as children who must be helped because we do not have the brains to do things for ourselves. This is why they want the developing society to follow the market forces even though they know African economies cannot compete on an equal footing with theirs. It is that kind of thinking that she brings to Nigeria. Her economic sense has not been domesticated. Hence, the so-called Sovereign Wealth Fund is being made available to Western companies like Goldman Sachs and J.P. Morgan. She does not understand that the Nigerian economy is for Nigerians and not for America and her allies. Put differently, Nigeria's economy is tied to the global economy. Prices of international products are not fixed by the government of Nigeria but by internal market forces. The price of crude oil from Nigeria is internationally determined. For as long as Nigeria does not have control over fuel prices internationally, it can not but be better for

Nigeria to take the initiative now and embark upon a new path of self-reliance. Apart from internationally controlled prices, the volume of imported fuel has not always been enough, thus making importation of fuel a desideration, in light of the inability of the domestic refineries to produce to the tune of their installed capacity. The opposition parties, organized labour and civil society groups are also consistent with domestic ethos and traditions. The tough positions of both parties now compel a compromise, thus indirectly promoting the culture of mutual respect. Beyond that, the strike has considerably impacted the global community as a whole in different ways.Second, is the international aviation community; Not only have international aircraft grounded, but so Have been international passengers. Many Nigerian passengers want to go back to their Offices in Europe, America and other countries of the world but who could not? Several business investors are also standard. Some stranded Nigerians have complained that they might lose their jobs for not being able to resume duty promptly in European and American offices. The impact of the strike as identified earlier was also felt by the various airline operators. These included Air Nigeria, Chan Changi Airlines, Aero Contractors, IRS Airlines, Dana Airlines, Associated Aviation and Overland Airways among others. Aviation sources said these airlines on a normal day would operate about 200 flights wind amounting to hundreds of millions of naira for scheduled passengers and cargo operators. The situation was said to be worse for the airlines that fly into the West African Coast. The list includes Arik Air Nigeria and Aero contractors. Reports indicated that business ground to a halt at the ever-busy Tin-Can and Apapa last week as importers and their clearing agents deserted the ports while the strike lasted. All the terminals at the ports were said to have been deserted by importers and their agents. Meanwhile, a maritime expert, Mr Tunde Folarin, in a radio programme monitored in Lagos last Wednesday said the industry was bound to suffer a demurrage crisis by the time the strike was over. According to him, some of the importers will try to resist the payment of demurrage as they are bound to argue that they were not the cause of the crisis which made goods clearance at the ports impossible (Akanbi and Agbo, 2012:24). In the same vein, the effect of the crippling strike and protests was profound on the nation’s money market as banks remained under lock and key while the strike lasted. For instance, many Ghanaian businessmen, having business transactions with Nigerian banks in Ghana, have also complained bitterly about the strike. The Ghana branches need approvals from their headquarters before they can make some decisions. The implication here is that whatever happens in Nigeria necessarily affects political and economic activities in the West African region. Central Bank Governor, Lamido Sanusi Lamido put the loss incurred during the period of the strike at $617million daily, translating into about N100 billion (Akanbi and Agbo, 2012:24). At the diplomatic level, visa applicants cannot be attended to as scheduled appointments had to be cancelled. Many countries issued travel warnings to the citizens to be cautious about travelling to Nigeria. For instance, Canada and the USA have said that “civil unrest is occurring in several cities throughout the country after the removal of government subsidy on January 1, 2012. This type of warning also raises Nigeria's international image. The manner of perception of Nigeria as not being stable enough for the security of foreigners, the extent of security of foreign investments in Nigeria and in fact capability to ensure security and lives and property are what is considered about the people of Nigeria now. Perhaps, more significantly, it raises questions on the extent to which democracy can continue to thrive in Nigeria. But beyond these considerations, the removal of fuel subsidies has provided a good platform for national reflection. One of the issues is the extent of the sovereignty of government and that of the people. True sovereignty belongs to the people when people are elected into public offices, it is generally admitted that sovereignty is delegated in part.

The prize is that when a government takes a decision on behalf of the people, and the people are not favourably disposed to the decision, who should have the pre-eminence?

Conclusion/Recommendations

While Nigerians were still reeling in the aftershocks of the Christmas Day bombing at St. Theresa's Catholic Church, Madalla, Niger State, which claimed scores of lives, the Goodluck administration against reasonable expectations of the populace, yanked off the fuel subsidy of New Year Day. The result was as expected, an unprecedented hike in the price of petrol and attendant inflations. Like every Nigerian, I was shocked at the apparent sleight of hand and the surreptitious manner the removal came about. We recalled the then coordinating/finance minister, was assuring Nigerians that no final discussion had been taken on the implementation date for the subsidy removal. That was at the highly publicized event of the Town Hall meeting convoked by NPAN. Of course, Nigerians had every reason to expect that the removal would not come before April. In the first place, going by the measures published to cushion the impact of the subsidy removal, a lot of things were supposed to have been put in place before it could take effect. Today, none of them has taken off. In the second place, aside from the lack of provision for the subsidy in the 2012 budget, nothing makes the removal a done deal as the National Assembly may choose to tinker with the budget which therefore left to wonder as to what informed the rush to remove the subsidy when Nigerians are still weighing all the options. Given the above, the study, therefore recommends the following: The Federal Government should revert to the Pre-New Year's Day Petrol Price to restore normalcy and avoid nationwide strikes, rallies and protests. This is because there was a subsisting understanding between labour and the Federal Government in 2009 that the removal of subsidies would not begin until certain conditions had been met. These conditions include fixing of the refineries and building of new ones. These conditions have not been met. The others are regular power supply and provision of other social infrastructure, such as railways and repairs of roads as well as eliminating the corruption associated with supply and distribution of petroleum products in the downstream sector of the oil industry. Also, the Federal Government should consult wider on the matter and also allow the input of the National Assembly and members of the PPPRA board to make the removal of the fuel subsidy a participatory action. In other words, the decision of the Federal Government through the management of the PPPRA to increase the price of fuel through the deregulation of the downstream sector is illegal and unconstitutional.

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