
**CAUSES OF THE JANUARY 2012 REMOVAL OF OIL SUBSIDY IN NIGERIA:
PANACEA FOR SUSTAINABLE DEVELOPMENT OF NIGERIA**

Odoh Patrick Abutu

Department of Public Administration

The Federal Polytechnic, Kaura Namoda, Zamfara State, Nigeria

Email: odohpatrick@ymail.com

ABSTRACT

Successive governments in the past particularly the administrations from the period of oil glut have been subsidizing petroleum products. As a result of the above, government have been paying for every litre of oil that is consumed by any individual in Nigeria whether a foreigner or a citizen alike. This development has led to increase in government expenditure resulting in deficit budgeting over the years. The government became worried over the situation and eventually came out with the concept of oil subsidy removal so as to reduce cost of running the government and use the accruing funds to provide essential and social amenities to the larger citizenry. Attempts by other administrations to remove the subsidy fully failed until 1st January 2012 when President Goodluck Jonathan totally removed the subsidy on petrol. However, due to protracted strike action of the organized labour coupled with the suffering being encountered by the masses as a result of the strike action, the Government slightly reduced the full removal of the subsidy. In the light of the above, this paper examine the causes of the removal of subsidy in January 2012 and recommends that the government should fully remove the subsidy because even without the total removal, the consumers are purchasing the products even more than the N142 which was the official price for the full removal of the petrol and also that the advantages of total removal outweighed the demerits of continuous subsidizing of the oil.

INTRODUCTION

The issue of oil subsidy removal has been lingering on in Nigeria on the table of over four successive governments without any government being bold enough to fully remove the subsidy either for the fear of massive and widespread demonstrations that may result from such policy or possibly for the protracted hardship it may bring to the general masses or both. This development therefore, make successive governments to continue subsidizing oil in Nigeria where domestic fuel consumption is very high and is always on the increase due to increase in number of smuggled imported cars as well as lack of electricity power supply that has virtually made all small, medium and large scale industries to depend on Premium Motor Spirit (PMS) to power their generating plants. Indeed, the local consumption of PMS is "estimated to be billions of barrels per annually" (Iroh 2011:1). Whenever government attempted bringing the issue of oil subsidy removal on board, the government always have more than enough opposition claiming that; It is better to deregulate the downstream sector of the oil market to enable people actually pay for what they consume and that to fully remove the subsidy on oil may have weighty negative effect on the masses and on the general economy;

The "Trade Union are not opposed to the deregulation agenda provided that the government will be ready to make the refineries function at optimal capacity before the implementation of the deregulation", arguing that a fully functional refineries will compete effectively with the imported products and cushion the likely scaring fuel prices that will come with deregulation and that nobody need a soothsayer to know that the fuel importers will send the price of the commodity to high heavens once subsidy is removed; Successive governments inability to remove oil subsidy is that the government have enough pockets of groups that are causing insecurity across the country such as the Odua Progressive Congress (OPC) in the Western Nigeria, the Niger Delta boys such as the Movement for the Survival of Ogoni People (MOSOP), high rate of kidnapping stories etcetera , the Boko Haram spate of Bombing in the North and many more such as religious crisis, inter-tribal clashes and feuds .The proponents for the fear of insecurity asserts that these groups may hijack the opportunity of oil subsidy removal to cause more havoc and possible insurrection in the country than the government may control. Nigerians who belong to the anti-capitalist school of thought also holds the view that total and complete removal of oil subsidy is a gradual shift to take Nigeria to a full western capitalist economy which is yet ripe for. In view of this, this group always oppose removal of subsidy on oil when government make attempt in that direction claiming that implementation of such policy will ponder Nigeria into everlasting suffering. Other Nigerians who argue from the point of the sharing of the national cake are of the view that subsidy on oil is the only benefit of their national cake because "they may never get the opportunity of either getting government contract or appointment in their life time, the fuel subsidy seem to be the only thing left for them to hold on to. Lastly," Nigerians see the removal of subsidy on petrol as a tool of the International Monetary Fund (IMF) to teleguide the Nigerian economy, a situation difficult to understand by the average Nigerians who does not see the country's Minister of Finance and the Head of the Government's Economic Team Dr (Mrs) Ngozi Okonjo-Iweala" (Olaewaju & Ogunesan 2011:1).

Justification for the Removal of Oil Subsidy in January 2012

On Tuesday, October 4th, 2011 when President Goodluck informed the National Assembly about his government 's plan to begin the removal of fuel subsidy in 2012, majority of Nigerians believed that he was just joking considering the fact that past successive governments even with military experience were unable to remove the subsidy. According to the 2012-2015 Medium Term Fiscal Framework (MTFF) and Fiscal Strategy Paper (FSP) which the President sent to the National Assembly is a major component of the policy Fiscal consolidation states government intent to phase out fuel subsidy beginning from the 2012 fiscal year. The president remarked that the removal of the subsidy "will free up to about N1.2 trillion in savings, part of which can be deployed into providing safety nets for poor segment of the society to ameliorate the effects of subsidy removal (Jonathan 2011:1).

It was only the removal of fuel subsidy that would guarantee the success of the Medium term Fiscal Framework (Okonjo-Iweala 2011). The President further argued that funds saved from the removal (of oil subsidy) would stimulate private sector investments to bridge infrastructure gap and create incentives for investment in refineries and the petroleum industry. While speaking at the Presidential Retreat with the private sector on Economic

Development and Job Creation at the state Banquet Hall, Abuja in 2011, the President said that if the plan to remove the subsidy scaled through, "the resources hitherto used as subsidy on the importation of petroleum products would be invested in tangible infrastructure and provision of social nets to cushion the impacts of the reforms. He further asserts that the discontinuing with the subsidy remained the only responsible way of harnessing revenue for capital stock formulation, among others" (Jonathan 2012:2). The president also said that the proposal to remove subsidy on fuel is a gradual removal and the level of investment in the sector is inadequate, as the refineries in the country are over aged and are only able to produce about fifty percent (50%) of their installed capacity and meet only about forty percent (40%) of daily 30 million litres domestic demand for refined petroleum products. Based on the above enlisted justification, President Goodluck Jonathan and his Economic Team headed by Ngozi Okonjo-Iweala defied the yearnings and opposition of Nigerians against the removal of oil subsidy and formally removed the subsidy on oil on the 1st January, 2012. During his New Year day 2012 Presidential broadcast to the nation he announced the removal of the subsidy on the oil as was formally announced by the Petroleum Products Pricing Regulatory Agency (PPPRA) and reported by Adebayo (2012:1) in Daily Trust with a caption '**No More Petrol Subsidy From Today-PPPRA**'. "the Petroleum Products Pricing Regulatory Agency (PPPRA) today announced the full withdrawal of subsidies from Petrol (Premium Motor Spirit)" According to the statement signed by the agency's Executive Secretary, Reginald Stanley:

"the removal takes effect from today, January 1, 2012...the Agency wishes to inform all stakeholders of the commencement of formal removal of subsidy on Premium Motor Spirit in accordance with Section 7 of PPPRA Act, 2004. By this announcement the downstream sub-sector of the petroleum industry is hereby deregulated for PMS. Service Providers in the sector are now to procure products and sell same in accordance with the indicative benchmark price to be published fortnightly and posted on PPPRA website. Petroleum Products Marketers are to note that no one will be paid subsidy on PMS discharges after 1st January, 2012.

Causes of Removal of Subsidy on Premium Motor Spirit (PMS) in January 2012

There are multiple reasons that could be adduced for the total and full removal of subsidy on the 1st of January, 2012. The causes are advanced by both the government, petroleum regulatory agencies, groups, corporate organizations as well as political leaders et-cetera. The causes are divided into remote and immediate respectively.

Remote Causes

The Nigerian National Petroleum Corporations (NNPC) is having only three refineries across the country namely, the Port-Harcourt, Warri and Kaduna refineries respectively. These refineries are built decades ago to cater for the refining of petroleum products for domestic consumption of petroleum products. The equipments and machines used in these three refineries have depreciated and worn out beyond management that it could no longer be able to produce the required billions of barrels annually to cater for the ever increasing

demand for and consumption of Premium Motor Spirit popularly called petrol. Consequent upon the above inevitable situation, the Federal Government have to embark on the importation of petrol to augment the little quantity being produced from the Nigerian National Petroleum Corporations (NNPC). This importation is causing the Federal Government a lot of trillions of Dollars that it has become unwise for any rational government to continue with the importation hence the need to invest such money in the rehabilitation of the existing NNPC; One great challenges of the government that necessitated the removal of subsidy on petrol was uncontrollable activities of fuel smugglers across the national boundaries of Nigeria. There is high rate of smuggling business of petroleum products in Nigeria. The smugglers who collaborate with petroleum marketers specializes on smuggling of petrol to neighbouring Africa countries where the price is far higher above the price of petrol in Nigeria. The activities of these smugglers always paralyze the effort of the government her effort to restoring normal fuel supply in Nigeria across filling stations. These smugglers divert petrol from its intended original destinations to neighbouring countries and sell at higher prices. The consequence of the activities of these nefarious smugglers is a persistent long queue at filling stations across the country. Removal of subsidy therefore, is the only thing that will make the activities of these smugglers useless.

Removal of subsidy on oil will help check corruption in our country, Nigeria. The removal of the subsidy on Premium Motor Spirit is part of deregulation of the downstream sector of the petroleum industry and one of the aim of the deregulation is to check corruptive practices in the oil sector therefore, the removal of subsidy as Goodluck (2012:1) put is that "we are all greatly concerned about the issue of corruption. The deregulation policy is the strongest measure to tackle this challenge in the downstream sector. In addition, government is taking other steps to further sanitize the oil industry" Lack of compliance to subsidized fuel price by oil marketers particularly the independent petroleum marketers calls for the removal of oil subsidy. One of the basis for the government to fully remove subsidy on PMS on the 1st January, 2012 was that the independent marketers and the major marketers alike are not complying with the government to sell the petroleum products at the official control price fixed by the Petroleum Products Pricing Regulatory Agencies. The marketers as a result of selling above the official price exploit the consumers and create artificial scarcity all the time to enable them sell at higher price. Also, the petroleum agencies responsible for regulating the price of petrol are not effective in checking the oil marketers therefore, the marketers capitalizes on the weakness of the regulatory body to continue their nefarious business. The worse of it all is that these regulatory bodies are not sanction by the government.

Immediate Causes

The federal Government of Nigeria and proponents of oil subsidy removal made the following argument in to justify the immediate causes of the removal of subsidy. "Deregulation is not only a whistle most prospective entrepreneurs in this (oil) sector are waiting for the government to blow, it is also key to optimal economic performance ..." (Iroh 2011:1). Local entrepreneurs as well as foreign investors will be attracted with the full removal of oil subsidy. This is one of the basis for removing subsidy in January 2012.

The removal of subsidy on petrol was tailored to the fact that the removal will save the Federal Government millions of Naira which will in turn be channeled to other areas of economic development. The Governors' Forum which was held on the 21st June, 2011 endorsed the complete removal of subsidy on petrol since it will mean more funds to the states. The subsidy if removed will enable the states to implement the N18,000 minimum wage for the civil servants in their respective states. The Forum states that the removal of subsidy "is the survival of the nation's economy " (Adebayo 2011:1). President Goodluck stands on the support of the thirty six state governors to boldly remove the subsidy on petrol in January 2012. REUTERS, a UK News Agency claimed that the "International Monetary Fund (IMF) was behind the push by governments across West Africa to remove petrol subsidies. Ghana officially ended hers on Thursday 29th December, 2011. Other countries which the report said were under similar pressure are Cameroon, Guinea and Chad" (Adebayo 2011.1). Though, the paper reported that the Nigeria Ministry of Finance however denied the claim made in the report, we know that most government policies in Africa are particularly influenced by either World Bank, International Monetary Fund (IMF) or both just to protect the interest of the Western bloc. Removal of oil subsidy is also attributed to the fact that "Nigeria is contented simply seeking to selling crude oil after 53 years of oil discovery. Niger, Chad, and Ghana and Benin Republic have suddenly discovered oil and what is going on now is that companies that have received licenses from us to set up refineries in the last ten years and waiting upon us take the measure to free the market, are now moving to Niger and these other countries to set up refineries targeting the Nigerian market as the Export market" (Maku 2012:5).

Maku concluded with a rhetorical question "How will we stand the shame that, after 53 years, we will be reduced to importing finished products from Benin Republic , Chad, and Niger, which is exactly what is going to happen if we fail to take the measure. The removal of petrol subsidy is closely linked to the fear that neighbouring countries may eventually turn Nigeria into a dumping country for the sale of their oil products. Nigeria Local debt and its services "has hit the N5 trillion mark in domestic debt and we are using more than N500 billion to service these debts. Even with the subsidy, we are still going to borrow because of the size of the deficit" (Maku 2012:6). Government could no longer continue to pay for petrol in the name of subsidy while she is being confronted with a challenge of indebtedness of this magnitude. The spate of growing challenges of insecurity calls for a removal of subsidy to enable the government have fund to squarely manage the situation and have funds to carry out other developmental projects and infrastructure. The government said that she is "...investing a lot more on intelligence, a lot more in technology to monitor the activities of criminals. In addition, the President has set up an ECOWAS framework to deal with cross border crimes in the region..." (Maku 2012:7). Lastly, and more importantly on the removal of oil subsidy on 1st January, 2012 was the fact that earlier before January 2012, the President "presented the Budget (2012) proposal to the National Assembly without making provision for the subsidy..." (Adebayo 2011:1). As a result of the above therefore, the only option left for President Goodluck is to declare the removal of subsidy on petrol with effect from 1st January, 2012 since he will not have backup fund to pay for the subsidy.

CONCLUSION

From the remote and immediate causes of the removal of subsidy on petrol analyzed above, the reasons were all very fantastic and good to behold as the removal meant better for the Nigeria and for Nigerians but the expected positive outcome of the removal of subsidy on the Premium Motor Spirit (PMS) on the 1st of January 2012 is that after subsidy removal there shall no longer be queue in our filling stations any longer because the forces of demand and supply will determine the level of consumption since the market shall purely be perfect competitive market because there shall be many sellers and buyers and consumers will only like to purchase from the sellers of their choice. However, the role of the organized labour that forced the government to change the subsidy removal from full to partial could not make the perfect market to be in full operation. The consequences of these is that no new entrants into the market to build new refineries, fund realize from the partial removal is not adequate to carry out all the programmes and policies as promised before the announcement of full removal. Also, since 1st January, 2012 when the announcement of removal of oil subsidy was announced, the price of petrol in almost all part of the country has never been the 97 Naira as fixed officially. Consumers has been suffering in filling stations across the country including Abuja where the President himself resides. The reversal of the full subsidy removal has not help the nation as up till date smuggling activities is still very much on because the price of Premium Motor Spirit in Nigeria is still far below the price of PMS in many neighbouring African countries. The number of buses the Federal Government launched on the 8th of January, 2012 to cushion the effects of petrol subsidy removal is not sufficient at all to ameliorate the transportation suffering of the masses as the government planned because of some bottleneck associated with the distribution of the buses. In a related development, these buses that are distributed wherever they are found charge the same fare like any other commercial vehicles from the same destination therefore, the good intention of the government for the masses yielded less or no positive impact in that direction.

RECOMMENDATIONS

Based on the conclusion above, the following recommendations have become inevitable. One, government should fully remove the subsidy on petrol since Nigerians and consumers alike are already used to not only to N142 but even up to N180 per litre. Second, full removal of the subsidy on petrol will help the government to use the saved fund for other developmental projects most particularly on electricity power generation, mechanized agriculture, rehabilitation of railways and creation of inner waterway transportation, rehabilitation of Niger Bridge, improving of our education, tackle security challenges etc. Finally, full removal of petrol subsidy will assist the government to build more refineries and rehabilitate existing one . it will as well encourage foreign and local entrepreneurs to obtain licences for the building of new refineries in the country. If the above recommendations is carried out by the government it will not only guarantee perfect competitive market where there shall be many buyers and sellers but pricing shall be determine by the forces of demand and supply. This will not only bring about equity in wealth distribution but will create justice, fairness and accountability in resource management. The resultant effect shall be opportunities and platform for Nigeria to attain global sustainable development.

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