THE IMPACT OF OIL REVENUE ON NIGERIAN ECONOMY (1985-1994)

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DECLARATION

I hereby declare that this thesis is purely my own idea, initiative and a thorough record of my own research work. To the best of my knowledge, it has not been previously presented for the award of a higher degree. All works consulted have been duly acknowledged.

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CERTIFICATION

This project title "The Impact of Oil Revenue on Nigerian Economy" meets the regulations governing the award of the degree of Masters of Business Administration, Ahmadu Bello University, Zaria, Nigeria and is approved for its contribution to knowledge and literary presentation.

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DEDICATION

This work is dedicated to my late father Pa Johnson Olowookere, my darling wife, Titilayo and my beautiful daughter; Olubunmi.

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To God be the glory for His grace throughout the duration of my programme. I am indebted to a number of people in the course of this work. I profoundly appreciate the immense contribution of my supervisor, Mr. E.J. Ubom for his thoroughness, comments, genuine criticism and understanding throughout the study.

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ABSTRACT

In this study effort has been made to discuss the impact of oil revenue on the economy of Nigeria between 1985 and 1994. Extensive Library Research is adopted in studying the problem. 1908 marked the attempt of exploration for petroleum in Nigeria, while the modern search for oil in the country began in 1937 and exportation started in 1958. The exploration and production were found to be exclusively under foreign control for some time before the intervention by the Nigerian government.

The study revealed that oil revenue and the government revenue are symmetrically correlated having applied correlation analysis. Thus oil gives the Federal Government command over a considerable amount of resources.

The work equally revealed that inspite of the huge revenue derived from the oil industry, Nigeria is yet to witness the desired transformation of her economy due to avoidable factors. It has been suggested that vigorous diversification of the economy should be pursued rather than overdependence on the revenue from oil.

Lastly, based on the potentials of Nigeria's reserves, the paper revealed that the future of oil industry is bright in the country if we get our priority right.

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CHAPTER ONE

1.1 Introduction

The Nigerian petroleum industry has been described as "by far the most dynamic sector in Nigeria and the development of oil resources as the most significant economic event in recent years". Over the last two and half decades; it had provided the where-withal and the impetus for the rapid transformation of the economic landscape. Oil has remained for long the basket into which the fortunes of Nigerian economic well being have been kept. Although it was not until 1970's that petroleum era really emerged, the volume of production steadily grew throughout the 1960's until the 2.0 million barrels per day (mbp) point was reached in 1973.[1]

In fact, the remarkable recovery of the Nigerian economy from the ravages of the civil war was no doubt attributable to the oil industry in the country and sour present stature in the world and our leadership role in Africa is derived from the fact that we have oil and considerable oil wealth. Our annual income is reckoned in billions of Naira and it remains the mainstay of the economy.

The petroleum sector has not only been a boom and bane to Nigerian economy, it has also been described as the single most beneficial and maligned of all Nigeria's mineral resources. The very impressive growth performance in such macroeconomic aggregated as National income, investment and export can be traced to development in the petroleum sector.

The government also benefits enormously from the revenue generated from this sector. For example, this country derives more than 85 percent of her total foreign exchange earnings from the sale of crude petroleum. In 1978, the petroleum industry accounted for over 90 percent of our export values and for over 80 percent of federal revenues and for over 60 percent of our Gross Domestic National Product. This oil revenue gave the government greater degree of freedom in executing its various and often grandiose economic and non-economic projects and programmes.[2]

Petroleum has brought other advantages to the Nigerian economy. The industry offers employment opportunities of a superior kind, with the rewards that are more than average. The industry brings with it political opportunities in national and international relations. At the local level, the industry brings considerable social benefits to the areas of production and this triggers off many other industrial activities, through a multiplier process thereby helping the general economic expansion in such areas.

On the other hand, the sudden quantum jump in oil revenues particularly between 1974 and 1981 created several socio-economic problems that continue to have far reaching consequence for the development of the economy. The massive infusion of revenue led to galloping inflation never experienced before, neglect of Agriculture which resulted into massive food importation that reached ₦1 billion in 1980;

infrastructural bottle-necks, fiscal indiscipline on the part of the federal and state governments and large scale corruption. At the international level, petroleum export helped in strengthening the classical monocultural dependence of the economy with the world economy thereby exposing the economy dangerously to vagaries of the world petroleum economy. However, the Nigerian oil industry is significant in that it is the source of basic material for chemical products like paints, dyes, adhesives, agricultural chemicals, pharmaceuticals and a host of other products which are essential to human existence. If well managed, apart from providing a backbone for our Agricultural revolution, petro-chemical industry is basic to major industries like construction, textile and automotive.

Be that as it may, oil particularly has played two contradictory roles (beneficial and non-beneficial) in Nigeria. While it has created socio economic problems culminated in the neglect of the agricultural sector which used to be the backbone of Nigeria economy, it has also provided the capital for development. The above contradictory roles have motivated this work.

1.2 Objective/Purpose of the Study

A study of this nature usually focuses on one or a number of objectives. The major objectives of this work are as follows:-

i) To set off an appraisal of the impact of oil revenue on the (Nigerian) government revenue.

ii) To identify both beneficial and non-beneficial impacts of oil sector on the economy.

iii) To offer necessary recommendations based on the outcome of the study.

1.3 Need for Study

The need for this study is two fold. First, it is borne out of self interest in this sector for its singular role for Nigeria's past, present and future development. Secondly the fact that agriculture and other sectors have been gradually neglected since the era of oil boom seems to provide a sufficient reason for this study so as to offer useful recommendations to remedy the unfortunate situation.

1.4 Scope of Study

Efforts are made to trace the trend of oil exploration to the time (1908) when the first attempt to find oil in Nigeria was made. But much emphasis is placed on identifying the impact of oil revenue on Nigerian economy between 1985 and 1994.

1.5 Hypothesis

That oil revenue has significant impact on the government revenue between 1985 and 1994.

1.6 Methodology

Both primary and secondary data are used in the course of gathering information for this study. Thus information is gathered from extensive library research, that is information from text books, journals, magazines and reports including those from government, Central Bank of Nigeria (CBN), Oil Corporations, Federal Office of Statistics, business papers etc.

1.7 Anticipated Value

It is the hope of this researcher that this study will not only inspire more research on this topic but will serve as a forum for government functionaries to be acquainted with the short comings in the operation of oil industry in Nigeria, thus providing them with the opportunity of bringing about the necessary corrective measures.

1.8 Definition of terms

It will be useful to highlight some of the major terms that will appear frequently either explicitly or implicitly in this work. These terms are defined below:-

(i) Petroleum/Oil Industry:-

Both oil and petroleum will be used interchangeably in this ;piece. Oil/petroleum is an oily bituminous liquid consisting of mixtures of many substances, mainly the elements of carbon and Hydrogen, and hence known as hydro carbons. According to the Oxford Advance learners Dictionary of Current English, petroleum means mineral (Vegetable origin from forests in prehistoric times) found underground and obtained from wells, used in various forms (petrol, paraffin e.g. for lighting, heating and driving machines. The sector it occupies in the economy is generally referred to as petroleum/oil industry.[3]

ii) Participation

This implies the forms which government intervention in the oil industry takes. Examples are participation in production level, processing, marketing, conservation of oil etc.

iii) OPEC

This is an Organization of Petroleum Exporting Countries. The organization was established in 1960 for the purpose of ensuring stability in the price system in the oil industry through collective bargaining. The organization is presently made up of 13 member nations, viz:- Algeria, Ecuador, Gabon,

Iran, Indonesia, Iraq, Kuwait, Libya, Nigeria, Quatar, Saudi Arabia, United Arab Emirates (UAE) and lastly Venezuela.

iv) Sport Market

This is with regards to the sales of petroleum. It is a cash market where dealers in oil can buy or sell depending on their needs. During a period of over supply of crude oil, price falls because the market is full of sellers and few buyers and vice-versa.

v) Sport price

The spot price is paid in the spot market with no firm contract and prices are fixed daily, mainly on the supply and demand basis.

vi) Contract price

This is the price being paid by buyers of oil who have entered into firm contracts to buy certain quantities of oil at agreed prices over a given period, especially at the OPEC price.

vii) MBD/BD

The above is the abbreviation for the amount of oil produced/sold in millions or billions of barrels per day.

viii) 1969 Petroleum Decree

The 1969 petroleum decree drawn up by the Federal Government in full recognition of the need to force the oil companies to train Nigerians to man the industry stipulates that "within 10 years from the granting of license to any oil companies, at least 75 percent of the management staff must be Nigerians while 100 percent of the junior and intermediate staff should be Nigeria".

ix) Posted Price (PP)

This is arrived at by each government of an oil producing and selling country after making allowances for royalties, depreciation and rents. It varies with the grade, cost of exploration and extraction in each country. Thus, it is official selling price (OSP) less depreciation, royalties rents taxes etc.

CHAPTER TWO

2.1 LITERATURE REVIEW

2.2 Historical Survey of Oil Exploration and the Influx of Oil Multinational Corporations to Nigeria

Literature review is necessary in a study like this because it will enable us to find a suitable point of departure for enquiry. It will also provide a basis for relating the study to a wider body of knowledge. This review will have a general look at the Nigerian Petroleum Industry.

The search for petroleum in Nigeria dates back to pre-world war 1, 1908 precisely when a German Company - the Nigerian bitumen corporation obtained a license to exploit oil deposit in parts of what is now Lagos State. The first world war unfortunately interrupted and put an end to the activity of this company. The second attempt for the discovery of oil field in Nigeria was conducted in 1937 by another company, the Anglo-Dutch Consortium-Shell Darcy, later Shell BP. The whole of Nigeria was granted to this company as a concession for exploration under the oil exploration license of 1938. The company later had by various stages reduced its acreage to about forty thousand (40,000) square miles within the southern part of the country. Though the exploration of this company was interrupted by the World War II (1941-1946). However, it struck oil in commercial quantities for the first time in June 1956 at Oloibiri in the present River State.

As a result of oil findings from deep well drillings, Shell BP acquired more concessions between 1955 and 1957. On 19th January 1955, the company chose a surface area of approximately 23,600 sq. mile. This was followed on January 19, 1957 by the acquisition of another 17,000 sq mile containing altogether twenty oil prospecting licenses. Thus, the Shell-BP had monopolistic position in the mineral oil industry in Nigeria before 1969 when the Federal Military Government acquired majority share of it.[4]

The promising results of the exploration of the shell BP attracted some other oil companies to the Nigerian crude oil. In 1955, Mobil Exploration of Nigerian Ltd., an affiliate of the American Socoy - Mobil Oil Company obtained an exploration license embracing 281,782 sq. mile for all of the abandoned Shell-BP territory of the Northern Region including that portion of the British Cameroons administered by the then Northern Region. since then, some other companies have acquired similar licenses. By 1961, Gulf Agip Satrap (Later Elf), Tenneco and Amoscas (Later Texaco and Chevron respectively) had joined in the search both in the Onshore and Offshore with a considerably success. The exploration and exploitation activities of these companies (Offshore and Onshore) put Nigeria on the road to petroleum stardom which it achieved in the 1970's.

From a very small beginning with 5,100 barrels a day in 1958, production reached an all time high of 2.3 million

exportation from Oloibiri in 1958 with a modest 5,100 barrels per day. From available data, this rate doubled the following year, and as Mr. M.A. Olorunfemi, Head ERID, NNPC in NAPETCOR Second Quarter 1983 and Professor G.D. Nwankwo - Executive Director, Central Bank of Nigeria, Lagos in October - December 1992 Bullion have put it. "Nigeria's crude oil production increased exponentially from 5,100 barrels per day in 1958 to 4.096 thousand barrels or 11,220 thousand barrels per day in 1959. By 1965, production had reached 99,345 thousand barrels or 270 thousand barrels per day. Before the outbreak of the civil war in 1967, Nigeria's production had reached 152,428 thousand barrels or 418 thousand barrels per day in 1966. By 1970, production had reached 395,836 thousand or 1,084 million barrels per day (mdb). By 1973 Nigeria was producing 2,056 million barrels per day (mbd) - Except for the fall in production in 1975 and 1978, production continued to increase until a peak of 2.3 million barrels per day (mbd) was reached in 1979 before declining to 1.4 million barrels per day in 1981.[6]

The growth in oil production throughout this period was aided by the following factors:-

First, Nigeria's oil reserves continued to grow from 1958 through 1975. Secondly, the international oil market was equally growing throughout this period at about 6-7 percent annually. In the energy mix, oil had displaced coal as number one fuel and because the oil majors kept the price low, the

petroleum exporting countries, including Nigeria contained to increase their production at about 11 percent annually in order to increase their oil revenue. In 1980, a gloom hit the oil market as a result of unprecedented huge stock of crude oil by major oil importing countries for both traditional and strategic uses coupled with drastic cuts in oil prices by Mexico and Britain and oil discoveries in countries like Alaska, Canada, New Foundland, Argentina, China and a number of African countries.

Nigeria's crude oil production which stood at 2.4 mbd towards the end of 1979 and remained at about 2.1 mbd in December 1980 declined in 1981. It dropped to 1.31 mbd in May of the year. However it picked up from 1982 and stood at 1.3 mbd in 1984; 1.6 mbd in 1991.

2.3 Oil Processing

Oil processing is carried out in the oil refineries. A refinery with 35,000 barrels per day crude processing capacity was established in Port-Harcourt in 1965. After the civil war, the capacity of the refinery was expanded to 60,000 barrels per day. As from 1975, arrangements were made to refine Nigeria's crude oil in Curacao and Rotterdam for re-importation of the products to Nigeria. With time it was discovered that one refinery could not satisfy the entire nation's need; thus the establishment of the Warri refinery in 1978. With the Port-Harcourt and Warri refineries in

operation, much of the petroleum products utilized in the country were still being imported and the internal distribution of such imported petroleum products, especially fuels, was hampered by transportation problems. The need for a third refinery was imperative. The establishment of the NNPC refinery in Kaduna in 1980 as a supplementary source and for proximity purpose brought the number of oil refineries to three (3) in the country. Efforts are being made to increase the number to four.

2.4 Marketing

Petroleum products marketing activities started in Nigeria in 1909 with the establishment of a trade link in "sunflower" Kerosine by Socony Vacuum Oil Company (now Mobil). Up till 1975, the distribution of petroleum products was entirely in the hands of seven firms (Mobil, BP, Total, Agip, Texaco, National Oil and Chemical marketing Company and Unipetrol) none of which was strong enough to dominate total market. Therefore competition was the order of the day and this competition was so fierce that margins on sales were very small and in some cases negative.

This private sector dominated the scene of the marketing of Nigerian oil until around 1975 when there was an upsurge in demand due to rapid monetization of foreign exchange resources for domestic growth and expansion. The lack of all sorts of facilities to cope with this increase in demand, the

shortages and the black marketing that followed prompted the government's intervention which manifested itself in the buying of the first Nigerian Petroleum refinery set up by two of the firms and government went much further to invest substantial financial resources in more refineries and other major infrastructures that were considered necessary for marketing operations in the industry; such as the construction of extensive products pipeline network, massive products depots etc.

One can infer that if the petroleum marketing industry had not been injected with so much controls, take-overs and buy outs the profit motive of the private petroleum products marketing companies would had been to siphon their profits over to their major multi-national corporations abroad.

CHAPTER THREE

3.1 GOVERNMENT'S PARTICIPATION IN NIGERIAN PETROLEUM INDUSTRY

The Nigerian Petroleum industry was developed by foreign concessionaires which consisted mostly of members of the "Seven Sisters Club" namely Shell British Petroleum (BP), Gulf, Mobil and Texaco/Chevron. Only Esson the largest of the club members did not join in search in Nigeria. These giant multi nationals led by Shell-BP in Nigeria and in line with their complete worldwide control and management of the petroleum industry dominated all phases of oil industry from the crude stage to refined products until the early 1970's. The locus of decision making power with respect to investment, production, distribution and pricing of crude petroleum in Nigeria was under their effective control.

The initial interest of the Government in the oil industry was limited to collecting the royalties and other dues which the oil companies offered to pay it, and making laws, to regulate the activities of the industry. Immediately after the civil war, oil became predominant and more strategic to the economy of Nigeria. Nigeria also joined the Organization of the Petroleum Exporting Countries (OPEC) in July 1971, as the 11th member country. As a result of all these developments government in its new stature and association decided on participation in the industry's activities.

The promulgation of the petroleum decree of 1969 by the military marked the second phase in the development of the Nigerian Petroleum industry particularly with respect to a change in the centre of power for controlling decision making in the industry between the giant oil multinationals and the Nigerian government. The Decree set up the basic framework for eventual government control and ownership of the industry. The decree stated that the entire ownership and control of all petroleum under or upon any lands in Nigeria shall be vested in the states.[8]

In affecting the provisions of the 1969 petroleum Decree, the government set up the Nigerian National Oil Corporation (NNDC) in 1971. NNDC was empowered to engage in all phases of petroleum development in furtherance of the objective of the government to eventually control and manage the industry. This commenced with equity participation in two foreign concessionaires by the government in 1971 following agreement with Safrap (Elf) and Agip/Phillip for 35 percent and 33 percent of their shares respectively. After protracted negotiations Shell-Bp agreed to government equity participation of 35 percent in 1983.[9]

NNDC had acquired 55 percent majority shares in all major foreign oil companies by April, 1974. The power locus in the industry has finally changed hand from the multinational to national oil control. The NNDC was replaced by the Nigerian National Petroleum Corporation (NNPC) in 1977. NNPC was

established following the merger of NNDC and the Ministry of Petroleum Resources. The functions of the NNPC were similar to NNDC. In 1979 the government share became 60 percent of the equity shares of oil companies. Against the British Government's widely publicised decision to provide crude oil to South Africa, the Obasanjo government nationalized all British Petroleum (BP) interests in Shell-BP thus increasing our participation interest in Shell to 50%. Table 1 shows the participation of government in the various companies from 1971-1979.

For completeness and in pursuit of total control of the crude, refining and internal distribution of the industry the government acquired 100 percent equity interest in the Port Harcourt Refinery (which initially was owned 50-50 by the government, Shell 25% and BP 25% and all subsequent additional refineries are wholly owned by the government. The former oil marketing companies Shell (Nigeria) Limited and Esso were taken over by the government and renamed NOMCO and Unipetrol respectively. In addition BP was renamed African Petroleum (AP). The other firms have Nigerian majority shareholding. The government controls the marketing of refined petroleum products in the country. Apart from crude production, the government is the only effective participant in the other phases of the oil industry in Nigeria. In crude production the government has the final say through its majority shareholding in all the oil producing companies.

Table 1.

GOVERNMENT JOINT VENTURE PARTICIPATION
INTEREST IN THE OIL INDUSTRY

COMPANY	DATE ACQUIRED	PARTICIPATION %	NO. OF LICENSE
ELF	1-4-71	35	4
	1-4-74	55	4
	1-7-79	60	4
AGIP/ PHILLIPS	1-4-71	33 1/3	4
	1-4-74	55	4
	1-7-79	60	4
SHELL-BP	1-4-73	34	58
	1-4-74	55	58
	1-7-79	60	58
	1-8-79	80	58
GULF	1-4-73	35	10
	1-4-74	55	16
	1-7-79	60	16
TEXACO	1-5-75	55	6
	1-7-79	60	6
MOBILE	1-7-73	35	4
	1-4-74	55	4
	1-7-79	60	4
PAN OCEAN	1-1-78	55	1
	1-7-79	60	1
ASALAND	June 1973	Not Applicable	2

Source: NNPC Joint Venture Department.

3.2 Reasons for Government Participation

Ever before the advent of petroleum era, Nigeria has had a history of government intervention in the then dominant economic activities, that is, agricultural marketing. But even then interest centred mainly around such crops as cocoa, groundnuts, palm produce and rubber and the interest was dictated simply because export of these crops was the main source of government revenue. But inn spite of this government's role was relatively peripheral in as such as a substantial part of cash crop farmers' income from exports through government agencies were paid directly to the farmers.

Equally before the late 1970's oil industry was in the hands of foreign companies. The reasons for the timely intervention of the government in the sector are many and they are enumerated below:

3.2.1 Revenue for Financing National Development Programme

To transfer an economy into an advance self-sustained stage, requires huge amount of money for effective financing. Thus it might be as a result of the commitment of the government to achieve the maximum possible rate of economic development relying on her own resources and to industrialise the country as rapidly as ;possible that the decision has been taken to participate significantly in all aspects of the oil industry. Hence the Second National Development Plan, 1970-74

stated that Government would participate in the exploration and production of Nigeria's mineral resources in view of the crucial role which the mining sector in general and petroleum in particular was expected to play henceforth in the economy.[10]

The first and Second National Development Plans involved capital expenditures of ₦2.2 billion and ₦3 billion respectively while the Third National Development Plan involved a capital expenditure of ₦30 billion - a significant increase. The fourth National Development Plan involved a capital expenditure of ₦82 billion representing an average growth rate of 7.2 percent over the five years plan period. The forth plan as well as the previous plans is a continuing process aimed at building the economic base necessary for self sustained growth in the future.

3.2.2 Financing the Oil Industry

It is a known fact that the oil industry is highly capital intensive; and as a result of this, huge amount of capital expenditure is required not only for the industry to take off but to sustain production. In Nigeria, the first three oil companies expended from ₦50 million to well over ₦70 million on exploration and development prior to the production of a single barrel of oil.

For sums of money of this magnitude the right type of investment climate must be available. The intervention of

government as a result of this huge amount was absolutely necessary if not compulsory.

3.2.3 Compliance with OPEC's Resolution

Nigeria did not become a member of OPEC until July 1971. As a member of OPEC, Nigeria was duty bound to comply with the organisation's Resolution XVI Article 90 of June 1968 which enjoined all member countries to acquire participating interest in the operations of the oil companies operating in their territories. OPEC prescribed a time table that required each member country to acquire 51 percent participation interest by 1982.

3.2.4 Manpower Development

The position today in the Nigerian Oil Industry is that after more than 35 years of intensive activities since the second war and 25 years of successful commercial exploration and exportation of crude oil, Nigeria has not yet succeeded in acquiring the technology of the industry partly due to institutional inadequacies and lack of an effective coordinated manpower development policy. The civil war also had its adverse effects on Nigerian manpower development in the industry.

At the end of 1970, out of 12 people of management status in Shell-BP (the largest and longest established among the oil companies only one was a Nigerian and he was not really involved in the technical process of producing and marketing

oil. In the senior professional and technical position (excluding accountants and medical people). There were twice as many non-Nigerians as Nigerians. The position in the Gulf Oil Company, Mobil, SAFRAP, AGIP, Tenecco, Texaco etc. was even worse than the picture in Shell-BP.[11] The practice of never hiring Nigerians on permanent contracts adopted by the service companies in the oil industry was notorious. Documented evidence abounds in Ministry that Nigerians were often subjected in the oil industry to severe indignity with racial overtones, and other vexations. Like most of foreign entrepreneurs, the oil companies were not interested in developing indigenous experts and in the early years, most oil field problems arising from their operations were solved by seeking advice from their home offices or flying down experts from abroad.

In realisation of the fact that participation is only meaningful when accompanied by the development of the necessary manpower to provide the personnel for the various phases of the petroleum industry, two approaches were adopted by the Nigerian Government. First, the 1969 petroleum Decree was drawn up in full recognition of the necessity to force the oil companies to train Nigerians to man the industry. With the decree government has insisted that the oil companies involve Nigerians in the industry by stipulating that within 10 years, from the granting of license, at least 75 percent of the management staff must be Nigerians while 100 percent in

the junior and intermediate staff should be Nigerians. Secondly, Government established the petroleum Training Institute at Warri to cater for the middle cadre manpower needs of the oil industry. In addition, Government has encourage the establishment of advanced courses in petroleum technologies in a number of Nigerian Universities to cater for the senior management requirements of the industry. Similarly, oil companies have sent a number of Nigerian to their Overseas operations for training.

3.2.5 Protecting Natural Resource (Oil) against Exploitation by Foreign Investors.

The above is among the rationale for government's intervention in the Nigerian Oil Industry. The realisation that the ulterior motive of the multinational Corporation's involvement in our oil industry is to channel their profits back to their country rather than using it for the environmental improvement of the oil producing areas or investing in the country is more than enough reason for the government to intervene as it has done.

3.2.6 Concentration of more important areas in the Hands of the indigenes

This factor is in consonance with the national policy which emphasizes the concentration of the more important areas of the nation's economy in the hands of the nationals.

Examples that readily come to mind are; the Business Control Legislation and the Nigerian Enterprises Promotion Decree of 1977 (and its amendments) to facilitate enforcement of Joint Ventures between foreign and indigenous parties or even outright indigenous ownership in all but a few business.[12] Its objective appears to be to ensure a phased transfer of control of the economy into Nigerian hands.

3.2.7 Private Initiative Lacking

F.O. McOliver in one of this write-ups said that government's participation in business may be justified where private initiative is lacking or where there is shortage of personnel as in Nigeria and Italy. He went further to stress the significant role played by the Federal and State Governments in the face of shortage of skilled management personnel by bringing together the public and private sectors embarking on personnel management raining and also requiring multinational corporations (MNCS) to do so. He continued to enumerate how public and private sectors of the Nigerian economy are brought together to provide electricity and direct exportation of her major agricultural products like cocoa, groundnuts, palm oil etc.

In agreement with the above argument, Fred Borch, the General Electric's Chairman in a speech to the Economic Club of Detroit has this to say "government move into joint ventures to protect their own domestic industries where their

own private enterprises cannot cut in and when the government sets in the compositive rules change.[13]

3.3 OPEC's Influence

Until the late 1950's oil industries outside the developed countries gained prominence mainly in the middle-eastern countries of Iran, Kuwait and Saudi-Arabia and in the South America Country of Venezuela. The international companies involved in the oil industry were also limited in number to what used to be referred to as the seven sisters" (Exxon, BP, Royal Dutch-Shell, gulf, Texaco, Standard of California and Mobil) which produced and distributed all the world oil.[14]

The above gang of seven "notorious" companies held firm monopoly over the technology of oil production embarked by the imperialist states, they used their control over pricing to commit a worst form of plunder second only to the tran-atlantic trade. Exploiting their oligopolistic position over world oil production, the world's oil price was dictated by them though 60 percent of all the world's oil reserve are in the third world countries. They were charging the world 300 percent oil cost in America even though America produced less than 40 percent oil, thus making fantastic profit from oil sales but paid little or nothing to the producing third world countries. By this the third world produced the cheap oil to fueled American and British technological revolution. it is

therefore no co-incidence that while the oil producing countries wallowed in abject poverty, the oil consuming nations witnessed an unprecedented era of industrial and economic growth based on free flow of cheap oil.

By 1949, Venezuela, which then had managed to assume a greater degree of independence from the "Seven Sisters" and had a more advanced technical knowledge was able to get a so called profit sharing formula called 50-50 arrangement where she (Venezuela) got 50 percent of nominal profits through income taxes (which were in turn written off by the home countries - USA, UK etc). Following Venezuela's lead in 1950, Iran, Kuwait and Saudi-Arabia negotiated 50-50 arrangements with the "Seven Sisters" while these oil companies agreed with Kuwait and Saudi-Arabia, they refused to grant Iran the same negotiation.[15]

Informal contacts between Venezuela and Middle East countries continued until April 1959 when at the first Arab Petroleum Congress (Representatives of Iran and Venezuela attended) the first idea of the creation of OPEC was formed. Thus in September, 1960, the five major world oil exporting countries by that time, Iran, Iraq, Kuwait, Saudi-Arabia and Venezuela met in Baghdad to form the Organization of Petroleum Exporting Countries - OPEC Eight other countries - Qatar (1961). Indonesia and Libya 1962) United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador and Gabon (1973) have since joined the organization.

3.4 Sources of Oil Revenue

Nigeria is an oil producing and exporting country with a large and articulate population. The petroleum industry has played a key role in the development of the Nigerian economy since the late 1960s. In the last two decades, it has become not only the dominant factor in the economy but has become an area that holds the key to the nations economy and perhaps the future of us all. Nigeria is an exporter of large quantities of good quality oil. Nigeria's oil (Bonny light) is of the same quality with the North sea oil. This study is concerned with the impact of oil revenue as it affects the economy of the nation.

One of the most important direct contributions of the oil industry to the Nigerian Economic Development is the revenue that accrues to the Government. The emergence of petroleum in the 1970s decade resulted in government becoming the sole channel through which this important foreign exchange earner is realised. All the revenue earned from oil production and export go directly to the government; the only exception being the leakages from the oil companies for goods and services purchased from contractors.

Five major sources of revenue accrue to the government from the oil sector. All mineral and oil companies operating in the country are obliged to make a number of payments to the Federal Government as a result of confessional agreements with the government under the Mining and Petroleum Profit Tax

Ordinances. Mr. E.I. Okeke, the then Deputy Chief Engineer NNPC in his contribution titled "Oil in the Nigerian Economy" in the October - December 1980 edition of NAPETCO, classified the main sources of oil revenue as follow:-

(i) Petroleum Profit Tax (PPT)

(ii) Direct sales of Marketing of Government Equity Oil.

(iii) Royalties

(iv) Rents

(v) Tax on the level of oil production.

(a) Petroleum Profit Tax (PPT)

In the 1960s, Petroleum Profit Tax was the most important single source through which petroleum money flowed into the economy. However, in effecting the provision of the 1969 petroleum decree, the government set up the Nigerian National Oil Corporation (NNOC) in 1971 and negotiated a series of participation and production sharing agreements with several oil producing companies. NNOC was empowered to engage in all phases of petroleum development in furtherance of the objective of the government to eventually control and manage the industry.[16] Petroleum Profit Tax is a fixed percentage tax at a point in time on taxable oil income of the posted price of crude less royalties and technical cost of production.

The Federal Board of Inland Revenue (FBIR) is responsible for the collection of PPT from oil producing companies and

this tax has changed several times since its inception.

(b) Direct sales of Government Equity Oil

By the provision of the 1969 petroleum decree the NNOC (Nigeria) had made an inroad into the international market through sales agreements with some foreign companies. With this achievement, it is the responsibility of the Nigerian National Petroleum Corporation which replaced NNOC in 1977 to operate Government's participation (interest) in oil companies and to dispose directly otherwise those crudes which emanate from agreements with the existing and prospective foreign or indigenous oil companies.

(c) Posted price and Royalties

During the days when oil producing companies controlled the Crude oil market, there was no way the producing countries could confirm the actual market price and the realisable profit of the companies in order to fix taxes. A theoretical price of a barrel of crude oil was posted and called posted price from which Royalties and Petroleum Profit Taxes were determined. Today, royalties and Petroleum Profit Taxes were determined. Today, royalty is computed as a percentage of posted price, depending on whether production is onshore, shallow offshore or deep offshore.

(d) Rent

Annual rent, otherwise known as advance royalty is paid on non-producing concessions owned and retained by oil companies. The amount of rent on any concession is directly proportional to the area extent of the concession. Once a concession goes into production, payment of rent on the concession terminates and payment of royalty on the basis of production commences.

The cumulative rent already paid by a company in respect of a concession which commences production is regarded as advance payment of royalty on such a concession. The initial life of an oil mining lease on which rent is payable is 20 years.

(e) Level of Production

The Nigerian Government is responsible for the determination of the level of production subject to Government's needs, technical considerations, marketing and other international constraints.

CHAPTER FOUR

4.0 OIL AND THE NIGERIAN ECONOMY

4.1 Impact of Oil Revenue on Nigerian Economy

Oil revenue has become the major source of government revenue since its inception into the Nigerian economy. From table 2, government total revenue has increased in line with increases or decreases in oil revenue. For instance, as oil revenues increased from over ₦7.billion in 1985 reading a peak of ₦231.1 billion in 1994, Federal Government revenue in the same period also rose from ₦11.269 billion to a peak of ₦278.5 billion. On percentage basis, the proportion of oil revenue in total revenue stood at 66.3 percent in 1985 and reached a peak of 81 percent in 1990 and 83 percent in 1994 respectively. However, the ratio dropped to 78.5 percent in 1991 78.21 percent in 1992 and rose to 80.6 percentage in 1993.

The massive increases in oil revenue accruing to the government over the last two decades arose largely from the dramatic price increases that characterised the world oil economy. A pointer to this was the quadrupling of oil price increase of 1978/79 during the Iranian revolution and about 100% jump of 1980 occasioned by the Iran-Iraq war. Equally, all the members of OPEC in general and Nigeria in particular benefitted from the unexpected oil price increase during the Gulf war (1990/91). President I.B. Babangida acknowledged this in his 1991 budget speech, ... "the resulting price

were erratic. Our realised prices were above the $16 p/d envisaged in the 1990 budget. He went further to say that ... the current surplus rose sharply from ₦2.811 billion in the first half of 1989 to ₦7.457 billion in the first half of 1990.[17]

Below, correlation analysis is applied to illustrate the significant contribution of revenue from oil to the government revenue with the period under study. Correlation analysis will show whether the government revenue and oil revenue are positively or negatively correlated and the extent of the degree of their relationship within the period under study. The figures used are extracted from Table No. 2

Y represents total current (Government) revenue while

X represents oil revenue between 1985 and 1994 respectively.

TABLE 2

FEDERAL GOVERNMENT REVENUE FROM CRUDE PETROLEUM 1985-1994 (₦' BILLION)

Year	Oil Revenue	Oil Revenue as percentage of Total (%)	Total Government Revenue	Non-Oil Sector Revenue	Non-Oil Sector Revenue As percentage of Total (%)
1985	7.47	66.5	11.24	3.77	33.5
1986	13.10	84	15.60	2.50	16.0
1987	14.90	85.1	17.50	2.60	14.9
1988	21.09	77.8	27.10	6.01	22.2
1989	22.52	76.6	29.41	6.89	23.4
1990	38.63	81	47.66	9.03	19.0
1991	53.99	78.5	68.73	14.74	21.5
1992	79.16	78.2	101.20	22.04	21.8
1993	126.50	80.6	156.9	30.04	19.4
1994	231.40	83.1	278.5	47.1	16.9

Source: Federal Ministry of Finance, Abuja CBN: Federal Government Budget Estimates 1985-1995.

The formula for the correlation co-efficient in given by:

$$r = \frac{\sum xiyi}{\sqrt{(\sum X^{2_1})(\sum Y^{2_1}}}$$

Were r = correlation co-efficient

The formula is expressed in deviations of the variables from their means. the data below is plotted in ₦ billions.

Table 3

Correlation Analysis Table

Year	X	Y
1985	0.747	1.124
1986	1.31	1.560
1987	1.49	1.750
1988	2.109	2.710
1989	2.252	2.941
1990	3.863	4.766
1991	5.399	6.873
1992	7.916	10.120
1993	12.650	15.690
1994	23.340	27.850
	61.076	75.384

$\Sigma x = 6.1076$

$\Sigma y = 75.384$

$n = 10$

$X = \frac{61.076}{10} = 6.108$

$Y = \frac{75.384}{10} = 7.538$

$X = X-X$	$Y = Y-Y$	X_iY_i
-5.361	-6.414	34.385
-4.798	-5.978	28.682
-4.618	-5.788	26.729
-3.999	-4.710	18.835
-3.856	-4.597	17.726
-2.245	-2.772	6.223
-0.709	-0.665	.471
1.808	2.582	4.668
6.542	8.152	53.330
17.232	20.312	350.016
	$\Sigma xiyi$ =	541.065

X^2	Y^2
28.740	41.139
23.021	35.736
21.326	33.501
15.992	22.184
14.869	21.132
5.040	7.684
503	.442
3.269	6.667
42.798	66.455
296.942	412.577

$\Sigma x^2 = 452.500$ $\Sigma y^2 = 647.517$

Applying the formula thus:

$$r = \frac{\sum xiyi}{\sqrt{(\sum x^{2_1})\,(\sum yi^2}}$$

where r = correlation co-efficient

n = 10

$\Sigma xiyi$ = 541.065

Σxi^2 = 452.500

Σyi^2 = 647.517

$$r = \frac{541.065}{\sqrt{(452.500)\,(647.517}}$$

$$r = \frac{541.065}{541.296}$$

$$r = 0.99$$

Interpretation

The values that the correlation co-efficient may assume varies from -1 to +1. In this case, the value of r is positive and is very high (.99). The interpretation is that ceteris paribus, 99% of the changes in government revenue during the period of 1985 to 1994 can be attributed to changes in the oil revenue. Thus, Y, which represents the total government revenue and X, which stands for oil revenue are positively correlated.

From the foregoing it has been reflected that both oil revenue and the federal government revenue are symmetrically correlated, and it has been shown that oil gave the federal government command over a considerable amount of resources between 1985 and 1994. From Table 2 for instance in 1985 the total government revenue stood at ₦11.24 billion out of which

oil revenue accounted for ₦7.47 billion representing 66.5% of the total. In 1989, out of a total revenue of ₦29.52 billion, revenue from oil was ₦22.52 billion while revenue from all other non-oil sector was ₦6.89 billion.

The changes in the government revenue as influenced by the oil revenue continued up till 1994. It is even more glaring between the last three years under consideration. From 1992 to 1994 the percentage contribution of oil revenue as a percentage of the total revenue varies from 78.2% to 83.1% (Table 2). The above thus, gives credence to the positive correlation between the oil revenue and the government total revenue.

The realised revenue from oil during the period under study not only enabled the government to have large sizes of rolling plans but helped the government to execute its laudable programmes. The first National rolling plan of 1990-1992 budgeted a plan size of about ₦144.2 billion while that of 1991-1993 which entails "a roll-over" of the 1990-1992 plan stood at ₦168.1 billion.

Among the projects executed during the period under study are the efforts to complete the petro-chemical projects, implementation of the liquify National Gas Project with the aim of exporting gas in embodied form. Ajaokuta plant became operational with its flat steel component. Construction, repairs and maintenance and rehabilitation of existing road networks all over the country, support for water

transportation especially in the riverine areas, air and railway transportation.

The Directorate of Food Roads and Rural Infrastructure (DFRRI) was set up in 1986 for the purpose of rehabilitation of various categories of roads in the country and link up the interlards with rural roads. Raw material council was established to formulate and implement progressive policies on the local sourcing of raw materials. Provision of basic infrastructures like electricity, mass transportation facilities, focus on education, health, environmental protection etc.

However, inspite of the above mentioned positive impacts of oil revenue there are a number of negative impacts brought about by oil into the economy. Amongst these are:

4.2 Neglect of Agriculture/Rural Areas

Suffice to reiterate our earlier statement that at the dawn of independence and shortly after, Nigeria was predominantly an agricultural economy. However, things changed with the debut of the mineral oil in the 1970's. Since the 1970's oil has not only taken the dominant role which agriculture played in the 1960's but it has remained the single basket into which the fortunes of Nigerian economic welbeing have been kept. Table 2 indicates this assertion.

While the export of Agricultural commodities accounted for 80 percent of the total value of exports in 1960, this declined to 6 percent in 1974. In contrast to this is the point that petroleum contributed only 3.8 percent to the Federal Government Revenue in 1960 and only 6.8 percent in 1965; in 1985 this proportion rose to 66.5 percent while it reached an all time high level of 83.1 percent in 1994.[18]

Thus, the aftermath of the huge revenue from oil sector is the decline in Agriculture Budget, under fulfillment in the Agricultural sector in terms of government expenditure, deterioration in life in the rural areas, massive migration to the urban centres, decline in food and cash crop production and the concentration of social services and power in the urban centres. The subordination of agriculture by oil is what is now obvious to everybody - absolute decline in domestic production of food and cash crops with attendant shortages vis-a-vis rapidly growing population and import substitution manufacturing industries and substantial foreign exchange expenses on food and raw materials importation.

4.3 Ecological Problem

The oil producing areas have suffered a lot in the process of oil exploration. An examination of the various decrees (concerning petroleum industry) and the development plans in the 1970s up till early part of the 1980s show that the Nigerian government policy was much

concerned with the transfer of technology to the National Petroleum Company and the development of indigenous manpower. Encouraged by this indifference, the oil companies neglected the oil communities. The situation was so bad that one could be tempted to say that the discovery of oil in Nigeria was a curse to the oil producing areas. It was a disaster to the occupation of fishing and farming as large acreage of land and fishing water are rendered barren as a result of oil spillage.

The above deplorable condition of the oil producing areas probably prompted the setting up of Oil Mineral Producing Areas Development Commission (OMPADEC) in 1992 to see to the suffering of the oil producing communities and fashion out a development programme for the communities.

4.4 Management Problem

A regrettable aspect of the oil sector is the negative correlation between the huge revenue realised from the sector and development which the country has witnessed within the period under discussion. Although this is not quantifiable, however, when considered in terms of the slow transformation of the economy from traditional to a modern and self-sustained industrial nation or in terms of the percentage of the population who have since shared the fruit of the growth that has accrued from the "oil boom" the above assertion will be deemed justified. The huge revenue which oil has fetched the

nation if well managed, ought to have transformed the economy into a self-sustained one, but what do we witness? The full benefits of the industry has not been realised. This is demonstrated by the minimum linkages with the rest of the economy. This linkage effect is serious in the areas of forward and fiscal linkages.

Under the fiscal linkage, is the fact that the euphoria created by the sudden substantial windfall from oil led to laxity in the tapping of revenue from other sectors especially agriculture. Agriculture which had been the mainstay of the economy became less attractive and Nigeria has become a net importer of essential food items such as rice, vegetable oil, palm oil, etc.

As regards forward linkage, it is quite low in the sense that only few industries which make use of petroleum as input exist in the country. Another area where development has been retarded in the economy vis-a-vis the revenue from oil is that almost everything about oil is foreign. After more than thirty five year of commercial discovery, production and exploitation of crude oil, petroleum technology and personnel problems still remain with Nigerians to a large extent. The materials used in oil well drilling and related operations ranging from steep pipes and additives are imported in spite of our abundant wealth.

In the final analysis, the revenue from oil has not been effectively used to lay a proper foundation for our

industrialization; thus, what Nigeria has witnessed over three decades of oil discovery is nothing short of growth instead of development. This is because while one can easily claim to a large extent justifiably that in classical GDP terms Nigeria has grown but this wealth however, has not been translated into real increase in living standards for the majority of the people. Development in real sense of it is said to take place if and only if over time a progressively higher percentage of the population shares the fruit of economic growth that accrues to a nation. Economic growth itself is usually accompanied by structural changes. This is what has happened in Nigeria over the years with our oil money.

4.5 Future Prospect of Oil Industry in Nigeria.

First and foremost, it is necessary to state here that to forecast the future of Nigeria's oil is not an easy task; however, the future prospect of the sector will be considered under the following economic factors:

1. Oil price and World Energy Market
2. Non-OPEC Producers' Influence
3. Nigeria's Production and reserves.

4.6 Oil Price and World Energy Market

The price of crude oil seems to have had its golden era in the 1970's. Except for the two depressions in 1974/75 and

1977/78, the price of oil was persistently in the increase. It rose gradually from $14.80 billion 1978 to $18.50 billion in January 1979 and by the end of that year, it attained the $30 billion mark. Nigerian crude was sold for $37 billion at the end of 1980 and reached an all time peak of $40 billion 1981.[19]

The escalation in the price of oil during this period led to profound changes in the world oil energy situation. This drastically changed the pattern of world oil demand as the western world (the consumers of OPEC oil) embarked on measures such as stock-pilling, development of other sources of energy etc to bring down oil prices. Between 1980 and 1981, the global oil demand dropped by 5mbd, compared with the first quarter of 1981, the OPEC's total production (including NGL) fell by 22% to an average of 20.3 mbd in the first quarter of 1982.

The immediate impact of these changes on Nigeria was the decrease in the price of oil from $40 billion in 1981 to $35.50 billion by the oil glut of the same year, and a further fall to $30 billion took place early 1983 before dropping to $29 billion in 1984. The economy even recorded a deficit budgeting of about ₦90 billion in 1993 as a result of similar problem in world oil market. Though there were occasions of appreciation in price, but this trend of decline in oil price accounted for the statement of the Head of State, General Sani Abacha in his 1994 budget speech that "the country's output or

Gross National Product (GNP) declined in real terms in recent past. This decline is attributable mainly to the sharp drop in the price of the country's principal export, crude oil, from about $28 billion 1985 to an average of about $17.5 billion in 1993, a reduction of 21.4 percent".[20]

The unexpected fall in the price of crude oil of course had adverse consequences on government revenue and expenditure as well as on the country's foreign exchange earnings.

4.7 The Influence of Non-OPEC Oil Producers

The influence of non-OPEC oil on OPEC members in general and Nigeria in particular has been significant in the past years. Following the successive escalation of OPEC oil prices throughout the 1970's, other countries had embarked on intensive exploration of oil in their respective countries and this effort has since been successful in many countries. Examples are United States - Alaska which attained its full rate of production in 1980, the North Sea, principally British and Mexico. To a lesser degree from other countries, among which are India, Egypt, Brazil, Cameroon etc. It is being speculated that the non-OPEC members operate under no much restrictions as regard price and production thus, the action of these non-OPEC members affect OPEC members. A case in point was in March 1982, when British National Oil Corporation (BNOC) reduced the price of the North Sea Crude from $35 billion to $1 billion. since Nigeria's Oil (Bonny Light) is

of the same quality with the North Sea Oil, she (Nigeria) was forced to reduce her own price from $35 billion to $30 billion in February 19, 1983.[21]

4.8 Nigeria's Production and Reserves

As regards Nigeria's production and reserves, the potential is there and simply needs to be utilized. According to oil industry sources, Nigeria had produced a total of over 25 billion barrels of oil and discovered reserves are estimated to be over 250 billion barrels. Industry sources say that with aggressive exploration and development, existing reserves could probably be increased to over 490 billion barrels since only 140-150 fields are presently on ;production out of a total of 300 fields which have been discovered.[22]

In view of the above, oil definitely has a future in this country both in terms of a foreign exchanged earner and as a propelling force for the domestic economy. From the foregoing and from all indications, the era of "Oil boom" is over. However, one can conclude that oil revenue will remain with us for a long time to come. Thus, the future prospect for oil industry in Nigeria is very bright. what is happening at the moment is a phase in the history of an industry which has undergone such dramatic changes in very short period of time.

CHAPTER FIVE

5.1 CONCLUSION AND RECOMMENDATION

The conclusion drawn from the study is that the impact of the oil revenue has been substantial during the period under survey. Oil revenue has a positive correlation with the government revenue thus, it has been the single most beneficial of the nation's mineral resources. However its impacts on the transformation of the economy to a self sustained industrial nation has been minimal.

5.2 RECOMMENDATIONS

In views of this conclusion, the following recommendations are put forward for a more effective role of oil resources in the economic development of the country.

(a) In order to reverse the unacceptable over-dependence of the revenue base on proceeds from oil first and foremost, diversification of Nigerian economy should be vigorously pursued with emphasis on agriculture and manufacturing. There is need to use the oil income to build a strong agricultural sector and foster alternative industries to support Nigeria's growing population.

(b) The manufacturing sector should be encouraged and develop along with agriculture to make Nigerian industries export oriented.

(c) There should be an oil and gas conservation policy with the sole objective of ensuring a self sustaining economy by linking conservation policy with development efforts. This can be done by setting up projects that will use new sources of income and foreign exchange generation.

(d) It is recommended that Nigeria should now tap her other mineral resources which are being exploited illegally all over the country. Amongst these are columbine, bitumen, limestone, coal, gold, tin, natural gas etc. Exploitation of these mineral resources will surely provide alternative source of revenue to the government. The establishment of the Federal Ministry of Solid Minerals is a welcomed idea towards the realisation of the above recommendation.

(e) It also recommended that government should pay more attention to the plight of the oil producing states in view of the ecological problems faced by them.

(f) Lastly, the importance of the development of liquefied Natural gas and petro-chemical projects cannot be over-emphasised. Government should fully be committed to the implementation of the above project. Though government's recent efforts on these two projects are commended, the total completion of the projects will widen the revenue base of the economy.

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