

**NIGERIA'S MEMBERSHIP OF ORGANISATION OF PETROLEUM
EXPORTING COUNTRIES (OPEC).A CRITICAL EVALUATION OF COST
AND BENEFITS.**

BY

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DECLARATION

I hereby sincerely declare that this research thesis was written by me and that the ideas expressed, except otherwise stated are mine. I also declare that it was not copied from any past research work. Both published and unpublished materials thus consulted are duly acknowledged by way of references. I therefore accept responsibility for any shortcomings found therein.

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DEDICATION

This project is dedicated to all those who ceaselessly prayed overtly or covertly for my success. God bless you all.

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My foremost prayer goes to God Almighty. To him is all the Glory.

Any research of this nature needs strict criticism, corrections, and proper organization to meet up with intellectual challenges of the contemporary academic standard; without a devoted and conscious supervisor, this would have been a rare fit to achieve. With all humility and honor, I am saying “thank you” to my Esteemed Supervisor Prof. E. A. Unobe for his untiring commitment, hospitality and supervision that made it possible for this project to stand intellectual challenges.

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ABSTRACT

Nigeria as one of the major oil producing country is also one of the eleven members of Oil Producing Exporting Countries(OPEC) formed in 1960 to regulate production and supply of crude oil in the international oil market.

Nigeria's membership in OPEC since 1971 has generated huge foreign capital through oil supply and has not conferred on her automatic economic benefits rather has been met with several fiscal measures such as SAP to reduce the problem of hyper inflation etc. on the other hand, it has promoted corruption, crime, mono economy and social unrest among others.

In spite of this negative impacts recorded, however, it has also been associated with positive records. It is against this background that an evaluation of cost and benefit of Nigeria's membership in OPEC is carried out since her membership.

In view of this, most literatures reviewed are secondary data and the internet so as to help the researcher to making rational judgments to situate the subject into proper analysis.

The findings therein are therefore recorded for student and policy makers to help make a good judgment of Nigeria's prospect and challenges as a member of OPEC.

Table of contents

Title page	-----
Dedication	-----
Declaration	-----
Certification	-----
Acknowledgement	-----
Abstract	-----
Table of content	-----
1.0 Chapter One: General Background of the Study	
1.1 Introduction	-----
1.2 Statement of Research Problem	-----
1.3 Research Questions	-----
1.4 Objectives of the study	-----
1.5 Scope and limitations of the study	-----
1.6 Theoretical Framework	-----
1.7 Research Methodology	-----
1.8 Chapter Outline	-----
2.0 Chapter Two: literature review	
2.1 Introduction	-----
2.2 Formation of OPEC and Nigeria's Membership	-----

2.3 Importance of Oil to Global Economy-----	
2.4 Role of OPEC (Oil) in International Economy and Politics-----	
2.5 Nigeria’s Membership in OPEC-----	
2.5.1Nigeria’s Membership in OPEC- fair deal or not-----	
2.5.2 Nigeria as Simultaneous Producer/Consumer Nation of Crude oil-----	
2.5.3 Oil andNigeria Economy-----	
3.0 Chapter Three: Formation, Activities and Structure of Opec	
3.1 Introduction	
3.2 Structural Organization of OPEC; how decision are made-----	
3.3 Activities of OPEC since 1960-----	
3.4 Activities of Member Countries in Opec-----	
4.0 Chapter Four: Presentation and Analysis of Data	
4.1 Introduction	
4.2 Nigeria from Agriculture to Oil Economy-----	
4.3 Nigeria’s Role in OPEC; Challenges and Prospects-----	
4.4 Cost and Benefits to Nigeria as aMember of OPEC-----	
4.5 Major Findings and Verification-----	
5.0 Chapter Five: Summary, Conclusion and Recommendation	
5.1 Introduction	
5.2 Summary-----	
5.3 Conclusion-----	
5.4 Recommendation-----	

References-----

CHAPTER ONE

1.0 General background of the study

This chapter outlines the Introduction, Statement of Research Problems, Objectives of study, Methodology, Theoretical Framework, and Significance of study, Scope and limitation as well as the Chapter outline.

1.1 Introduction

The Organization of Petroleum Exporting Countries (OPEC) Formed in 1960, is a cartel formed by oil producing states for the purposes of monitoring and regulating output and prices of petroleum product by placing quotas which serve as control mechanism towards the production and supply capacity of member countries.

Nigeria joined the organization in 1971 with the purpose of trading her natural resources to improve on her foreign exchange earnings and to boost her economy. Ever since, her economy and foreign exchange earnings have been largely dependent on the production quota given by OPEC.

To this extent, Nigeria prepares her annual budget based on the envisaged international price from sales of oil at the international market for e.g in 2007 the benchmark of 43\$ to 56\$ was used to prepare Nigeria's budget. (Business watch, 2009) and has also been able to place an appreciable price on how much she sells her oil irrespective of the fixed price by OPEC.

It is understood that member countries of OPEC have benefited in a way that cannot be overlooked. For example Nigeria has benefited from direct sales of crude oil to both developing and developed nations such as USA, China, and Britain.

It is also important to know that membership in OPEC does not confer automatic economic advantages.

For instance, there are a lot of countries whose economy is far better than some OPEC members. Such include France, Japan, China e.t.c this is due to their low absorptive capacity i.e(ability to absorb capital productively) as compared to Nigeria who has high absorptive capacity.

This indicated that despite foreign exchange earnings from oil, certain fiscal measures are needed to be taken to promote economic, social and infrastructural facilities of some member countries. For instance the revenue generated from oil wind fall against the background of crises in some oil region of the world like Iraq, Kuwait in 1992 and of recent Libya in 2011 respectively (Wikipedia 2011), have not conferred automatic economic advantage resulting from increased foreign exchange earnings from corresponding increase in production and supply but rather promoted corruption, mismanagement and underdevelopment of some member countries like Nigeria whereby funds are eventually borrowed from IMF, world bank to finance the economy.

The question therefore is, has the increase in production and supply ever improved the economy of Nigeria given the increase in prices per barrel at a given point in time? If yes how has it been managed? And if no what are the causes? All these are what this project is concerned with.

1.2 Statement of Research Problem

Against the perceived notion of advantages accruing from joining OPEC as a member, the study seeks to identify the cost and benefits by virtue of Nigeria's membership in the organization.

1.3 Research Questions

1. What were the objectives of OPEC?
2. Why did Nigeria join the organization?
3. What role has Nigeria played so far as a member of OPEC?
4. What losses or gains has Nigeria recorded so far as a member of OPEC?

It is against this backdrop that this research will critically evaluate her membership.

1.4 Objectives of the Study

The Research is mainly carried out to

- i. Ascertain and critically evaluate what prompted Nigeria to join OPEC.
- ii. To evaluate Nigeria's position and her contribution so far.
- iii. To ascertain the extent to which Nigeria's membership has benefited her domestic economy.

1.5 Scope and Limitation

This research work covers in general the activity and status of Nigeria as a member of OPEC in 1971 till date.

However, the major limitation of this study is that of short-time frame within which this research must be accomplished and submitted, coupled with financial resources posed serious problem to the researcher in his bid to complete the study.

1.6 Theoretical Framework

The truth of a theory is determined between the relationships of the phenomenon and correspondence it studies. For the purposes of this work the functionalist theory is adopted. It emerged as the need for state to harness their common interests and needs shared by state (but also by non-state actors) in a process of global integration triggered by the erosion of the sovereignty and the increasing weight of knowledge and hence of scientist and experts in the process of policy –that started with Immanuel Kant, 1724-1804 and goes as far as Woodrow Wilson's

According to functionalism, international integration-the collective governance and material interdependence' between states develops its own internal dynamics as states integrate in limited functional, technical and or economic areas.(Mitrany, 1933:101)

International agencies would meet human needs, aided, by knowledge and expertise. The benefits rendered by the functional agencies and would attract the loyalty of the populations and stimulate their participation and expand the area of integration.

1.7 Research Methodology

Since this subject is exploratory and analytical in nature it therefore relies heavily on secondary source of collecting data which include text books, journals, official document, magazines, newspaper, internets.

More so the method of data analysis is predicated on the principle of deductive reasoning, whereby logical inferences are made based on the information collected from the sources indicated above. Analysis is thematically organized under a number of subtitles systematically designed to elicit answers to the basic questions.

1.8` Chapter Outline

The study is organized into five chapters. Chapter one would be the general background to the study. It covers the subsection; introduction, statement of research problem, aims and objectives of the study, significance of the study, theoretical framework, scope and limitation of the study, research methodology and chapter organization.

Chapter two involves the literature review on the formation, objectives and role of OPEC in international politics and economy.

Chapter three involves the activities of OPEC and member countries since its formation.

Chapter four would evaluate Nigeria's membership in the organization with facts and figures, as well as the cost and benefits.

Chapter five ends the study by way of summary, conclusion and recommendation on how Nigeria's membership in OPEC can be of more advantage to hereconomic development and image.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction.

This chapter reviews literature on OPEC as an organization, its formation and membership; how oil plays an important role in the international economy and politics as well as Nigeria membership in OPEC.

2.2 Formation of OPEC and Nigeria's membership

The government of Venezuela and Iran were the first countries to move towards the establishment of OPEC in the 1960s by approaching Iraq, Kuwait and Saudi Arabia in 1949, suggesting that they exchange views and explore avenues for regular and closer communication among petroleum-producing nations. The founding members are Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. Later members include Algeria, Ecuador, Gabon, Indonesia, Libya, Qatar, Nigeria, and the United Arab Emirates.

On 10th to 14th September 1960, at the initiative of the Venezuelan Energy and Mines minister Juan Pablo Pérez Alfonzo and the Saudi Arabian Energy and Mines minister Abdullah al-Tariki, the governments of Iraq, Iran, Kuwait, Saudi Arabia and Venezuela met in Baghdad to discuss ways to increase the price of the crude oil produced by their respective countries. OPEC was founded in Baghdad, triggered by a 1960 law instituted by American President Dwight Eisenhower that forced quotas on Venezuelan and Persian Gulf oil imports in favor of the Canadian and Mexican oil

industries. Eisenhower cited national security, land access to energy supplies, at times of war. When this led to falling prices for oil in these regions, Venezuela's president Romulo Betancourt reacted by seeking an alliance with oil producing Arab nations as a preemptive strategy to maintain the continued autonomy and profitability of Venezuela's oil resources.

As a result, OPEC was founded to unify and coordinate members' petroleum policies. Original OPEC members include Iran, Iraq, Kuwait, Saudi Arabia, and Venezuela. Between 1960 and 1975, the organization expanded to include Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), and Nigeria (1971). Ecuador and Gabon were early members of OPEC, but Ecuador withdrew on December 31, 1992 because it was unwilling or unable to pay a \$2 million membership fee and felt that it needed to produce more oil than it was allowed to under the OPEC quota, although it rejoined in October 2007. Similar concerns prompted Gabon to suspend membership in January 1995. Angola joined on the first day of 2007. Norway and Russia have attended OPEC meetings as observers. Indicating that OPEC is not reluctant to further expansion, Mohammed Barkindo, OPEC's Secretary General, recently asked Sudan to join. Iraq remains a member of OPEC, but Iraqi production has not been a part of any OPEC quota agreements since March 1998.

In May 2008, Indonesia announced that it would leave OPEC when its membership expired at the end of that year, having become a net importer of oil and being unable to meet its production quota. A statement released by OPEC on 10 September 2008 confirmed Indonesia's withdrawal, noting that it "regretfully accepted the wish of Indonesia to suspend its full Membership in the Organization and recorded its hope that the Country would be in a position to rejoin the Organization in the not too distant future." Indonesia is still exporting light, sweet crude oil and importing heavier,

more sour crude oil to take advantage of price differentials (import is greater than export) due to Air pollution in Indonesia still being low as compared to China or The United States.

This summarily proved that withdrawal of membership from OPEC is voluntary as displayed by Indonesia and Gabon.

2.3 Importance of Oil to Global Economy

According to Peterson (2000), the world's contemporary industrial societies are all built on natural resources particularly oil energy. Without cheap and abundant energy there would have been no industrial revolution and no technological /knowledge revolution now.

The energy sources which drive cheap and abundant industrial produce have changed over the years, depending on available technology, population and natural resources among other things.

Wood burning was replaced in the western world by coal which was replaced by petroleum as well as gas as an alternative source due to cost competitiveness and flexible global energy. In addition, gas offers significant environmental advantages over oil and coal.

He contends further that as long as industrial societies have a continuing source of energy they will continue to grow. Industrial societies today are almost dependent on oil. Oil is as well useful for domestic purposes and a reliable source of energy.

In addition, crude oil is in demand because its derivatives or by products provide energy to industry, a source of fuel in electricity generation, combustion to

provide engine power in air, land and sea transport and finally as feedstock for petro chemistry. In the latter use, petrochemicals traverse the spoon and bucket technology, irrigation hoses, textiles and clothing as well as materials for housing /building technology, vehicular parts, machinery parts through application in drugs and medicine.

Crude oil marketers study demand patterns in the various regions and sectors of the world economy and endeavors to understand their inter-relationships, in order to make meaningful projections of the future demand and markets conditions for the purpose of target marketing. For instance, if world economic demand is growing, the demand for oil is expected to grow correspondingly, even though the relationship may not be direct. By how much oil demand grows in response to world economic growth is a function of the behavior of energy and oil intensity of the world economies.

Thus, where energy intensity is rising while oil intensity is declining, it may be concluded that other energy types are being substituted for oil in the production of a unit of the gross domestic product (GDP). This suggests a contraction of the markets of crude oil.

However, if the economy's energy intensity declines as oil intensity is declining, then there is conservation in energy use. This means that the demand for crude oil would slow down or decline over the medium term.

Finally, where the oil intensity is growing and energy intensity is stagnant, declining or growing at a level lower than the growth in oil intensity, the planner would realize that the markets for oil and oil products is growing. In making an assessment of the future trend of crude oil demanded, it is essential to review the

performance of the economy on region by region and sector by sector bases. That way, oil producer can determine which markets to target for its crude oil sales. (See Taiwo 1997; Marketing Nigerian crude oil; Facts and figures)

2.4 Role of OPEC (Oil) in International Economy and Politics.

According to Charles (1979) no event has seemingly transformed the norms of international politics and commerce as the 1973 takeover of the world oil market by OPEC since the Second World War. since its formation, it regularly consult members with a view to coordinating and unifying the policies of members, although OPEC has witnessed internal weakness and squabbles which to some extent hinder its cooperative efforts ranging from political, religious, economic and social as well as geographical which affect the function of OPEC in setting production, price and export levels.

These factors have generally become a source of rivalry and divisiveness within the organization. In fact, the policy of production maximization has been and still remains the top policy of most members as they are historically dependent on oil revenue for their development.

In addition, Norang (1979) has identified a disparity in the position of OPEC members in terms of their oil distribution, population and need for income. He has observed that the difference in natural resources endowment as creating different economic interest which also quite naturally provide the basis for serious political difference over policies regarding price adjustment and production. Norang asserted that this disparity among OPEC members is rooted in the economic base and has manifested itself into two distinct camps; the pro west and the anti- west or rather the conservatives and the radical members in OPEC.

For example, Arab members of OPEC alarmed the developed world when they used the “oil weapon” during the Yom Kippur War (Arab- Israeli war 1967) to implement oil embargoes and initiated the 1973 oil crisis.

The persistence of the Arab-Israeli conflict finally triggered a response that transformed OPEC into a formidable political force. After the Six Day War of 1967, the Arab members of OPEC formed a separate, overlapping group, the Organization of Arab Petroleum Exporting Countries (OAPEC), for the purpose of centering policy and exerting pressure on the West over its support of Israel, Egypt and Syria, though not major oil-exporting countries joined the latter grouping to help articulate its objectives. Later, the Yom Kippur War of 1973 galvanized Arab opinion. Furious at the emergency re-supply effort that had enabled Israel to withstand Egyptian and Syrian forces, the Arab world imposed the 1973 oil embargo against the United States and Western Europe, while non-Arab OPEC members did not.

Similarly, As of November 2010, OPEC members collectively hold 79% of world crude oil reserves and 44% of the world’s crude oil production, affording them considerable control over the global market. The next largest group of producers, members of the OECD and the Post-Soviet states produced only 23.8% and 14.8%, respectively, of the world's total oil production.

Conversely, the economic needs of the OPEC member states often affect the internal politics behind OPEC production quotas. Various members have pushed for reductions in production quotas to increase the price of oil and thus their own revenues. These demands conflict with Saudi Arabia's stated long-term strategy of being a partner with the world's economic powers to ensure a steady flow of oil that would support economic expansion. Part of the basis for this policy is the Saudi concern that expensive oil or oil of uncertain supply will drive developed nations to

conserve and develop alternative fuels. To this point, former Saudi Oil Minister Sheikh Yamanifamously said in 1973: "The stone age didn't end because we ran out of stones but that necessity is the mother of invention.

Nonetheless the production dispute among member nations has remain an issue to be implemented with Saudi Arabia topping the list of country who is yet to observe the production quota.

However,OPEC remains a formidable group to be reckoned with in international politics and economy with her recent participation in the Group of 77 (G-77) country meetings which represents one of the most influential global forums for enacting international efforts against climate change especially From 1994 to 2004, an OPEC country held the chair position in the G-77 meetings six years out of eleven years.

2.5Nigeria's Membership in OPEC.

Against the back drop of fluctuation in international oil prices resulting from globalcrises or structural adjustment which have invariably positioned OPEC member countries like Nigeria to project her budgets for national development. But should Nigeria be in favor of ever-rising oil prices? As a related question, should Nigeria continue to be a signatory to the 11-member oil cartel OPEC (Organization of Petroleum Exporting Countries or not?<http://www.opec.org>)

These are serious questions always begging for answers periodically. Nigeria being both a major consumer and a major producer nation of oil, as well as a member of OPEC, makes the situation fairly complex , thereby not lending itself to easy, simplistic analysis. Just as a human life not examined is not worth living, if Nigeria's situation and membership of various international bodies are not

periodically examined to see whether they continue to serve our national interest or not, it would amount to an undermining of our very national sovereignty.

2.5.1 Nigeria's Membership of OPEC – Fair Deal or Not?

Let us first deal with Nigeria's membership of OPEC and the relationship of **quotas** to the **Population** and **Oil Reserves** of the various countries.

If we were to do a correlation (or factor) analysis among all the OPEC countries with quota as dependent variable and current Population and Oil Reserves as independent factors, we will find that the current quotas of Nigeria and those of the other OPEC countries need considerable modification. In particular, why Saudi Arabia with a population of 22 million has a quota of 7.093 million barrels per day, while Nigeria with a population of 133 million (that is according to OPEC data!) Has a quota of 2.018 million barrels per day remains to be explained. UAE with a population of just over 3 million people has a higher quota (2.138 million) than Nigeria!

If keeping the price down is the important issue for OPEC, then that depends mostly on the total production of oil put out by that group. The present quota sets that at a total of 24.5 million barrels per day (see <http://www.opec.com>). Certainly, a more equitable re-distribution (while keeping the total output quota fixed) based on some rational metrics can be done among the nations without dis-equilibrating the international oil market. The quotas would be subject to the ability of countries to produce their assigned amounts. If they cannot, then they can assign their own quotas to other OPEC (and even non-OPEC) nations as they see fit.

Here is what I mean by using Table 1 below: assuming a total quota of 24.5 million barrels per day, then based on population alone, Nigeria should have a quota of 6.2 barrels per day (three times its current quota) and Saudi Arabia 1.02 barrels per day (one-seventh of its current quota). Based on proven reserves, Nigeria should have 910,000 barrels per day (under half of its current quota) and Saudi Arabia should have 7.6 barrels per day (just a little over its current quota). Similar calculations can be done for each of the other nine countries. If these two variables are the most important – however, fact findings (see <http://www.oec.com>.) shows that proven reserves ranking correlate much better with the current quota than population - then the true quota should lie somewhere in between the fact/figures given. Countries that cannot or do not wish to produce as calculated can then horse-trade their unfulfillable quotas away to more able countries.

There would also be a time limit: the agreed re-negotiated quotas would be in effect for 5 years at a time, and would not be adjusted up or down by more than 10% at any given time.

Finally, there is another issue not much talked about with respect to OPEC: the existence of another parallel organization called OAPEC (Organization of Arab Petroleum Exporting Countries. <http://www.oapecorg.org>). Formed by Kuwait, Libya and Saudi Arabia on January 9, 1968, it now also has a total of ten members: Algeria (1970), Bahrain (1970), Qatar (1970), United Arab Emirates (1970], Iraq (1972), Syria (1972), and Egypt (1973) in addition to the three founding nations. Tunisia joined in 1982 but pulled out in 1986. So eight of the eleven members of OPEC are also members of OAPEC, and one wonders whether the agenda of the Vienna, Austria-based OPEC is actually set or not in the Safat, Kuwait-based OAPEC.

In any case, a look at Figure 1 (showing price trends mapped against some major events in the Middle East and the world such as the Yom Kippur War, the Iranian Revolution, the Gulf War, 9/11) show that the laws of supply and demand have dictated the cost of crude oil more than any concerted effort by OPEC. Even the most recent jump to over \$36 per barrel was a result of a serious explosion at a refinery in Skikda, Algeria on January 19, 2004, killing at least 20 people.

Whatever be the case, I believe that Nigeria should be in the forefront of demanding a more imaginative re-negotiation of OPEC terms, or else it re-considers its membership. This researcher is for membership of OPEC, but not at any price. OPEC's present price band mechanism which stipulates that a 10-consecutive-trading-days sustenance of oil basket price above \$28 per barrel will trigger a 500,000 barrels per day increase in OPEC total quota, and a reduction by 500,000 barrels per day if the basket price falls below \$22 for 10 days is rather weak. At a total quota of 24.5 million barrels per day, that is an adjustment of 2% for 11 countries – or an average of 0.18% per country.

1: Data on Petroleum Products of OPEC Countries

Country	Proven crude oil reserve(million barrels)	Crude oil prodn(000 bpd)	Crude oil quota(000 bpd)	Crude oil export(000 bpd)	Refining capacity(000 bpd)	Outp.of ref prod.(000 bpd)	Consum of ref.prod(000 bpd)	% of petr.prod contribution to foreign export.	% of petr.prod contribution to GDP
Qatar	11,314	735.1	782	397.3	462.2	469.6	194.1	69.2%	24.9%
Iran	4,722	1,125.0	1,270	609.9	1057.0	1002.4	152.4	15.1%	5.0%
U.A.E	99,080	3,248.4	2093.6	1474.0	1440.5	1238.6	290.0	78.6%	18.1%
Nigeria	115,000	2,126.5	0	1138.0	603.0	518.2	547.1	77.9%	39.8%
Kuwait	96,500	1,745.9	1,966	1138.0	899.0	572.2	146.0	95.9%	44.0%
Libya	36,000	1,200.3	1,312	922.4	380.0	369.8	172.3	89.8%	53.1%
Algeria	31,506	1,801.7	2,018	1798.2	44.5	307.0	200.0	98.8%	39.9%
Gabon	15,207	568.9	635	508.8	137.0	43.1	32.9	62.4%	36.6%
Saudi Arabia	262,790	7,093.1	7,963	5284.6	1825.0	1596.9	1053.7	94.2%	33.1%
Russia	97,800	1,900.3	2,138	1614.0	491.3	312.2	146.0	57.6%	30.6%
Venezuela	77,800	2,431.8	2,819	1527.0	1183.2	1228.7	407.0	75.7%	21.0%
Total	847,719	23,977.0	24,500	17031.8	8956.7	7860.6	5206.6		

Sources: [http://www.opec.org/member countries.htm](http://www.opec.org/member%20countries.htm)
<http://www.opec.org/newsinfo/quotas>
<http://www.opec.org/publication/GI/Geninfo.pdf>

2.5.2 Nigeria as Simultaneous Producer/Consumer Nation of Crude Oil

All nations require energy (for heating and cooling, transportation, running of machinery etc.) and petrochemical products (refined products such as kerosene, gasoline diesel; petrochemicals such as plastics, fertilizers, etc.). Crude oil is an essential input raw material for both needs, with natural gas as alternative or supplementary.

With respect to the problem of being both a producer nation (of a raw material: crude oil) and a consumer nation (of refined products), we in Nigeria only have ourselves to blame for that. It is simple logic to understand that no matter the international price of our own crude oil, provided we depend to a large extent on imported refined oil, we will continue to pay a higher price for that than if the needed crude had been refined within our country. Unfortunately, our refineries have not been working as they should due to technical incompetence, sabotage or both.

The solution is simple fact given that Nigeria has enough crude oil to be refined to serve our refined products needs see <http://www.opec.org>. Therefore we should get those refineries that we have to work by hook or by crook, and streamline and speed up the licensing process for those new ones that might wish to join the refining dispute: no ands, ifs or buts. That is the true deregulation, as different from the everyday song of privatization that we read from government in which investors are literally being begged to kindly buy the refineries off government hands.

2.5.3 Oil and Nigeria Economy

Going by data's given in oil export table. Nigeria ranked highest in contribution of petroleum products to country exports with 2million bpd, and third highest in terms of its contribution to the Gross Domestic Product (GDP). Despite loud government commitments to reduce this dependence on oil, its annual budgets,

inscrutably always denominated in the foreign currency of dollars rather than in the local currency of Naira, with oil as the major “financier”, have reflected an increasing dependence on oil, not less. In fact, oil has reduced Nigeria to a trading company - Nigeria Oil & Gas, PLC - with the state governors as members of the board of directors,

This should not be. A return to agriculture, a comprehensive energy policy, with stable electricity as a critical factor, a viable iron-and-steel industry, the promotion of small and medium scale enterprises, and a more-than-nodding acknowledgement of information technology (including re-training of personnel and the use of free/open source software) are absolutely essential to our rapid national development.

Conclusively, there is no arena more glaring in disclosing the lack-luster performance and sometimes downright fraudulence of our Nigeria’s leadership over the years than in the management of our country’s oil wealth. A wealth that should have been parlayed into substantial economic development has instead resulted in very costly internecine strife (for example in the Niger-Delta) and in many instances a culture of official corruption within a distorted economy. Without a successful policy of adding value to our crude oil, and rapid weaning away from its monoculture, In view of this, the country will continue to face the paradox of “oil, oil everywhere, but occasionally no single drop of petrol to put in our gas tanks!”

That is absolutely untenable, and the skeptical cynic would be excused if he or she asked what assurance there was that the additional money that might be obtained from an upward revision of our quota for oil by OPEC would be wisely spent.

Nevertheless, imaginative and strategic re-thinking in this crucial sector is absolutely necessary – and OPEC might just be the first forum for us to begin to demonstrate that new paradigm.(Mobolaji, 2007).

CHAPTER THREE

3.0 FORMATION, ACTIVITIES AND STRUCTURE OF OPEC

3.1 Introduction

This chapter will look at the structure, activities of OPEC since its formation and also look at important activities of member countries.

3.2 Structural Organization of OPEC; How Decisions are made.

The organization is structurally organized and operated.

The conference is the supreme authority of the organization and consist of the “heads of delegates” usually the national ministers for oil, mines and energy of the member countries.

- The conference generally convenes twice a year and takes its decisions on the principle of unanimity. It is responsible for the formulation of the general policy of the organization, decides upon applications for membership, elects the chairman of the board and approves the appointments of governors. It also decides upon the organization’s budget and considers and decides upon the reports submitted to the conference. The current president of OPEC conference is HE Shiek Ahmed Fahad Al Ahmad Al Sabah of Kuwait, who also holds the position of secretary general of the organization.
- The board of governors in its function as management body of the organization directs the implementation of the decisions of the conference and draws up the budget, report and recommendations’.

- The OPEC secretariat is responsible for carrying out the executive functions of the organization under the direction of the secretary general. It consists of the office of the secretary general and a number of qualified special departments. Moreover, the conference can set up special consultative bodies.
- A particularly important concern for the OPEC member state is cooperating with developing countries in their struggle to overcome underdevelopment. The OPEC fund for international development (OFID) was founded in Vienna in 1976 and since 1982 has had its seat in acity palace built by Theophil Hansen and located on Parkring Vienna.besides financial assistance in the form of loans for development projects and balance of payment supports, it provides grants in supports of technical assistance, research ,food ,aid and humanitarian emergency relief, the fund contributes to the resources of other development institutions whose work benefits developing countries.

3.3 Activities of OPEC since 1960.

The 1960

Activities were generally of a low profile nature, as OPEC set out its objectives, established its secretariat, which moved from Geneva to Vienna in 1965, adopted resolutions and engaged in negotiations with the companies. Membership grew to ten during the decade.

1970's

OPEC rose to international prominence during this decade, as its member countries took control of their domestic petroleum industries and acquired a major say in the pricing of crude oil on world markets.

As OPEC assumes international prominence, there were two oil pricing crises, triggered by the Arab oil embargo in the 1973 and the outbreak of the Iranian revolution in 1979, but fed by fundamental imbalances in the markets; both resulted in oil prices rising suddenly. The first summit of OPEC sovereign and heads of state was held in Algiers in March 1975. OPEC acquired its 11th and final current member, Nigeria, in 1971

1980's Oil Gluts

After 1980, oil prices began a six-year decline that culminated with a 46 percent price drop in 1986. This was due to reduced demand and over-production that produced a glut on the world market. Around this period, Iraq also increased its oil production to help pay for the Iran-Iraq War. Overall, OPEC lost its unity and thus its net oil export revenues fell in the 1980s.

More so, at this time environmental issues began to appear on international agenda.

1990's-21st century

A fourth pricing crises was averted at the beginning of the decades on the outbreak of hostilities in the Middle East, when a sudden steep rise in prices on panic –stricken markets was moderated by outputs increase from OPEC members. Prices then remained relatively stable until 1998, when there was a collapse in the wake of the economic downturn in south East Asia. Collective action by OPEC and some leading non OPEC producers brought about a recovery.

As the decades ended, there was a spate of mega-mergers among the majors international oil companies in an industry that was experiencing major technological

advances. For most of the 1990's till date, the ongoing international climate change negotiations threatened heavy decreases in the future oil demand.

3.4 Activities of Member Countries in OPEC

- Future contracts

This is commonly referred to as delivery in the following month. In this type of transactions, buyer agrees to take delivery and seller agrees to provide a fixed amount of oil at a pre-arranged price at a specified location. Futures contracts are only traded on regulated exchange and are settled (paid) daily, based on their current value in the market place.

- World bench mark

Because there are so many different varieties and grades of crude oil, buyers and sellers have found it easier to refer to a limited number of reference, or benchmark of crude oils. Other varieties are then priced at a discount or premium, according to their quality.

Brent is generally accepted to be the world benchmark, although sales volumes of Brent itself are far below those of .for example some Saudi Arabian crude oils. According to International Energy Agency (IEA), Brent is used to price two thirds of the worlds internationally traded crude oil supplies. In the gulf, Dubai crude is used as a benchmark to price sales of other regional crudes into Asia.

This is not because there are more supplies of Dubai crude oil than of any other grade, but because it is one of the few gulf crudes available in single, on the spot, sales as opposed to long term supply contract. However, if supplies became extremely limited and price swings became exaggerated, a new benchmark would have to be found.

- OPEC basket

Known as the OPEC basket price, this is an average of seven –always the same seven –crudes. That is;

Saudi Arabia's Arab light.

The United Arab Emirate murban

Nigeria's bonny light

Algeria's Saharan blend

Indonesia's Minas

Venezuela's Tia Juana light

Mexico's Isthmus.

Six of these are produced by OPEC members while theseventh, isthmus, is from Mexico.

OPEC aims to control the amount of oil it pumps into the markets place to keep the baskets price within a predetermined range.

In practice, the price difference between Brent, WTI and the OPEC basket are not large. Crude prices also correlate closely with each other.

However, the new OPEC reference baskets (ORB), introduced on 16 June 2005 is currently made up of the following Saharan blend(Algeria), Girassol(Angola),Oriente (Ecuador),Minas (Indonesia),Iran heavy(Iran),Basra light(Iraq),Kuwait export(Kuwait), Es sider(Libya),Bonny light(Nigeria),Qatar marine(Qatar),Arab light(Saudi Arabia),Murban (UAE) and BCF 17(Venezuela). A country such as Nigeria, a producer of crude oil grades of very high quality, which are a refiner's delight, almost invariably enjoyed sustained demand for its oil and has continued to enjoy positive price differentials in the world markets.

In addition, forecasting crude oil markets /demand is the foundation of crude oil marketing and the basis of an oil producer's revenue projection. The

objective is to achieve as accurate an assessment as possible of the actual demand in the international oil market. Such is usually a function of three variables; the level and structure of world economic performance; seasonality and weather conditions and finally, refiners' programme for maintenance shutdown. See details Taiwo (1997) p: 256 "Marketing Nigerian crude oil" in Nigerian petroleum handbook.

CHAPTER FOUR

4.0 PRESENTATION AND ANALYSIS OF DATA

4.1 Introduction.

This chapter critically evaluate Nigeria's role in OPEC; challenges and prospects. It also outlines how Nigeria moved from Agriculture to oil economy. Finally the study evaluates the benefits and cost derived from Nigeria's membership of OPEC.

4.2 Nigeria from Agriculture to Oil Economy.

The agricultural history of Nigeria is intertwined with its political history. This can be accessed from the pre-colonial, colonial and post colonial periods. Before the British conquest, the pre colonial society strived on agriculture as the main stay of traditional economy. The periods of colonial administration in Nigeria, 1861-1960, was punctuated by rather ad hoc attention to agricultural development.

The Nigerian society was classically agrarian for the colonial state during the pre 1930's period for example the export agricultural production was the primary concern of the colonial state. The colonial economy during these periods was facilitated by exports, assisted by railways and stimulated by taxation, during the colonial era, colonialist were relatively autonomous in terms of agricultural produce that were to be produced.

In this regard, Nigeria's three major agricultural exports farm produce were developed such include rubber, groundnut and cocoa.

Even though there was certain guidance to cattle production. Policy actually emerged purely to attain agriculture in order to secure the finance and bring about construction of rail lines.

The social reality in the colonial era was stable with several legislative acts to preserve the production of agricultural produce.

During the periods of decolonization, 1945-1960, certain fundamental changes took place. But there was a shift that occurred whereby peasant surplus were ceased and allocated. This brought about the establishment of government owned monopolies and marketing boards. The marketing boards were post war economy of colonial state strategy to accumulate surpluses based on the depressed producer prices.

Nonetheless, agriculture remains the main stay of the economy, even after independence. Revenue derived from agricultural produce was used to finance the economy.

Oil was discovered in large quantities at Oloibiri, Bayelsa in 1956 and by 1965 petroleum had begun to emerge as a central component in the national budget. Production increased from 5 million barrels to 325 million barrels per day.

By 1980, Nigeria was simultaneously Africa's largest food producer and importer and percentage share of G.D.P fell from 45% in 1970 to 27% in 1980. However food production drew an even but import grew by 700%. In 1970 for example rice import were negligible but by 1978 imported rice totaled 12 million dollars. Between 1970 and 1980 however, per capita annual consumption increased from 2.9kg to 7.8kg with an annual growth rate of 10.79%.

In view of this, Several State intervention schemes such as the River Basin, Integrated Rural Development Programme, Green revolution, Fadama projects 1 and 11 were established to boost agricultural produce. But soon hit the rock due to corruption, neglect of the sector at the discovery of oil.

Thus a once buoyant sector now imports food to feed the nation.

However, agriculture (including hunting, forestry, and fishing) and production of cash crops like Rubber, Cocoa, and oil palm contributed to the Nigerian economy accounting for over 38% of non oil foreign exchange earnings and employing about 70% of the active labor force of the population while oil revenue account for about 90% of foreign exchange earnings . The importance of agriculture however cannot be over emphasized in the Nigerian economy.

4.3 Nigeria's Role in OPEC; Challenges and Prospects.

The study has shown that Nigeria as a member of OPEC has played a tremendous role among powerful members of the organization to stabilize the production quota by mobilizing other member countries to vote against increment in quotas, she canvassed for the mechanism of demand and supply to play a major role in determining the increase of production quota so as to avert similar 1980 oil glut and fall in international oil price.

Against the background of increment in oil production quota that trailed the cooperate existence of member countries. Odiem Ajumogobia, Aonetime Nigeria Minister of state for energy (petroleum) had stated that Nigeria will not support an increase in production quota because consumers have enough crude, and that speculation, a weak dollar and political tension are generally responsible for high prices in the global markets. According to him the sustenance of the current production level, according to him, was to harmonize and forge better close ties existing between the so called high level OPEC members and smallest producers.

Similarly, Nigeria canvassed for OPEC by calling on non OPEC producers to continue cooperating with the organization over oil production level following concerns that prices might fall too low in subsequent year as a result of oversupply in the market. In addition, at the end of the ministerial meeting on 22nd December 2006,

the conference reiterated that it needed the help of non OPEC producers to achieve market stability with prices that were reasonable and consistent with robust economic growth. In view of this Nigeria was seen as part of the ‘OPEC’ group who has been an auto pilot with regards to its production policy decision.

In line with this, Williams Edwards of Edwards Energy consultants attributed the surge in prices of crude oil in the last four years to the roles of speculative trading. He said that OPEC should continue to provide the global markets with necessary volume that would not impact negatively on investment.

More so, Paul Cardoso of Pemex oil, Madrid supporting Nigeria’s position pointed out that the energy markets is reasonable and well supplied with crude oil. He noted that there was no need to increase supply of crude oil to the international market by OPEC member nations since there were a lot of factors that come to play in the determination of high prices of crude oil by OPEC. There is enough oil in the market and global market itself is not ready for additional supply, hence there is no need to increase production capacity” he had suggested.

In addition, as the world’s largest population of black people, and with its nascent democracy, Nigeria is seen as playing a stabilizing role in the organization that is highly influenced by the Arab speaking world.

On the other hand, delivering sustainability in oil and gas supply has become a clear priority for the global energy sector and Nigeria had taken far reaching measures to ensure that she contributes its quota as a major oil and gas supplier within the OPEC. For example the table shows the flaring of gas in OPEC countries

Flaring of National Gas in Major Producing Countries (% of Gross Production in 1991)

<u>Flaring of National Gas in Major Producing Countries (% of Gross Production in 1991)</u> Country	Percentage Flared
United States of America (USA)	0.6
Holland	0.0
Britain	4.3
Former Union of Soviet Socialist Republic (USSR)	1.5
Mexico	5.0
<i>OPEC Countries</i>	
Nigeria	76.0
Libya	21.0
Saudi Arabia	20.0
Algeria	19.0
OPEC Total	18.0
World Total	4.8

Available information indicates that a total of 5.0 trillion cubic feet of associated gas was flared in Nigeria, between 1958 and 1999. This represents 88 percent of the 5.7 trillion cubic feet that was produced within the period (Environment Watch, 16th – 31st October, 2001:5). In view of this, a huge investment in oil and gas and non oil and gas infrastructure is being enhanced among member countries.

In line with this, Nigeria has added extra production capacity totaling production capacity to 31 million barrel per day, on track to achieving 4 million bpd by 2010. (Guardian, January 3 2007)

In addition, aggressive liquefied Nigeria Gas (LNG) development to raise aggregate national output from 22 million tonnes per annum to 44 metric tons per annum by 2010 is on course.

More so, initiative for sub- regional gas distribution networks has been put in place by way of the West African gas pipeline system, which will convey Nigeria gas to neighbors in the (ECOWAS) state, starting in the first quarter of 2007.

In view of this Nigeria and Algeria has completed a feasibility studies on a new 4000-km gas pipe line project that will transmits Nigeria gas through Niger and Algeria to markets of southern Europe by 2015.

This project would provide a unique avenue for Africa regional integration and serve as another expression of shared vision between two OPEC member countries Nigeria and Algeria.

Conclusively, in the last eight years, Nigeria has joined the league of countries earning huge revenue from gas estimated to be about 187 billion naira which before Obasanjo's administration in 1999 was only good for flaring.

4.4 Cost and Benefits to Nigeria as a Member of OPEC

Nigeria's position in OPEC has influenced the world oil industry in a significant variety of ways. From the study, Nigeria was seen as playing a stabilizing role that is highly influenced by the Arab speaking world. Additionally, its high population compared with other members, places Nigeria at a strategic position as one of the members that stands to gain the most from increasing production and foreign exchange earnings from crude oil.

Against this backdrop it's important to evaluate the benefits of Nigeria's membership in OPEC. We need to know whether Nigeria's continued membership would benefit her than leaving.

These can be viewed against the backdrop of importance of oil and gas to global economy.

In view of this, oil has brought a number of benefits since years of membership which are summarized and listed as follows.

- A. Nigeria's membership in OPEC gave her a unique voice among the comity of nations and influence in the world institution such as UN.
- B. As a member, grants is provided through OPEC fund for international development (OFID) in form of loans for development project and balances of payment supports, it also provide grants in support of technical assistance, research, food aid, humanitarian and emergency relief.
- C. There have also been increased exploration activities to enable allocation of higher oil production quota with attendant investment by the multi-national oil companies. This has over the years enabled such multi-national like royal Dutch/shell to retain and achieve nearly 40% of its worldwide assets (and hence income) in Nigeria alone.
- D. It gave Nigeria a prospect of developing her energy (gas) sector as an alternative to fuel where there is low emission of hydrocarbon that is not harmful to health.
- E. The development of the gas project and supply via West Africa gas pipeline system by Nigeria and Algeria would enhance a unique avenue for Africa's regional integration and promote her image in the global energy markets.

However, it is also important to strike a balance by also analyzing the negative attribute (cost) of Nigeria's membership of OPEC.

At this point it is important to understand that Oil became major source of revenue for the country which eventually made Nigeria a rent seeking state because government revenue are dependent on the world markets. oil rent grants the Nigeria state access to this world market and therefore facilitate international exchange. Thus began to witness serious problems as summarized and listed as follows.

- A. Oil based accumulation in Nigeria made her become high absorbers i.e (inability to absorb capital productively) this was witnessed in the area

of swollen bureaucracy, hyper inflation, balance of payment deficit, devaluation of currency, mounting foreign debt e.t.c which call for SAP as economic measures in 1986 to reposition the economy as prescribed by world bank.

- B. It brought about rural laborshortage, profit squeeze in agriculture and eventual neglect; however oil deepened rather than transformed the political economy.
- C. There was class formation taken place without transforming the structure of the economy.
- D. Oil based accumulation condition the state into an organ of capital and was therefore geared towards the rise and dominance of domestic bourgeois.
- E. Finally, central government became the centre of struggle; the proceeds from oil generated a contradiction of sharing formula amongst the diverse entities that make up Nigeria. For example resource control, issues of political power sharing/representative became the order of the day.
- F. Oil made Nigeria became economic crises prone environment because of mismanagement, indiscipline and corruption especially on the part of the politicians of the second republic. Usman (1982)
- G. A high unemployment rate in a “contractor-crazy” environment in which the pursuit of contracts became more or less the source of business gain who systematically milk the economy.

In view of the foregoing analysis, the cost of Nigeria’s membership in OPEC far out weights the benefits but this is not enough reason for her to pull out

of OPEC. Incidentally, under certain probability of price war and a strong unanimous voice in dictating oil price and reducing competition in international markets, some scholars including Akingbola (1979), Nwankwo (1983) and Onoh (1983), Okogu (1985) have all argued against a Nigeria withdrawal from the organization. It was suggested that proper accountability, transparency, probity in public spending will give her an edge over other member countries, Nigeria's prospect is enormous in areas of population, man power, and natural resources and therefore needs to do a lot in harnessing these variables to bring about the desired development.

Furthermore, the issue of revenue allocation formula should be revised coupled with certain fiscal measures to bring about balance of payment and particularly economic development.

4.5 Major Findings and Verification.

The following are the major findings on Nigeria's membership of OPEC but are not limited to:

1. It was established that the oil boom of the 70's led Nigeria to neglect its strong agricultural base and light manufacturing industry in favor of crude oil in the quest to earn foreign reserves and to improve her economy.
2. It found that unemployment rate became high as the pursuit of contracts in an oil based economy became more or less the source of business gain that systematically milks the economy.
3. The research found that oil made Nigeria become economic crises prone environment because of mismanagement, indiscipline and corruption especially on the part of the politicians of the second republic.

4. It has been proven that pulling out of OPEC would not solve the problem but rather accountability of oil proceeds should be encouraged to bring about the desired socio economic development amongst the three tiers of government.
5. It was also established that the objectives of OPEC as identified was not self centered but rather operational base on the common goal of the member countries. Part of this shared interest is in the OPEC fund grants which are made available in form of grants.
6. There was class formation taken place without transforming the structure of the economy.
7. It found that Nigeria as a member of OPEC gave her a prospect developing her energy(gas) sector as an alternative to fuel where there is low emission of hydrocarbon that is not harmful to health.
8. Nigeria's membership in OPEC gave her a unique voice among the comity of nations and influence in the UN as her contest for the Security Council seats.
9. Finally, central government became the centre of struggle; the proceeds from oil revenue generated a contradiction of sharing formula amongst the diverse entities that make up Nigeria. For example resource control, issues of political power sharing/representation remain an issue to be tactically addressed.

CHAPTER FIVE

5.0 SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This work summarizes the research work; it proffers solution on how Nigeria could manage the cost and maximize the benefit there in for her membership in the organization.

5.2 Summary

The work so far has been able to study OPEC as an organization from its formation, objectives and activities since 1960 through 1971 when Nigeria became a member. However from this period till date Nigeria has generated huge sums of foreign reserves that has not transform the economy but rather breeds crops of corrupt politicians who has mismanaged the economy there by subjecting the country into untold hardship, characterized by high crime rate unemployment, inflation, swollen bureaucracy, balance of payment deficits, neglect of the agricultural sector and overdependence on oil etc.

In view of the unfolding event in Nigeria's membership in OPEC since 1971 till date; it is enough to call the shot by pulling out going by the comparison of cost and benefit of her membership. But rather than pulling out as suggested by certain persons, we have forgotten the prospects there in for her, as everything good in life is based on planning and prediction. For example the gas development project between the two OPEC members "Nigeria and Algeria" through the West Africa pipeline system is an opportunity to launch her into the new global market as most developed countries are craving for an alternative source of energy.

More so her membership in OPEC gave her a unique voice among committee of nations therefore boosting her international image.

Through this, she was able to achieve what she alone cannot achieve especially in areas of determining international oil price and production quota.

The research also analyzes graphically the facts and figures of Nigeria membership in OPEC. From the analysis, we were able to review some scholars' perception on the membership in OPEC. Some were of the opinion that Nigeria has not gained tremendously from the organization and so does not necessarily have to opt out. But with adequate planning and predictions in respect to socio economic adjustment would reap the benefits as a member of OPEC.

However, some have continue to dwell on the negative side of her membership which was majorly based on years of military mismanagement, misgovernance and faulty sharing of the oil revenue which often have generated a lot of controversy especially in the Niger delta region where oil is produced.

5.3 Conclusion,

Though Nigeria has encountered several hiccups nonetheless her membership has boosted the image of the country as being one of the 11 member countries regulating the prices and supply of crude oil hence giving her an edge over other countries in the West Africa sub region, particularly in the struggle for a permanent seat in United Nations.

More so her membership has enhanced partnership in the area of gas development projects which will boost the prospects for the markets growth of the economy particularly the gas sector.

However, going by the structural problems faced in the economy certain recommendations are given which I believe would be of enormous importance if strictly adhered to.

5.3 Recommendations

These recommendations are given to enable Nigeria re-evaluate the cost and benefits of her OPEC membership and strategically position her to reap the benefits of her membership. This solution is centered on Nigeria government and internal value system which are as follows.

1. Nigeria government should divest her economy into more profitable ventures like agriculture, gas project and develop tourism as this would reduce the burden on oil and boost her economy with attendant issues like unemployment, high rate of crime.
2. Most particularly proceeds from oil should be judiciously managed and re-invested into the economy rather than just spending it on importations of finished items into the country. In view of this the revenue sharing formula should be revised to maximize the contradictions it has generated overtime in the country between different entities in the society.
3. Stringent fiscal measures should be adopted by the apex bank in line with international financial institutions like IMF, world bank etc to help manage and stabilize the economy from inflation and also counsel the government on what best policy to adopt to help check against balance of payment deficits.etc.
4. Most importantly, Nigeria should remain focused in OPEC while she tries to restructure her domestic market and look for possible avenue where member countries could partner and be of benefits to one another. For example the gas project development between Algeria and Nigeria remains a laudable one
5. The government should give adequate concentration to the 'goose that lays the egg' Niger delta. The region should be well catered for in areas of infrastructure, health and employment. So as to discourage attack on oil

installation and kidnap of expatriate by the local community; this has invariably disrupted production of about 60,000 bpd thereby pushing up international oil price. See New Nigeria, 2006.

6. In view of the Arab revolution in the contemporary world, there is no fear that the world will run short of energy in the foreseeable futures. oil will continue to contribute substantially, in absolute terms, to primary energy and it may even increase its percentage share. The opportunities for Nigeria are obvious.

The country should be poised to play its proper role in meeting world demand for crude oil and gas and their derivative so as to increase her export earning share.

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