

## Consequences of the January 2012 oil subsidy Removal in Nigeria

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### Keywords

Nigeria, national integration, democracy, removal of fuel subsidy

### Abstract

*Nigeria as a sovereign nation got her political Independence from the British Colonial Masters on the 1<sup>st</sup> October, 1960. She practiced democratic administration amidst of electoral violence and crisis between 1960 to 1966 and the military seized and hold onto power up to 1999 though, with a deceptive intermittent democratic rule for this period. Nigerians happily, joyfully and massively came out and elected leaders of their choice at the poll in 1999 with the enthusiasm and hope that Nigerians must have learnt their lessons to practice the long awaited democracy with the maximum cooperation of all Nigerians so that our nation could join the rest of the democratic nations of the world to enjoy the fruits and dividends of democracy. However, to the utter dismay and disappointment of rational and reasonably thinking Nigerians, the entrance into democracy by the Nigeria state was rather a curse than a blessing. It is in the light of the above that this paper examines the challenges of democratic survival between 1999-2011 in Nigeria. The paper equally concludes that the major problems of Nigeria are selfishness of Nigerians on the basis of tribal, religious and ethnic bigotry. The paper recommends that Nigerians should shun placing ethnic, religion and tribal consideration above national integration because it is only on this premise that Nigeria would thrive and survive democratically.*

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### Introduction

President Goodluck Jonathan Administration stoked the fire of controversy on Tuesday October 4, 2011 when it informed the National Assembly about its plan to begin the removal of fuel subsidy from January 2012" ([http:// Vanguardngr.com/2011/12/fuel-subsidy-removal-government](http://Vanguardngr.com/2011/12/fuel-subsidy-removal-government)). Nigerians and labour unions reacted negatively to the plan by President Goodluck Jonathan to remove the oil subsidy. Government has failed to fix the nation's refineries or build new ones to refine crude oil at home after spending huge sums of money on turnaround maintenance (TAM) of the refineries in the last ten (10) years, an oil cabal that benefits from the subsidy has not been dealt with, those who collected money and failed to fix the refineries have not been prosecuted, and removing subsidy will place more burden on the already impoverished Nigerians 70 percent of who live below the poverty line.

Others include failure of the government to ensure stable power supply, unable to fix the roads, inadequate funding of education, poor healthcare, inability to deliver on past promises, inability to combat corruption, persistent increase in the cost of governance and recurrent expenditure, which consume 74 percent of annual budgets". They also complained that the government was not checking wastage in governance and could not convince them on why Nigerians must pay heavily for a resource they were richly blessed with". Reacting on behalf of the Federal Government, the information Minister Labaran Maku during a visit to Vanguard Newspapers confirmed "that in the interim, the policy would inflict sufferings on the citizenry but, he contended that the pains would ease off in the long run to the overall benefit of the economy... the government was faced with two impalatable options of short-time pains with

subsidy removal or perpetual pains with non-removal of subsidy... what would be saved from fuel subsidy removal would be channel into the government's three pillars of governance: revamping infrastructure, ensuring human capital development and improving governance" and there would be no fixed price for petroleum. It will go up and down depending on price of crude oil; which is what happens in every other country. Just like there is not fixed price for a tuber of yam, there is no fixed price for Garri".

On the 1<sup>st</sup> January, 2012 the Federal Government under President Goodluck Ebele Jonathan announced the total removal of subsidy on Premium Motor Spirit (PMS) popularly called petrol and fixed the price of one liter at one hundred and forty two Naira Only (142). The Government justified the removal of the subsidy on premium motor spirit (PMS) on the ground that it "will free up to about ₦1.2 trillion in savings, part of which can be redeployed into providing safety nets for poor segment of the society to ameliorate the effects of subsidy removal (Jonathan 2011:1). "It was only the removal of fuel subsidy that would guarantee the success of the medium term Fiscal Framework (Okonjo-Iwela 2011). The resources hitherto used on subsidy would be invested in tangible infrastructure and provision of social nets to cushion the impacts of the reforms (Jonathan 2011). Furthermore, the discontinuing with the subsidy remained the only responsible way of harnessing revenue for capital stock formulations among others (Jonathan 2011).

On 1<sup>st</sup> January, 2012, the Petroleum Products Pricing Regulatory (PPPRA) today announced the full withdrawal of subsidy from petrol (Premium Motor Spirit)". According to the statement signed by the Agency's Executive Secretary Reginald Stanley:

*The removal takes immediate effect from today January 1, 2012... the Agency wishes to inform all stakeholders of the commencement of formal removal of subsidy on Premium Motor Spirit in accordance with section 7 of PPPRA Act, 2004. By this announcement the downstream sub-sector of the petroleum Industry is hereby deregulated for PMS. Service providers in the sector are now to procure products fortnightly and posted on PPPRA Website. Petroleum Products Marketers are to note that no one will be paid subsidy on PMS discharges after 1<sup>st</sup> January, 2012.*

In the light of the above, this paper cross-examines the positives and negatives of the removal of subsidy on Premium Motor Spirit (PMS) and as well x-rays the prospects and finally made appropriate recommendations.

### **Negatives of January 2012 Oil Subsidies Removal in Nigeria**

Nigeria Labour Congress (NLC) and Trade Union Congress (TUC) reacted to the sudden announcement of subsidy removal of oil on 1<sup>st</sup> January, 2012 alongside with other smaller unions to embark on strike. The strike action lasted for about nine days and disrupted normal activities for the period. Reports indicated that from the nation's commercial capital, Lagos to Kaduna, from Abeokuta to Akure, Kaduna and Kano and Federal Capital Territory Abuja, there was no commercial activities as shops, offices, schools and petrol stations around the country closed on the first day of an indefinite strike called by unions, marketers, banks, government offices, filling stations and shops were under lock and key as streets remain deserted as commercial vehicle operators, taxi and commercial motorcyclist, popularly called Okada abandoned their tools of trade, many residents who did not take part in the protest stayed indoors, while youths turned major street roads into temporary football pitches. Government owned radio and television stations for most part of Monday (2<sup>nd</sup> January, 2012) remained off as only senior officers reported for skeletal duties.

Rally/Demonstration within Nigeria and in Diasporas was highly recorded. The two giant Labour Unions (NLC and TUC) pulled out crowds and other petty civil society groups, the Nigerian Union of Teachers (NUT), National Association of Nigerian Students (NANS) carrying

placards with different inscriptions and marching round major towns and cities, government houses, offices etc shouting one slogan or the other. In a related development, in Diasporas there was also rally against the removal of subsidy by Nigerians in San Francisco in Los Angeles on the 12<sup>th</sup> January, 2012. Nigerians in Northern California are joined with their country folks in Southern California at a critical Mass rally on Saturday January 14 to jointly decry the oil subsidy removal by the Nigeria Government of "President Goodluck Jonathan" (retrieved from [www.thewillnigeria.com/general/1796-Nigeria-Rally-Los Angeles. over-oil-sub.....](http://www.thewillnigeria.com/general/1796-Nigeria-Rally-Los-Angeles-over-oil-sub-13/1/2012) retrieved 13/1/2012).

Serious injuries and death were also reported as a result of the rally and demonstration arising from the removal of oil subsidy by the Federal Government of Nigeria. For instance "..... even as in confirmed reports said, three protesters had been shot at Ogba area of Lagos with one of them reportedly dead. In Kano, Police fired tear gas and shot into the air to disperse thousands of protesters who were converging at the Governor's Office. According to a BBC Hausa Service reporter, 12 people were injured during the incident" (All Africa.com retrieved from this Day <http://allafrica.com/stories/201092222.html> retrieved 10/1/2013).

After the announcement of the subsidy removal, All Nigerian People's party (ANPP) urged the National Assembly to invoke section 16 (1) of the 1999 Constitution to stop government from the removal of subsidy (Ogbonnaya 2012:1) in Odemyi P. 2012:1). The party Chairman, Dr. Ogbonnaya Onu earlier warned the President Jonathan Goodluck at a meeting between the President and leaders of various political parties that the measure is bound to bring suffering and other unpleasant consequences in the land. The party (ANPP) said "We wish to ask; why should an elected Government which did not canvass these changes during the electioneering campaign decided to inflict on Nigerians such pain and hardship without giving serious thought to their happiness and well being especially in the circumstance where even the value of the Naira which had already been recently devalued by the same Federal Government. Is still on?"

The price of fuel soared more than the ₦142 in some part of the country during and after the strike action. While the strike lasted in many parts of Nigeria, the price of fuel went above the ₦142 and consumers have to buy the product at that long after the oil subsidy removal strike has come and gone, the price of fuel still remains far above the ₦97 Naira which the Government later reverts to. The Federal Government in her announcement of the removal of oil subsidy became a big and rare opportunity for marketers of petroleum products as well as for producers of both manufactured and agricultural products to raise prices. The reversal of the price of premium motor spirit from ₦142 to ₦97 by the Government did not help Nigerians at all because those who capitalized on the total removal of subsidy to increase price of items did not reverse the price hike.

Removal of oil subsidy by the Government mainly for economic reason was to allow oil production and consumption be determined by the forces of demand and supply under the free perfectly competitive market. The problem here is that opportunity has not been created for free entry (by those who may not want to continue) into the market. This is so because, the forces of demand and supply of oil in the free market is restricted by the existence of capitalist Nigerians and National Petroleum Corporation (NNPC) the sole owner of the three refineries in Port Harcourt, Warri and Kaduna respectively. The perfectly competitive market would have worked fine by allocating the price of oil if private refineries are allowed to operate alongside with the NNPC before the removal.

One other negative effect of the oil subsidy removal is that the removal was done when the nation was facing severe security challenges and some people capitalize on the insecurity situation at the time of the oil subsidy removal to kill people, destroy properties etc.

## Positives of Fuel Subsidy Removal in Nigeria

The Federal Government said through her Minister of Information that Nigeria is contented simply selling crude oil after fifty three (53) years of oil discovery. Niger, Chad, Ghana and Benin Republic have suddenly discovered oil and what is going on now is that companies that have received licenses from us to set up refineries in the last ten years and waiting upon us to take the measure to free the market, are now moving to Niger and these other countries to set up refineries, targeting the Nigerian market as the export market. How would we stand the shame that, after fifty three (53) years, we will be reduced to importing finished products from Benin Republic, Chad and Niger which is exactly what is going to happen if we fail to take the measure.

Maku (2012:6) The Federal Government states that the removal of subsidy on oil is necessary because the President has handed over the existing refineries to their original manufacturers. Those who built the companies are now those who have entered into long term to run and revamp those refineries claiming "We have an eighteen (18) to twenty four (24) months programme to return those refineries to their original capacity and it is going to be handled by those who built them and not the middle men who are turning them sideways and never around" (Maku 2012:6). In addition, "Second programme is that we are preparing to build three new refineries. These refineries are to be located in Lagos, Kogi and Balyelsa and process 400,000 barrels of crude into finished products every day. With that, we are expecting that, in the next two to three years, Nigeria will export finished products to West Africa and the rest of the world (Maku 2012:6). Maku further said, Subsidy removal on oil was effected because there are 20 licenses for oil majors and other people who have entered into agreement with the Federal Government to build refineries for export but this group could not participate in the oil sector business because the government kept insisting that the price of oil should be controlled in Nigeria.

The government before the removal of subsidy on premium motor spirit pledged that she have created a common vehicle where the subsidy will be warehoused and administered directly on the people by a special board of trustees that will be made of prominent and credible Nigerians and representatives of the media, civil society organizations and labour who will run this subsidy directly on projects and report to Nigerians, so that people can know that subsidy has not withdrawn and thrown into the ocean, but that it is being spent on the people of Nigeria". The Federal Government immediately after the subsidy was removed set up the subsidy Reinvestment and Empowerment programme (SURE) headed by Dr. Christopher Kolade. SURE was meant to boost confidence of Nigerians to reassure them that the business of subsidy removal shall not be the popular slogan of 'business as usual' where few individuals selfishly embezzled public money through corruptive practices. Indeed, "the discontinuation of fuel subsidy is because it poses a huge financial burden on government disproportionately and benefits the wealthy, encourages inefficiency, corruption and diversion of scarce public resources away from investment in critical infrastructure" (Deizani 2012:1) The critical infrastructures according to Iweala includes the construction, completion and rehabilitation of rail, refineries, key Federal highways, hydro stations, information technology and water projects etc. These projects would be executed by the subsidy reinvestment programme.

Diezani (2012:1) said that "the total projected subsidy reinvestible fund per annum is ₦1.134 trillion based on average crude oil price of ₦90 per barrel. Out of this, ₦478.49 billion accrues to the Federal Government, ₦41.03 billion to State Government, ₦203.23 billion to local Government, ₦9.86 billion to the Federal Capital Territory (FCT) and ₦31.37 billion as transfers to derivation and ecology, development of natural resources and stabilization funds". The Minister (Diezani 2012:2) said a robust programme structure has been developed to ensure

adequate oversight, accountability and implementation of the various projects, which accruals from subsidy removal would be used to mitigate the subsidy removal impact.

The removal of oil subsidy is promised on the ground that the development of Nigerian economy could no longer be compromised for the importation of oil any longer. The economic lost to the nation here is that crude oil because of the depleted nature of the existing three refineries is being exported to other nations of the world for refining and it is a great economic lost to the nation because oil and gas constitute over 6,000 products which can be identified as made from petroleum. Therefore, exportation of mineral resources in its raw form undermines industries, job creation, the availability of raw materials for secondary industries, transfer of technology and contributes to fuelling social ills. Our goal should therefore, be to add value to our greatest resource which is one of the most important raw materials known to man. The quantum effect of this will totally transform our economy in title or on time and help to resolve most of the problems we are experiencing as a nation today.

The Federal government claimed that it is a fact that “between 2006-2011, the government spent ₦3.7 trillion on subsidy. Between January and November 2011, the government borrowed ₦850 billion to make up this (that) year’s ₦1.3 trillion fuel subsidy. As at October, 2011, ₦1.3 trillion had been spent on subsidy in 2011 alone. It is estimated that ₦1.43 trillion would have been spent on subsidy by the end of 2011. Without the removal of the subsidy, it is projected that ₦1.1 trillion will be borrowed to fund the subsidy in 2012”.

The decay caused by the corruption of subsidy beneficiaries includes:

- Most of the products subsidy beneficiaries claimed to have been imported found their way to neighbouring countries through unscrupulous marketers.
- Most of the products they claim to have imported did not come into the country.
- To highlight corruption in the name of subsidy, it is unimaginable that vessels of products would land at the Port the same day and disappear the same day as a result of corruption.
- Some marketers collected letters of credit, got paid their subsidies, yet failed to
- repay the loans they collected from banks;
- Subsidy does not improve local economy. With fuel importation and subsidy,
- Government creates jobs for other countries and improves their economies.

## Conclusion

The negative and the positive argument surrounding the removal of subsidy shows that there is no agreement from both the antagonists and the protagonists over the removal of oil subsidy on the Premium Motor Spirit (PMS) respectively but the Federal Government of Nigeria that is feeling the burden of the pain and the agony of the subsidy had plainly justified the reasons for removing the subsidy in January 2012 which traumatically thrown the nation into nine days of uninterrupted industrial action by the organized labour unions between 1<sup>st</sup> – 10<sup>th</sup> January 2012. The reality of the removal if it is to be judge equitably, fairly and correctly, the decision of the Federal Government of Nigeria is well applauded and tenable on economic ground since the Government was facing severe economic challenges as a result of sustenance of subsidy. On this premise, I hereby made the following recommendations that the subsidy removal on Premium Motor Spirit (PMS) by the Federal government be sustain on the following grounds

## Recommendations

One, long and frustrated queue in filling stations by the motorists and various consumers of the product had disappeared since the subsidy was removed;

- Two, it has drastically checked to a reasonable extent the uncontrollable activities of the smugglers of PMS across the Nigerian border,
- Three, activities of national and local black marketers hoarding the product thereby creating unnecessary hike in price is gradually fading away.
- Government is using the accruing financial benefits in the area of electricity generation, provision of vehicles for public transportation, providing infrastructure for the Nigerians;
- Four, relieve the annual budget of the Federal Government the burden of paying a substantial amount for every one liter of PMS consumed by everyone.
- Lastly, Nigerians were so used to buying a liter of the product even more than the price that they are buying now with the removal of the subsidy.

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