

The Dialectics of Nigeria's Opaque Downstream Oil Sector and the Agency of Fuel Subsidy

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ABSTRACT

This paper draws from qualitative data to examine the opacity of Nigeria's downstream oil sector within the ambit of its fuel subsidy policy. It specifically addresses whether the poor state of Nigeria's refineries is linked to the prebendal benefits associated with the administration of fuel subsidies as well as the correlation between the opacity of Nigeria's downstream oil sector and fuel subsidy. Furthermore, the paper interrogates how fuel importation could be considered a rational option to address domestic needs for refined petroleum products. The paper offers two major interrelated insights: First, it finds that fuel subsidy nurtures the propensity for sabotage, corruption, and money laundering; there tends to be a link between fuel subsidy and the non-functionality of Nigeria's state-owned refineries, and second, the pro-poor justifications for sustaining fuel subsidy is a proxy for continued elite enrichment through the manipulation of the subsidy regime. Overall, the paper highlights the imperative of rethinking the fuel subsidy architecture by rebuilding Nigeria's downstream oil sector, especially the domestic capacity for refining crude oil.

ARTICLE INFO

Article history:

Received: 23 April 2023

Accepted: 24 October 2023

Published: 14 June 2024

DOI: <https://doi.org/10.47836/pjssh.32.2.18>

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Keywords: Corruption, downstream oil sector, fuel subsidy, Nigeria, state capture, state-owned refineries

INTRODUCTION

Nigeria is a major player in the global oil industry: while it is the largest oil producer in sub-Saharan Africa, it is among the top ten countries with the largest proven oil

reserves (Nwozor et al., 2019; Organization of the Petroleum Exporting Countries, 2023; Stebbins, 2019). According to the Organization of the Petroleum Exporting Countries (OPEC) data, Nigeria currently holds 36,967 billion barrels of proven crude oil reserves (Organisation of the Petroleum Exporting Countries, 2023). The Nigerian government has repeatedly expressed its aspiration to increase its proven reserves to 40 billion barrels beyond 2020 (Nwozor et al., 2019). This aspiration tends to be driven by the logic of national survival in the face of Nigeria's monocultural economy.

One of the major paradoxes of Nigeria's enormous oil reserves and earnings therefrom is their serial mismanagement and embezzlement by bureaucratic, military and political elites (Nwozor et al., 2020; Olujobi, 2023). No general agreement exists on the consolidated amount embezzled from Nigeria's treasury. However, various sources estimated that corruption has generally short-changed Nigeria billions of dollars (Olujobi, 2023). For instance, some sources estimated that between 1960 and 1999, the country lost between US\$380 and US\$400 billion to corrupt practices (Nwozor et al., 2020). Another estimate linked to Chatham House put the cumulative amount looted from Nigeria's treasury between 1960 and 2014 at US\$582 billion (Oghifo, 2019). It is also estimated that during the administration of Goodluck Jonathan (2010-2015), Nigeria lost over US\$32 billion to corrupt practices (Nwozor et al, 2020). The preceding estimates do not include losses suffered by Nigeria from oil

theft. According to the Nigerian Extractive Industry Transparency Initiative (NEITI), Nigeria lost about 619.7 million barrels of crude oil, valued at US\$46.16 billion or N16.25 trillion between 2009 and 2020 (Jeremiah, 2022).

Another manifestation of the paradox is Nigeria's incapacity to domestically refine its crude oil to cater for the national needs for refined petroleum products. Nigeria has four state-owned refineries with a combined refining capacity of 445,000 barrels per day (bpd). None of the four refineries has ever operated up to a quarter of their installed capacity in the past 25 years, thus resulting in massive importation and attendant price distortions mitigated with subsidies. The report of the National Refineries Special Task Force (NRSTF), set up by the Federal Government in 2012 to review the performance of the refineries between 2006 and 2009, described them as the worst among the 42 refineries in Africa, especially in average capacity utilisation (Ministry of Petroleum Resources, n.d.). For instance, the audited accounts of Nigerian National Petroleum Corporation (NNPC) between 2014 and 2018 indicated that the state-owned refineries recorded cumulative losses of 1.64 trillion Naira (US\$4.7 billion at the then N350/US\$1) (News Agency Nigeria, 2021: Udo, 2020). Since 2020, the four Nigerian refineries have been more-or-less comatose as they have not refined crude oil. Notwithstanding, they incurred operational expenses of N10.23 billion (US\$29.223 million at the N350/US\$1) in 2020 (Dairo, 2020).

The incapacity of the refineries created import dependence to meet domestic needs. Nigeria's dependence on imported refined petroleum products has produced several economic distortions, the foremost of which is its subsidisation. Fuel subsidy in Nigeria was a supposedly stop-gap measure that was made a permanent feature of the country's policy thrust and had serious economic implications. According to NEITI sources, Nigeria spent N13.7 trillion Naira (US\$39.14 billion at the then exchange rate of N350/US\$1) on fuel subsidies between 2005 and 2021 (Anyago, 2023). In 2022, the federal government requested and got approval from the National Assembly to spend 4 trillion Naira (about US\$ 9.64 billion at N415.13/US\$1) on fuel subsidies for the fiscal year (Abuh & Akubo, 2022). The projection of the World Bank, based on significant upward trends in international oil prices, was that Nigeria could end up spending close to 5 trillion Naira (US\$12 billion) on fuel subsidies for 2022 (Azeez, 2022). Nigeria spent N4.39 trillion (about US\$9.7 billion at N453.09/US\$1) on fuel subsidies for 2022 (Eboh, 2023). The huge budgetary allocation to fuel subsidy in the face of crippling developmental challenges made it a major campaign issue in the build-up to Nigeria's presidential election in early 2023.

This paper examines Nigeria's fuel subsidy architecture, especially the various cross-cutting arguments connected to its retention or removal and the accompanying justifications. The idea of fuel subsidies is anchored on fixing the price of refined

petroleum products below the international price and using government funds to pay for the difference (Ezeani, 2014; McCulloch et al., 2021). The fuel subsidy issue has been quite contentious in Nigeria since the 1970s due to its wide-ranging political and socio-economic implications (Akor, 2017; Houeland, 2020; Ibietan et al., 2018; Soile & Mu, 2015). This paper focuses on the broad issues that interconnect Nigeria's weak domestic refining capacity, the opacity of its downstream oil sector and the agency of fuel subsidy. In this context, the paper addresses three interrelated questions: (1) is the poor state of Nigeria's refineries linked to the inherent prebendal benefits in the administration of fuel subsidy? (2) is there any correlation between the opacity of Nigeria's downstream oil sector and fuel subsidy? and (3) to what extent does fuel importation anchored on fuel subsidy represent a rational option to address domestic consumption of refined petroleum products?

Studies have attempted to address Nigeria's downstream oil sector as it relates to fuel subsidies from diverse perspectives. While some studies generally focused on the deregulation of the downstream petroleum sector as a means of addressing fuel subsidy, including whether the subsidy is a fact or myth (Ibietan et al., 2018; Nwachukwu & Chike, 2011; Olujobi, 2021), other studies evaluated the impact of fuel subsidy on various aspects of the Nigerian state, ranging from the economy, environment, and the energy and agricultural sectors (Adekunle & Oseni, 2021; Ani et al., 2021;

Bazilian & Onyeji, 2012; Lin & Atsagli, 2017; Osunmuyiwa & Kalfagianni, 2017), the welfare effects of fuel subsidy and its removal (Ezeani, 2014; Mmadu & Akan, 2013; Rentschler, 2016) and the general impact of fuel subsidy, especially whether it benefits the poor or the rich (McCulloch et al., 2021; Siddig et al., 2014; Soile & Mu, 2015). A strand of the literature examined popular protests against government attempts to remove fuel subsidies (Akanle et al., 2014; Akor, 2017; Houeland, 2017, 2020, 2022; Uwalaka & Watkins, 2018).

A major shortcoming of extant studies on fuel subsidy is the lack of holistic insights into the complex interplay of the forces that undermine domestic refining capacity while bolstering the importation of refined petroleum products. Similarly, there is a gap in the literature in the context of how the opacity of Nigeria's downstream oil sector motorises fuel subsidy in the face of economic rationality. This paper's value is evident in offering a refreshingly current evaluation of Nigeria's fuel subsidy architecture by interconnecting its overall inefficiency with prebendalist practices orchestrated by coalitions of elites that have captured the state. Another value of the paper is the attention it draws to the imperative of rebuilding national refining infrastructures as a critical step to permanently address the fuel subsidy debacle.

LITERATURE REVIEW

Theoretical Linkage

This paper combines rent-seeking perspective and state capture theory to

illuminate the forces that shape, sustain and motorise fuel subsidy in Nigeria and how they induce the tendencies that undermine the country's domestic refining capacity through the instrumentality of corruption. The rent-seeking behaviours in the downstream sector of Nigeria's oil industry are incongruent with the demands of due process and transparency as they revolve around deliberately manipulating public policy or economic conditions to increase profits. Although rent-seeking is used in a variety of scenarios, it is normally applied to cases where governmental intervention in the economy leads to the creation of artificial or contrived rents (Tollison, 2012). In this context, rent-seeking equates to transferring wealth to oneself outside the logic of voluntary trade driven by utility and profit maximisation. It is the quest for the usurpation of privileged benefits from the government (Aidt, 2016; Nwozor, 2009; Nwozor et al., 2020). Fuel subsidy in Nigeria provides opportunities for the coalition of business and political elites to corner the allocations for fuel importation. While the policy of due process and transparency demands that governmental activities and businesses be carried out openly, economically and transparently (Atagboro, 2015), those that have captured the state apparatuses of power circumvent these provisions in allocating importation quotas to designated clients.

State capture denotes the surreptitious seizure of state apparatuses of power by a clique of elites to advance their interests (Myburgh, 2017). The usurpation facilitates

systemic political corruption as the private interests of the clique significantly influence decision-making processes to their advantage (Fazekas & Tóth, 2016; Lugon-Moulin, 2010). The point is that for any clique of elites to capture the state, they must directly or indirectly be in control of state power. There is a reinforcing relationship between rent-seeking and state capture, as the former catalyses the latter's collective effort to take advantage of the state (Nwozor et al., 2021).

Nigeria is not deficient in legal, administrative and regulatory codes necessary to tackle the menace of corruption. However, the seizure of the apparatuses of power undermines the efficiency of the various anti-corruption institutions. Corruption in Nigeria is an inclusive elite phenomenon. It encompasses broad-based coalitions of elites focusing on undermining state policies for their collective benefit (Nwozor, 2014; Nwozor & Afolabi, 2023). In other words, the Nigerian elites have elevated and transformed corruption into a legitimate mechanism for accumulation by compromising the state system. The persistence of corruption in any polity depends on whether relevant anti-corruption structures exist and the dedication of these institutions to invoking appropriate sanctions against perpetrators of corrupt practices. The rent-seeking behaviours of the elite in the face of state capture make political manipulations possible. As the World Bank (1997) acknowledges, "corruption tends to flourish when institutions are weak, and government policies generate economic rents" (p.12).

The capture of the state nurtures and sustains the rent-seeking behaviours of the elites. In other words, state capture makes it possible for "privileged benefits from the government to percolate to designated beneficiaries with links to dominant political elites" (Nwozor et al., 2021, p.57). Corruption is promoted in politics by a combination of factors. World Bank (1997, p.12) observes that "the causes of corruption are always contextual, rooted in a country's policies, bureaucratic traditions, political development, and social history". Nigerian elites make corruption difficult to control because of their vested interest, especially in relying on rents for maintenance. The due process principle is generally an antidote to the arbitrariness that spawns and sustains corruption. While corruption circumvents laid down processes, the due process principle enthrones orderliness and adherence to laid down procedures (Duru, 2005; World Bank, 1997). Due process does not operate in isolation. Its application and enforcement are dependent on the willingness of the elites. Paradoxically, the bureaucratic elites supposed to apply the principle of due process are beneficiaries of rents as they form cross-cutting elite coalitions. Fuel subsidy policy has been converted into a tool for generating economic rents for the bureaucratic and political elites coalition.

Brief Overview of Relevant Literature

In addition to providing a brief overview of the subsidy concept, two strands of literature are evaluated to contextualise

the discussion and thus establish relevant gaps. The first are studies on the economics of fuel subsidy, including the forces that underpin and sustain it, and the second are contributions documenting debates on the benefits of fuel subsidy, or lack of it, to the economy generally. The concept of subsidy is used differently in diverse contexts. The multiplicity of contexts in which it is used presents a definitional dilemma characterised by a lack of unanimity. Subsidies are justified in theory because of their potential to promote an overall increase in social welfare. However, some scholars contend that subsidies have a net negative effect (Ezeani, 2013; Mmadu & Akan, 2013; Rentschler, 2016). Subsidies can be deployed in diverse sectors to achieve a variety of purposes, especially welfarist objectives that benefit the poor and commercial objectives that directly boost commercial activity in a specific market (Ezeani, 2014). Subsidies have explicit, implicit, direct, and indirect impacts on prices or costs of goods and services. Subsidies can directly impact prices and costs through grants, tax reduction exemptions or price controls or indirectly through regulations that skew the market in favour of particular price regimes (Centre for Public Policy Alternatives, 2012). Governments introduce subsidies through a number of mechanisms. Coady et al. (2006) and Mmadu and Akan (2013) identify three basic mechanisms through which governments introduce subsidies in their economies: one, by directly controlling import levels, domestic distribution and domestic price regimes; two, by setting

domestic price ceilings and compensating the private sector distributors licensed to freely import and distribute goods and services for the ensuing losses; and lastly, by setting prices by a formula that anchors domestic prices on import prices, with adjustments for distribution margin and domestic taxes.

Generally, fuel subsidy policy is a stop-gap measure countries adopt to ameliorate the impacts of oil price shocks. The political economy of fuel subsidy is anchored on the government's involvement in and determination of the price of refined petroleum products. The government bears the responsibility for the cost differentials. Soile and Mu (2015) contend that subsidies are expensive, have serious fiscal implications, and create distortions that manifest in inefficient consumption patterns with possible price distortions. The distortionary effects of fuel subsidies have led to increasing calls for its reform. The mainstream concern among policymakers is fuel subsidies' efficacy in addressing the welfare and macroeconomic impacts of oil price shocks, as well as their implications for fiscal sustainability (Lin & Atsagli, 2017; Omotosho, 2019).

Fuel subsidy has been a very hot topic in Nigeria since the 1970s, following the institutionalisation of price control through the instrumentality of Decree Number 1 of 1977 (Federal Government of Nigeria, 1977). The Decree criminalised selling some designated products, including petroleum products, above the approved or regulated price. When the Decree was enacted,

Nigeria could afford to impose price control or subsidy because of the enormous foreign exchange accruals from the good run of oil prices in the international arena. Thus, not only was Nigeria willing to import to cover shortfalls and create a balance in the supply and demand of petroleum products domestically, but it was also unwilling to pass over the excess costs to the people. The motive was to cushion the negative impacts of the inflationary pressures emanating from the global energy price increase (Ibietan et al., 2018; Onyeiwu, 2021). As Lockwood (2014) observed, "Energy subsidies are only one of many possible forms of redistribution for purposes of political patronage available to a government" (p.481).

As the good run of oil prices in the international oil market persisted, fuel subsidy posed no problem as Nigeria earned more than enough to implement it effortlessly. However, the policy became unsustainable when the price of oil nosedived and steeply dropped in the 1980s. The shortages in Nigeria's foreign exchange earnings created an economic crisis and spawned the argument that "large subsidies redirect public expenditures away from more productive spending or contribute to unsustainable budget deficits" (Coady et al., 2006, p.4). The thrust of the Structural Adjustment Programme (SAP) and the National Economic Empowerment and Development Strategy (NEEDS), which were reform programmes initiated and supported by the IMF and World Bank to pull Nigeria out of its economic crisis, centred on appropriate pricing of refined

petroleum products (Ezeani, 2014; Onyeiwu, 2021). What appropriate pricing meant to these Bretton Woods institutions was that petroleum products imported into the country should be sold and bought in accordance with prevailing international prices without government interference in their pricing (McCulloch et al., 2021; Omotosho, 2019).

The basis for the policy preference for reform inhered from the mounting fiscal pressures of fuel subsidy on the Nigerian economy and the overall inefficiencies of the subsidy scheme (Rentschler, 2016). However, the government's predisposition to remove fuel subsidies failed to garner public support. The masses and civil society resisted all attempts by successive governments since 1999 to remove fuel subsidies (McCulloch et al., 2021; Mmadu & Akan, 2013; Rentschler, 2016; Soile & Mu, 2015). Lockwood (2014) contended that mass resistance to subsidy reform in energy resource-producing countries is embedded in the ideational rationalisation that "the people have an entitlement to a share of what is seen as a national resource, or national patrimony" (p. 481). In the same vein, Siddig et al. (2014) posited that from a political economy perspective, fuel subsidy removal tended to be difficult because "it impacts a broad spectrum of Nigerian households" (p.167).

Fuel subsidy in Nigeria appears to have been converted into a tool for personal and group enrichment by the coalition of business and political elites, prompting contentious debates about whether it is factual or

otherwise. The study by Nwachukwu and Chike (2011) to empirically examine the claims and counterclaims surrounding the factuality or otherwise of fuel subsidy demonstrated that fuel subsidy is a fact and not a fallacy. The factuality of the fuel subsidy regime indicated the economic thinking of its positive effect on the welfare of households. Several studies noted the combined effects of fuel subsidy and its removal. On one hand, studies have shown that fuel subsidies positively impact the welfare of Nigerian households. At the same time, its removal has tended to trigger significant distributional impacts and income shocks, which are detrimental to household income, particularly those of poor households. On the other side, its reduction or removal generally increases Nigeria's GDP (Dennis, 2016; Evans et al., 2023; Mmadu & Akan, 2013; Rentschler, 2016; Siddig et al., 2014).

The question of subsidy removal has been contentious in Nigeria because of its multiplier effect on the masses. For this reason, successive governments' attempts to remove fuel subsidies always ended up with opposition, resistance, and mass action (Omotosho, 2019; Onyeiwu, 2021). Each time successive Nigerian governments removed fuel subsidies, there was always a groundswell of broad-spectrum opposition against such policy thrusts, resulting in reversals through the reintroduction of new thresholds of subsidy (Bazilian & Onyeji, 2012; Centre for Public Policy Alternatives, 2012; McCulloch et al., 2021; Siddig et al., 2014). Public opposition to fuel subsidy

removal has always been motorised by several factors, namely, the notion that it is anti-poor; doubts about whether savings from subsidy removal could be judiciously managed, given general credibility and transparency deficit in government; and inadequacy of social protection plans and grim prospects of deepening the vulnerability of households (Akanle et al., 2014; Ezeani, 2014; Houeland, 2022; McCulloch et al., 2021; Rentschler, 2016; Soile & Mu, 2015).

The literature review presented above has shown various aspects of studies on fuel subsidies in Nigeria. However, very little research has been conducted on the complex interplay of the forces that undermine domestic refining capacity while bolstering the importation of refined petroleum products. Corollary to the foregoing, there is a lack of scholarly inquiry on the interconnections between the opaqueness of Nigeria's downstream oil sector and fuel subsidy regime within the context of economic rationality. The present paper would, therefore, add to the literature by filling this gap.

METHODOLOGY

This study relied on primary and secondary data to examine the agency of Nigeria's fuel subsidy policy in the context of the interconnection between the weak domestic refining capacity of the country's refineries and the opaqueness of the downstream sector of the oil industry. The primary data were generated from key informant interviews (KIIs). The key informants were chosen

through a purposive sampling technique. A total of 20 key informants were chosen and interviewed based on their overall knowledge of Nigeria's oil sector. The bases for determining their knowledgeability included their affiliations with relevant governmental and/or non-governmental agencies, scholarly interest in the Nigerian economy and oil sector and previous public commentaries on fuel subsidy. The justification for choosing 20 key informants for this paper was the discovery that additional interviews would unlikely yield new information. In other words, the number tended to satisfy the criteria of adequacy and saturation. Saturation is attained when there is information redundancy; that is, further responses by informants provide negligible insights (Hennink & Kaiser, 2022).

The key informants agreed to be interviewed voluntarily and gave verbal consent, following the explanations of the purpose of the study. The key informants were acquainted with their right to discontinue the interview at any point without offering any reason for the decision. Appendix A provides basic information about the key informants. The study employed a semi-structured interview instrument to obtain responses from the key informants. The choice of semi-structured question format was to provide a latitude for elaboration, where necessary.

This study also utilised secondary data to complement the data from the key informants. The secondary data were sourced from databases and archival materials, including gazetted government

documents, statistical reports, publications by non-governmental organisations, books and journals. All the data were thematically organised and content-analysed in the tradition of critical discourse technique and logical inductive method.

FINDINGS AND DISCUSSION

The paper used a semi-structured interview protocol to elicit responses from the key informants. It combined data from key informants with those from various archival materials to address the three research questions that form the paper's thrust. The questions that constituted the semi-structured questionnaire are captured in Appendix B. Our empirical analysis identified and validated two major themes upon which the various issues in the matrix of Nigeria's weak domestic refining capacity, the opaqueness of its downstream oil sector and the agency of fuel subsidy were discussed. These themes revolve around comatose refineries as an excuse for fuel subsidy and corruption as the sustaining impetus of fuel subsidy.

Comatose Refineries as a Proxy for Fuel Subsidy

Nigeria has a long tradition of subsidising refined petroleum products and controlling their prices. Notwithstanding the efforts made by successive Nigerian governments to remove fuel subsidies at various times, it has remained a fixed policy with a serious detrimental impact on the country's economy. Nigeria is among the top 20 countries that massively subsidise domestic

fuel consumption (Soile & Mu, 2015). KI-7 contended that “though fuel subsidy is believed to cushion the hardship associated with paying more for fuel, it has adverse effects on the economy. It tends to distort the economy and entrench dependency”. In the same vein, KI-1 notes that “fuel subsidy provides an avenue for capital flight”. These views resonate with the position of the World Bank on fuel subsidies. It opposes fuel subsidies on the grounds that a substantial portion of national resources that ought to be channelled into other sectors of the economy to boost national productivity are expended to sustain fuel subsidies (World Bank, 2022). Nigeria’s former Minister of Finance, Zainab Ahmed, echoed the foregoing view when she noted that the

fuel subsidy burden had made servicing the country’s debt obligations and investing in other economic sectors quite challenging (Azeez, 2022).

The paradox of Nigeria’s enormous hydrocarbon endowments was underlined by KI-20 when she noted, “It is incomprehensible that Nigeria has four refineries and cannot refine crude oil to meet domestic demands”. Nigeria’s installed national refining capacity is 445,000 barrels per day (bpd), and there is additional capacity for private refineries to process 41,000 bpd (Organisation of the Petroleum Exporting Countries, 2023). Table 1 shows the breakdown of nameplate refining capacities of refineries in Nigeria.

Table 1
Refineries and refining capacity in Nigeria (barrels per day)

Name of Refinery	Nameplate Capacity
State-owned Refineries	
Old Port Harcourt Refinery	60,000
New Port Harcourt Refinery	150,000
Warri Refinery	125,000
Kaduna Refinery	110,000
Total state-owned refineries	445, 000
Independent Refineries	
Niger Delta Petroleum Resources (NDPR), Ogbel	11,000
Waltersmith Petroman Oil Ltd, Ibigwe	5,000
Edo Refinery and Petrochemicals, Benin	6,000
Omsa, Pillar, Astek (Opac), Kwale	7,000
Azikel Refinery, Obunagha–Gbarain, Bayelsa State	12,000
Total independent refineries	41,000
Grand Total	486,000

Source: Organisation of the Petroleum Exporting Countries (2023)

The capacity utilisation in the state-owned refineries has been on a downward trend for years despite enormous amounts spent by the government to service, upgrade and maintain them. For instance, between 1998 and 2008, the Nigerian government, through the Nigerian National Petroleum Company (NNPC), spent US\$396.33 million on turn-around maintenance (TAM) of the four refineries (“NNPC Spends \$396.33m”, 2018). These refineries have never produced up to half of their installed capacity. At best, they operated at an average capacity of between 18 and 28 per cent (Awojulgbe, 2021). There is a convergence of views among the key informants on the underperformance of the refineries: their views tended to lean towards the position that the underperformance of the refineries is a deliberate elite strategy to create loopholes for diverting national wealth. KI-4 elaborated, “The issue of suboptimal performance of the refineries is beyond a single explanation. Its cause is hydra-headed, spanning bureaucratic and political terrains. The TAM payouts are another source of elite enrichment. As long as the refineries are not working, there will always be a justification to demand more money to repair them.”

KI-11 also noted: “What we have with respect to our refineries is a vicious cycle of national rip off. Isn't the rational thing to do when you have an equipment that is not working to sell it off and replace with a more functional one? The Nigerian elites have retained the refineries as pipeline to their individual and collective pockets. Why no

government has taken the bold step to deal with refineries is quite baffling.”

KI-5 provided insight from a different perspective by arguing that: “The refineries are underperforming because of the red tape that undermines and discountenances professional advice about how to get them properly serviced and maintained. There is often a series of unnecessary interference. And as you know, the supervising engineers obey orders and could be easily sidelined if they hold contradictory opinions.”

In spite of the claims of previous repairs and rehabilitation of the refineries, the 2020 NNPC audit report indicated that three of the country's four refineries recorded cumulative losses of N1.64 trillion (US\$4.7 billion at N350/US\$1) between 2014 and 2018 (NAN, 2021). The non-performance of the refineries and the additional request for US\$1.5 billion to rehabilitate the Port Harcourt Refinery triggered agitations for a comprehensive audit of the US\$25 billion spent on the rehabilitation, repairs and maintenance of Nigeria's refineries since 1998 (NAN, 2021).

The key informants also agreed that there is a relationship between the poor performance of the refineries and the retention of the fuel subsidy regime.

KI-12 argued, “For me there is a link between the underperformance of the refineries and fuel subsidy. I see the underperformance of the refineries as an excuse, if you like, a kind of blackmail, to ensure that the stranglehold of the conniving elites is maintained. It's like head, they win, tail, they win.”

KI-17 avers that “the underperformance of the refineries has persisted because no one has ever been sanctioned. It would appear to me that this is so because there is a common incentive spread across NNPC officials, bureaucrats and politicians”. A similar view was expressed by KI-10; thus, “the incapacity of the refineries to meet domestic demands has sustained fuel subsidy. Thus, Nigeria is entrapped in the perennial web of importing refined petroleum products for domestic use”. The foregoing views

tended to align with the position of the Nigeria Labour Congress (NLC). The NLC president, Ayuba Wabba, was quoted to have said in a television interview that “those refineries are not old. Deliberately, they are made not to work just because there are a lot of incentives” for the elites in terms of supplies as well as fixing the prices of the products (Adenekan, 2022). Table 2 shows the trend of capacity utilisation in the refineries between 2016 and 2020.

Table 2
Domestic refining capacity utilisation of Nigeria’s state-owned refineries (%)

Refineries	2016	2017	2018	2019	2020
Kaduna Refinery	9.24	14.98	0.40	0.73	0.00
Port Harcourt Refinery 1 & 2	17.28	24.50	8.47	0.29	0.00
Warri Refinery	12.03	10.30	15.05	6.58	0.00

Source: Nigerian National Petroleum Corporation (2020)

The contemporary scenario in Nigeria is that an enormous amount of money is paid daily to sustain fuel subsidies. Table 3 below shows Nigeria’s average daily distribution/consumption of refined petroleum products between 2016 and 2020. At the estimated average daily consumption (ADC) of 60 million litres of fuel, the government currently spends 10.09 billion Naira (US\$24.22 million) as fuel subsidy daily (Odunewu, 2022). This daily national expenditure has thrown up the argument about removing fuel subsidies. The national consensus on the imperative of discontinuing fuel subsidies emboldened the federal government, led by President Bola Tinubu, to announce its

removal in his inaugural speech on May 29, 2023 (Adigun, 2023). The removal of fuel subsidies led to an upward spiral in the price of fuel, jumping from 185 Naira per litre to between 580 and 620 Naira per litre. Interestingly, the removal of fuel subsidies did not factor in the repair of state-owned refineries. Thus, the domestic supply of refined petroleum products is still dependent on importation, with associated vagaries in pricing. The implication is that the recent upward trend in the price of crude oil in the international oil market would erode the momentary gains from the removal of subsidies. With the price of oil at US\$92.79 in September 2023, up from US\$73.54 as of May 30, 2023, the domestic price of fuel

that the Nigerian government announced in June 2023 would be unsustainable (Akpan, 2023; Statista Research Department, 2023). The prospect of run-away fuel prices based on market forces led to speculations that the government was considering the reintroduction of temporary subsidisation to cushion attendant massive inflationary pressures and prevent an existential crisis in

the country (Okon, 2023). The uncertainty characterising fuel pricing is indicative that fuel subsidy removal has not resolved the problem. Considering the view of KI-10 that the refineries are incapable of sustaining fuel subsidies to meet domestic demands, the first principle in dealing with the fuel subsidy debacle would be to develop internal refining capacity.

Table 3

Average daily petroleum products distribution/consumption (million litres)

Product	2016	2017	2018	2019	2020
Premium Motor Spirit (Fuel)	47.56	47.64	50.16	56.39	60.00
Household Kerosene	2.51	3.94	2.55	14.13	14.13
Automotive Gas Oil (Diesel)	10.66	10.68	13.01	0.74	0.74

Source: Nigerian National Petroleum Corporation (2020)

The dominant argument for fuel subsidy removal is that it would free vital resources for development projects. With regard to the merit or otherwise of removing fuel subsidy, KI-8 contended: “Beyond the imperative of freeing resources to fund other vital sectors, subsidy removal could address the diverse forms of rent-seeking in the country. It could address the festering corruption in the downstream oil sector, especially the unwholesome financial dealings associated with fuel subsidy payments. It could also stop the perennial emergence of new fringe rent-seekers, including smuggling rings.”

There is an uncharacteristic opaqueness in administrating the downstream oil sector, making fuel subsidy a source of easy wealth. For instance, active smuggling rings exploit price differentials in refined petroleum products between Nigeria and

other West African countries (Nwafor et al., 2006; Nwozor & Oshewolo, 2020). KI-17 submitted that “the smuggling activities contribute to the contentious figures projected as the ADCs of petroleum products in the country”. The ADC estimates of refined petroleum products, as captured in Table 3, are considered doubtful as they are not built on objective and verifiable parameters. The data presented by relevant government agencies, namely the Petroleum Products Pricing Regulatory Agency (PPPRA), NNPC, and the National Bureau of Statistics (NBS), are often diametrically opposed, signposting the non-existence of reliable fuel consumption data (Udo, 2018).

The ADC estimates would not have been a problem, but for their cost implications on the Nigerian economy. For instance, Nigeria spent 6.85 trillion Naira (US\$22.31 billion

at the then N307/US\$1) between 2006 and 2018 (Amos, 2022) and 1.5 trillion Naira (US\$4.89 billion at N307/US\$1) in 2019 on fuel subsidy (Eboh, 2020). In 2022, the federal government requested for an additional N3.56 trillion Naira to the N442.72 billion Naira earlier approved for the subsidisation of petroleum products, thus bringing the total subsidy to 4 trillion Naira (about US\$ 9.64 billion at N415.13/US\$1) (Abuh & Akubo, 2022). The implication is that the amount allocated to fuel subsidies in 2022 is higher than the combined budget allocations for education, health, and social protection (World Bank, 2022).

Corruption Redux: The Sustaining Impetus of Nigeria's Fuel Subsidy Policy

The fuel subsidy in Nigeria has been transformed into a major source of patronage. The NNPC and PPPRA statutorily manage importing petroleum products into the country. Once prospective importers are registered, they receive approval to import. The petroleum products imported into the country are often confirmed by the combined staff of PPPRA, the Department of Petroleum Resources (DPR) and the Nigerian Navy at the jetties before discharge (Soile & Mu, 2015). Thereafter, the payment is processed to the trio of the Ministry of Finance, Office of the Accountant General of the Federation (OAGF) and Central Bank of Nigeria (CBN). Notwithstanding these processes, corrupt practices still pervade fuel subsidy administration.

There are many corrupt dimensions of fuel subsidy administration. One such dimension was the introduction of diverse parameters to calculate subsidy payments to importers. This policy expanded and entrenched corrupt practices. Prior to this policy, the average daily fuel consumption was 13.7 million litres. By 2013, the figure had jumped astronomically to 43.5 million litres (NNPC, 2020). The upward trend continued without any justification. Currently, the ADC of fuel is 60 million litres.

Another dimension sustaining corrupt practices was including various items in the pricing template. KI-6 noted that “the pricing regime’s components conduce to the elites’ rent-seeking behaviour as there is a profit margin across the various subheads”. KI-1 acknowledged that “import transactions associated with fuel subsidy yield very high levels of fungible returns, which constitute incentives to sustain corrupt practices”. Figure 1 below provides a concise picture of the components of the pricing template. The tax component of the pricing template is not incorporated in the final determination of the pump price of petroleum products.

KI-13 averred that “the seeming justification for the high ADC estimates is to provide legitimacy for more imports because the more the importation, the more the returns that the elites would skim off”. The foregoing view appeared to illuminate the lone voice of the former Minister of State for Petroleum Resources, Ibe Kachikwu. In 2017, Kachikwu reportedly told a House of

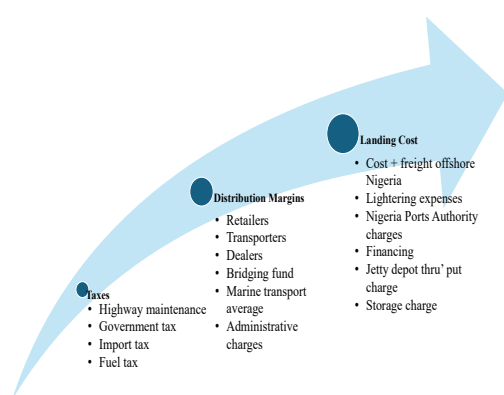


Figure 1. The pricing template of fuel subsidy by the PPPRA

Sources: Oladipo (2021); Petroleum products pricing (2012)

Representatives committee that Nigeria's ADC for fuel was in the region of 28 million litres (Udo, 2018). This figure was never reflected in any estimates of the NNPC. The ADC figure for fuel in 2017 was 47.56 million litres (Table 3).

The responses to the question about the real beneficiaries of fuel subsidy did not throw up straight-forward views due to the seeming diffusion of the benefits of fuel subsidy. However, there was a convergence of opinions that the elites tended to be major beneficiaries. KI-13 observed that "the anti-subsidy removal arguments in Nigeria locate the poor and the vulnerable groups as the ultimate beneficiaries based on the contention that the subsidy has cushioning effects on price volatility". The civil society led by the NLC has serially opposed the removal of fuel subsidy. KI-19 offered an insight thus, "I think the opposition of the NLC to the removal of fuel subsidy is driven by the desire of the civil society to spread the benefits of the country's oil economy

in the face of the corrupt tendencies that characterise the Nigerian system. The NLC believes that if the subsidy is removed, people would suffer needlessly, especially as there is hardly any concrete plan to invest the savings for the benefit of the economy. In other words, the savings could end up in the pockets of the elites. Therefore, NLC prefers the retention of fuel subsidy for the common good."

Fuel subsidy in Nigeria has tended to institutionalise quasi-monopolistic pricing regimes that serve the purposes of rent-seekers, embolden smuggling rings, disincentivise domestic refining, and create uncompetitive domestic industries that hinder rather than drive the industrialisation and competitiveness of the economy (Centre for Public Policy Alternatives, 2012; Coady et al., 2006; McCulloch et al., 2021). The experience of Nigeria with fuel subsidies is quite complex. KI-3 acknowledged that "coalitions of elites have consistently exploited fuel subsidy through high-level racketeering and diverse scam tactics". The consolidated views of KI-9 and KI-13 suggested that scams associated with fuel subsidy have nothing to do with the latter's merit or otherwise as a policy but everything to do with Nigeria's rentier system and the culpability of the elite in compromising due processes.

Every audit report on fuel subsidies raised concerns about transparency and accountability in its administration. The efflorescence of corruption in the administration of fuel subsidies is attributed to poor institutional linkages, infrastructural

weakness, governance and process lapses and the culture of impunity (Ibietan et al., 2018; Sayne et al., 2015). Consistent with a rentier mentality, the fuel subsidy administration erodes the tenets of openness, transparency and good business ethics, thus paving the way for unwholesome practices. Gillies (2009, np) explains a racketeering tactic used to launder illegitimate profits thus:

“...distributors collect the subsidy reimbursement on imported products or buy them from Nigerian refineries at the subsidised price. They then re-import the same products so as to receive the subsidy refund again or sell them for much higher prices on the black market or abroad.”

KI-20 noted that “clear evidence of the lucrateness of fuel subsidy is the constant expansion in its budgetary provisions since 2009”. In addition to the geometric leap in budgetary allocations to fuel subsidies, there was an exponential increase in importers. The number of importers rose from 5 in 2006 to 140 in 2011 (“Factbox: Nigeria’s \$6.8 Billion”, 2012). In keeping with a rentier mentality, many companies fronted as importers only existed on paper but received subsidy payments for fuel they never supplied (“Factbox: Nigeria’s \$6.8 Billion”, 2012; Sayne et al., 2015). A synthesis of the views of KI-2, KI-6, and KI-15 on the major reasons for the crowded oil importation scene identified responsible factors to include the relaxation of the guidelines for importation by the PPPRA,

the quest to benefit from the seeming “windfall” from fuel subsidy and suboptimal functionality of national refineries.

The probe of subsidy payments made between 2009 and 2011 by Nigeria’s House of Representatives in 2012 revealed entrenched inefficiency, corruption and money laundering practices that cost the country about ₦1 trillion (US\$6.4 billion) (“Factbox: Nigeria’s \$6.8 Billion”, 2012). The various strategies adopted by the NNPC in conjunction with the importers to fleece the country showed administrative complicity, manipulation and derailment of the due process policy put in place to ensure transparency; the use of wrong parameters to calculate subsidy payment entitlements to importers; and the adoption of exchange rates lower than what was obtainable at the Central Bank of Nigeria in transactions (Adeoti et al., 2016; Sayne et al., 2015). Instructively, the probe revealed massive discrepancies in the computations by PPPRA and NEITI on what quantities of petroleum products were imported and what should be paid as a subsidy (Adeoti et al., 2016). The differences contributed to what the country lost per litre of fuel imported in those years. There were also discrepancies in subsidy calculations by the PPPRA and payments made by the Office of the Accountant-General of the Federation (OAGF) for the same period. PPPRA explained that the discrepancies could be attributed to processing and timing cycle differences.

KI-14 observed that “the fuel subsidy probe exposed the sprockets in the wheel

of subterfuges that characterise and drive corruption in Nigeria's oil sector. Worryingly, successive administrations have shied away from doing the needful to sanitise the downstream oil sector". The foregoing view is corroborated by successive governments' inaction on various recommendations to reposition the downstream oil sector. For instance, the National Refineries Special Task Force (NRSTF) set up by the Federal Government in 2012 to evaluate the operations of the four state-owned refineries described them as the worst-managed refineries among the 42 existing refineries in Africa (Ministry of Petroleum Resources, n.d.). The task force recommended their privatisation within 18 months based on bureaucratic mismanagement and incongruence with national aspirations. Despite this recommendation, the refineries are still state-owned and constitute sources of grandiose waste through a series of turn-around maintenance bills running into billions of dollars. The current state of the refineries is in comatose shape as their average capacity utilisation plummeted from a dismal 1.9 per cent in 2019 to zero per cent in 2020 (Nigerian National Petroleum Corporation, 2020).

KI-17 opined that "the incontestable profitability of importing petroleum products has undoubtedly sabotaged the functionality of the four state-owned refineries and served as a disincentive to the take-off of private refineries licensed since 2004". The coalitions of elites made fuel subsidies profitable through over-invoicing, round-

tripping, and alteration of the date of fuel import to benefit from higher oil prices (Beattie, 2013). The entrenched corruption in fuel subsidy administration tends to underpin the conflicting reactions to its removal by the masses and the elite. The moral burden on the federal government is to enthrone transparency in the oil sector as a prelude to cleaning the Augean stable of the corruption-ridden fuel subsidy sector.

CONCLUSION

In this study, an attempt was made to investigate the broad issues that interconnect Nigeria's weak domestic refining capacity, the opaqueness of its downstream oil sector and the agency of fuel subsidy. In this context, the paper addressed questions bordering on the link between the poor state of Nigeria's refineries and the inherent prebendal benefits in the administration of fuel subsidy, as well as the correlation between the opacity of Nigeria's downstream oil sector and fuel subsidy, and the extent to which fuel importation to address domestic requirements represented a rational option.

The fuel subsidy issue has been contentious in Nigeria since the 1980s (Ibietan et al., 2018). The paper found that successive administrations failed to address the underlying factors that necessitated the introduction of fuel subsidies. Thus, every administration since 1999 grappled with subsidy removal: each round of such attempts only yielded a compromise that retained the subsidy. The paper also found that various palliative measures introduced to cushion the effects of the

removal had minimal impacts in alleviating the shocks induced by the removal. Elite corruption and the ineffectiveness of social protection measures reinforced public doubts and galvanised mass protests against subsidy removal. The paper also found that fuel subsidy constituted an albatross and has been a major factor in the subsisting culture of incompetence in managing state-owned refineries. It also found that fuel subsidies created a corruption complex linking political, bureaucratic and business elites in an “unholy” alliance. The corrupt system characterising the fuel subsidy administration in Nigeria tends to favour the elites. This paper, therefore, contends that the retention of fuel subsidies has a contradictory effect: it enriches the elite through the instrumentality of corruption and pauperises the masses as they lose out due to non-investment in other sectors.

Nigeria must shed its rentier state status to be able to put the issue of fuel subsidy to rest and move its economy in the direction of sustainable development. In this regard, the paper recommends that the government should:

1) Dismantle fuel subsidy and its corrupt administrative edifice and enthrone transparency and accountability in government processes to reassure the masses. It will require a combination of actions, namely,

1. the gradual removal of fuel subsidies over a specific timeline. It will enable all stakeholders to buy

into it and adjust accordingly. It will minimise the immediate impact on the masses.

2. While the gradual removal of fuel subsidies is in place, the relevant government agency should implement a comprehensive system for tracking and reporting fuel subsidy expenditures.
3. Establishing an independent body or agency and saddling it with auditing and overseeing fuel subsidy-related transactions to ensure transparency and prevent corruption and mismanagement.

The practical roadmap for implementing the foregoing will consist of:

1. Developing a phase-out plan for fuel subsidies over a defined period, ensuring minimal disruption to the welfare of the masses and the economy.
2. Creating an online portal that is transparent and allows citizens to access real-time information on fuel subsidy allocations and expenditures.
3. Robustly implementing relevant anti-graft laws ranging from mandatory publication of subsidy-related data to effecting penalties for corruption and embezzlement.
4. Engaging with relevant stakeholders to build consensus and collate input on subsidy removal plans.

2) Privatisise the four state-owned refineries as forthrightly advised by the NRSTF. It will require the government to:

1. Conduct a thorough valuation and assessment of the state-owned refineries to determine their market value.
2. Enact a clear legal and regulatory framework for the privatisation process.
3. Set up and implement an open and competitive bidding process for the sale of the refineries to ensure transparency.

The practical roadmap for actualising the foregoing will include:

1. Commissioning a team of experts to assess the condition and value of the refineries.
2. Enacting relevant legislation to govern the privatisation process, outlining the terms and conditions for potential buyers.
3. Inviting expressions of interest from qualified bidders, both domestic and international, and providing detailed information about the refineries, including allowing potential buyers to conduct due diligence on the refineries before finalising the sale.
4. Conducting a transparent bidding process, considering both financial offers and the buyer's capacity to upgrade and operate the refineries efficiently to actualise the basic intention for privatisation.

3) Create an enabling environment for private investors to operate their refineries. In this area, the government should revisit licensing modular refineries and legitimising artisanal refineries as an indigenous route to national self-sufficiency in domestic refining. Specifically, what is required to actualise this recommendation will include:

1. Expedite the licensing process for modular refineries, making clear provisions on the expected commencement date of refining operations.
2. Develop a regulatory framework that legitimises and regulates artisanal refineries to meet environmental and safety standards.
3. Provide incentives ranging from tax breaks to outright financial support to encourage private investors to establish and operate their refineries.

In the light of the foregoing, the government will need to:

1. Revise existing regulations to simplify and fast-track the licensing process for modular refineries.
2. Develop appropriate guidelines for establishing artisanal refineries, including environmental, safety, and operational standards.
3. Launch or resuscitate investment portfolios for the promotion and attraction of private investment in the refining sector and provide

financial incentives, such as grants or low-interest loans, to support private investors in building and operating refineries.

In addition, the various audit reports by NEITI should be studied to plug the loopholes in the downstream oil sector and enthrone the tenets of transparency and accountability. Specifically, the Nigerian government should develop and implement strategies to plug loopholes identified in NEITI reports, focusing on revenue collection and transparency. It should also revise policies and regulations in the downstream sector to address the specific lacunae identified in the audit reports.

ACKNOWLEDGEMENT

The authors express their gratitude to the Management of Bowen University, Iwo, Nigeria, for providing financial support for the publication of this article.

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APPENDIX A**Composition of key informants**

Key Informant ID	Gender	Age Range	Occupational/professional affiliation
KI-1	M	42	NNPC Officials
KI-2	M	51	
KI-3	M	38	
KI-4	F	41	
KI-5	M	47	
KI-6	F	45	
KI-7	M	36	Academics/Researchers with core research interest in the oil sector from Nigerian universities
KI-8	F	44	
KI-9	M	55	
KI-10	M	48	
KI-11	F	47	Non-governmental organizations (with a focus on transparency issues)
KI-12	F	46	
KI-13	M	54	
KI-14	M	52	Officials in Nigeria's federal bureaucratic institutions
KI-15	M	47	
KI-16	M	45	
KI-17	F	33	
KI-18	M	35	Public affairs analysts (regular citizens with an interest in and knowledge of fuel subsidy and corruption issues)
KI-19	M	44	
KI-20	F	38	

APPENDIX B

Lead Interview Questions

S/N	Lead Questions
1	In your view, is it justifiable for Nigeria, as a major crude oil producer, to depend on imported refined petroleum products for its domestic needs?
2	What do you make of the underperformance of Nigeria's four refineries?
3	Would you consider Nigeria's downstream oil sector's opaqueness as the fuel subsidy rationale?
4	Who do you think are the real beneficiaries of fuel subsidies?
5	What is your view on subsidy removal?
6	Is there any correlation between fuel importation and Nigeria's refining capacity underdevelopment?
7	In your opinion, does fuel importation facilitate corrupt practices?
8	If the answer to the foregoing is positive, what specific ways has the administration of fuel subsidy enabled corrupt practices?
9	Does the continued retention of fuel subsidies solve or deepen Nigeria's economic challenges?
