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PARADOX OF NIGERIA: RICH IN OIL BUT UNDERDEVELOPED COUNTRY – EXAMPLE OF NIGER DELTA
By

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Abstract: The Federal Republic of Nigeria is Africa's oil superpower. However, crude oil, representing 95% of Nigeria's exports and 65% of all government revenue, is also a serious problem for the south-eastern part of the country and its people. In the long term, it may be impossible to rescue Nigeria from the circle of third world countries, if the authorities in Abuja will not carry out the real action policy in favour of more sustainable development.

Key words: oil industry, petroleum industry, third world countries, economical problems

Introduction

High growth and immense of natural wealth of Nigeria - such as oil, natural gas, iron ore, gold and uranium, attracts foreign investors. According to forecasts by the International Monetary Fund in 2015 in Nigeria, investors will invest \$10 billion (Gil W., 2014). Global players put interest mainly in the mining industry, the telecommunications market and trade. Nigeria shares among global investors, however, is growing all the time. The consulting firm PricewaterhouseCoopers in 2014 report predicted that if only Nigeria sustains its rapid growth and developing infrastructure, natural resources and human potential in 2050 could become the 13th largest economy in the world. High GDP growth, however, did not affect the development of the labour market and has not reduced poverty in the most populous country in Africa. At 170 million over 100 million Nigerians live in poverty; this is about 6 % more than in 2004. Unemployment is also growing, which in 2011 reached 24 %. With more than half of the population employed in the agricultural sector, the fight against poverty and unemployment includes land reform, subsidizing fertilizers and higher taxes on food imports.

The main supplier of oil to the world markets are countries of the Middle East. Around 56.6% with an estimated 1,333.1 billion barrels of proven oil reserves are concentrated in this region (2009). Oil tycoon is Saudi Arabia, which has almost 1/5 of the world's oil. Less abundant are deposits in Venezuela (12.9% of world reserves) and Iran (10.3%). Amongst Eurasian countries Russia plays important role (5.6%). Oil reserves held by the richest in Western Norway is negligible, with only 0.5% of global reserves (US EIA, 2015).

Nigeria's oil resources are of approx. 37.1 billion barrels, which translates into 5 billion tons. Globally, this is just a little over 2.2% of deposits; however taking into account only the African continent, Nigeria has the second largest stocks (after Libya, with access to resources estimated at 48.5 billion barrels is in control of 3% of the world's oil reserves) (Gil, 2014). The majority of Nigerian crude oil is situated in the Niger Delta, occupying the south-eastern part of the country. With 606 oil fields located in the Niger Delta, 355 is operated on land. The rest (251) are the offshore ones, of which 23 wells were closed or abandoned due to their use or low profitability of their Egan, J., 1999).

Nigeria also has large deposits of natural gas, estimated at about 160 trillion cubic meters. Deposits of both, oil and gas, put Nigeria among 10 richest countries in the world. Due to the lack of sufficient infrastructure for development of gas fields, nearly 40% is burned as a flare and about 12% is used for oil extraction.

Regardless of the size of its resources, Nigeria ranks first in Africa in terms of oil production (ahead of even having a larger deposit Libya). According to the Statistical Review of World Energy (2014) developed by BP, in 2013 on its area of more than 600 oil fields approx. 2.3 million barrels of oil per day were extracted, which accounted for 2.7% of world production. For comparison, in the same year Libya reached a production of only 988 thousand barrels per day, or 1.1% on a global basis (it was due to an increase of instability and poor control over the country) (US EIA, 2015). The paradox is that Nigeria - sixth oil producer in the world - is not able to meet own fuel needs, and suffers from an acute shortage of electricity. Still, 80% of the demand for liquid fuels Nigeria meets with imports.

Nigerian national policy on the exploitation of oil and gas is directed to:

- increasing oil reserves and reasonable exploitation of raw materials,
- admission of the private sector (investors) through the use of incentives and facilities; opening the Nigerian authorities to foreign capital participation in the sector on a joint venture schemes,
- increasing of private investors participation in the petrochemical sector ensuring fulfilment of the internal market,
- extending the possibility of use of natural gas (Ogundele, B., 2007).

One of the key problems affecting the petroleum industry in Nigeria is underdeveloped transmission infrastructure. In this country, producing daily over 2 million barrels of oil, there are five refineries with a combined maximum power of only 445 thousand barrels per day. Four of them belong to the state-owned Nigerian National Petroleum Corporation (NNPC), which is also responsible for the management of the petrochemical industry in the country. However, this value is only theoretical, as often the actual productivity is much lower (between 18% and 65%). Despite continuously having to import into the country already processed oil, NNPC authorities inform on its website that "the Nigerian manufacturing industry is duly organized" (Gil W., 2014). Pipelines network is focused on delivering oil from extraction sites mainly to refineries and export terminals, which are managed mostly by foreign entities.

Problems and risks of Nigerian petroleum industry

The most painful consequence of poorly developed petrochemical industry seems to be the contamination of land in the area of the Niger Delta. This leads to the terrorist activities carried out among by MEND, or the Movement for the Liberation of the Niger Delta (Smentek, 2013). This movement, using methods such as kidnapping and murder of the mining sector workers, abduction of ships or destroying the infrastructure, strives to improve the situation of indigenous people living in the Delta. In addition to the MEND, approx. 120 different armed groups operate in Niger Delta (Gil W., 2014). They were established due to lack of benefits for the residents from the ownership of oil, as well as due to pollution and water contamination, preventing farming activities. Further issues include illegal refineries and pipelines vandalism. According to estimates by the government in Abuja, due to activities of "oil thieves", the state suffers losses of billion dollars monthly (Egan, J., 1999).

Another threat to Nigeria (indirectly related to the mining industry) is the problem of piracy and maritime terrorism. Despite the global decline in the practice of kidnapping and ships attack, the coast of the Gulf of Guinea saw an increase in the above phenomenon. For example, only the first three quarters of 2013 more than 40 attacks were carried out there. The intensification of piracy is possible because of the lack of international actions, targeting pirates.

Negative aspects of the activities of multinational corporations and ignoring environmental requirements have huge impact on people of the Niger Delta. Striking consequences of such negligence was oil spill, which occurred in 2008 in Bodo. According to estimates, up to 250 thousand barrels of oil might have leaked then (Ogundele, B., 2007). The court ruled the Dutch Shell is responsible for the disaster. According to lawyers, the above process was named the "greatest ever environmental court case in the world". Significant features of international companies operating in Nigeria are also data manipulations on oil spills in the Niger Delta. For example, Amnesty International revealed in November 2013 a report which accused Shell of exaggerating the

role and scale acts of sabotage carried out by Nigerians. This was part of the reason to justify environmental disasters, or to reduce the company's responsibility for creating them (Egan, J., 1999).

Trafficking in stolen oil in the Niger Delta drives the violence and corruption. Oil companies estimate that every month raw material worth one billion US dollars gets into the hands of marauding gangs. Frequent oil spills, for which blame is on both oil companies and thieves, almost completely degraded environment. The challenge for investors is also deplorable condition of roads in the country, frequent power outages and a gigantic corruption. According to Transparency International, Nigeria is the 35th most corrupt country in the world (Smentek, 2013).

Although petroleum provides revenue of \$ 24.5 billion a year, a large portion of the oil money melts in tax havens. The proof in this case may be confidential documents released by the International Association of Investigative Journalists (ICIJ), based in Washington. At the head of a long list of Nigerian politicians and businessmen who hide large sums in tax havens, stand Ahmed Gulak - special political advisor to the President of Nigeria and Edmund Daukour - former oil minister (Gil W., 2014).

Since the beginning of the sixties to the present day, the profits from oil extraction in the Niger Delta exceeded the amount of \$ 700 billion. Most of this money was pumped to the needs of customers and the political environment in Lagos and draw in hundreds of thousands of international companies (Ajakaiye, 2001). The inhabitants of the Niger Delta, living on fishing and cultivation, as opposed to the exploitation of beneficiaries, primarily observed a progressive degradation of its own territory. Today, in many areas where drilling platforms are erected, or through which pipelines run, people are struggling with breathing problems, suffer from skin diseases and other ailments typical of contaminated sites upstream oil. Contamination affects ground water, the soil and living creatures. Average life in the territories of petroleum industry operation is 40 years and is less than two generations ago, when the people of the Niger Delta have never known beneficial effects of "black gold" (Smentek, 2013).

Over the last decades, all attempts to strikes, protests, including the occupation of oil platforms by the local population, entailed bloody repression. At the beginning of January 1994, hundreds of thousands of Ogoni tribe took part in the great demonstrations, during which the government was called on to stop the destruction of the native land. In response the military government of Nigeria has sent to the province security forces, which destroyed 30 Ogoni villages. With the approval of the Nigerian government, 40 people were killed, 600 were arrested, and subsequently one hundred thousand were forced to resettle. Ijaw people, members of the largest ethnic group in the Niger Delta, also were soon pacified. Troops that were sent to suppress resistance are suspected of murdering a total of about two thousand people. In a secret document, their leader describes his plans as "psychological tactics expulsion and elimination" (Ridderhof R., 2013). Neither the government, nor the oil-producing companies in Nigeria have ever been pulled responsible for the persecution of the population. This, however, is indisputable, as that both Shell and Chevron, provide Nigerian individuals with weapons or even heavy equipment, which served afterwards to crackdown on instances of local residents (Ogundele, B., 2007).

Suggestions

In 2009 a government drafted amendments to the law regulating the functioning of the oil sector. The work has still not been completed. In the opinion of representatives of oil companies proposed changes, including additional taxation of international business companies, will inevitably reduce the investment and, consequently, can lead to a decrease in the production capacity of Nigeria in the next several years (Cesarz, Stadtmuller, 2000).

The essence of the new economy is scientific research, development and technological innovation. They become the primary source of wealth of countries, regions, companies and individuals. Knowledge and skills are also key factors of sustainable competitive advantage. In the modern world increasingly smaller part of the people remains rich and productive work, and increasing benefits from operating modern technologies. Modern technologies allow both industrial production and relationships with the services sector.

The new economy is not only associated with electronics, informatics, telecommunications, and biotechnology, but also with a stable and rapid economic growth, the increase in the standard of living of citizens, low unemployment, greater political freedom,

liberalization of the market for goods, services, capital and jobs, greater competitiveness, lower operating costs and small businesses inflation and rising thanks to modern technology – productivity (Ajakaiye, 2001).

Given the above we can say that one of the main reasons for the different socio-economic development of Nigeria is the diversity in terms of access to knowledge, and hence education, qualifications and productivity. In the existing information age, knowledge is an essential resource through which you can get the labour, capital and natural resources.

The economic development of Nigeria requires:

- 1) well-thought-out and adapted to local conditions economic policies, pursued by the efficient and uncorrupted apparatus of power,
- 2) capital resources from internal accumulation of foreign loans or even foreign direct investment in modern fields of production and infrastructure,
- 3) expansion of exports and industrial investment, especially related to the use of local natural and human resources,
- 4) limiting exports that ruin local industry,
- 5) opening markets for goods originating in Nigeria, not only for raw materials and agricultural commodities,
- 6) focusing on sustainability of the environment.

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Olu Oluoke is an enthusiast of Nigerian economics, online self publisher and politics commentator. He is involved in topics concerning the country's development and future. Recent research conducted by him is within oil industry.