The Political Economy of Premium Motor Spirit Subsidy in Nigeria 1973 – 1999

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Abstract

The issue of premium motor spirit subsidy has dominated Nigeria's political economy since her return to democratic rule in 1999. Prior to the return of democracy, the premium motor spirit subsidy regime was also been a sticking point between the military rulers and labour unions. Despite it being a long-standing issue, it has assumed a different dimension after return to democracy in 1999 in terms of the sheer scale of financial resources that the federal government has allocated to the subsidy program as the domestic refining of petroleum products dwindled. This paper intends to shed light on how this subsidy regime of premium motor spirit has evolved over the last twenty-six years before democratic rule in 1999.

Introduction

This paper is on the inter play of political and economic forces in 'fuel subsidy' in Nigeria between 1973 and 1999. Fuel subsidy or premium motor spirit subsidy is a Federal Government intervention aimed at reducing the market price of petroleum for consumers. A subsidy is any government action that lowers the cost of energy production, raises the amount received by producers, or decreases the cost paid by consumers.[1] Thus, fuel subsidies in Nigeria is the government payments that offset the difference between the market price of fuel and the price consumers pay for the product. Fuel subsidy, therefore, is a public policy mechanism employed by governments to reduce the cost of fuel for consumers.

[1] Odey, Stephen Adi. "Fuel Subsidy Policing: Evaluation, Challenges and Prospects in Nigeria." PINISI Journal of Art, Humanity & Social Studies, Vol. 3 (4), 2024, pp 264–271

This intervention is often justified as a means to promote energy affordability and support economic stability during periods of high global oil prices.[2] In Nigeria, this practice has been prevalent since the 1970s, initially introduced to alleviate the impact of rising global oil prices on domestic consumers. The government absorbs part of the cost associated with fuel production and distribution, ensuring that consumers pay a lower price than what would prevail in a free market scenario. This subsidy is particularly relevant for premium motor spirit (PMS), which is widely used for transportation and energy needs across various sectors of the Nigerian economy. Generally, subsidies can be categorized into 'Producer subsidies' and 'consumer subsidies.' Producer subsidies involve increasing the market price that producers receive for their products, while consumer subsidies occur when the price paid by consumers is kept below the market price.[3] The latter is particularly relevant in Nigeria, where the government has historically fixed the price of PMS below its actual market value to cushion consumers from rising costs.

While fuel subsidies may provide immediate relief to consumers, they also impose significant fiscal burdens on governments. According to Dauda, these subsidies can crowd out investment in essential social services such as education and healthcare, as substantial government resources are diverted to maintain low fuel prices.[4] Furthermore, they can lead to inefficiencies in the market by encouraging overconsumption and creating a reliance on subsidized prices. Fuel subsidies can create market distortions by encouraging overconsumption. The artificially low prices may lead to increased fuel usage, which not only strains government budgets but also contributes to environmental degradation through higher emissions.[5] Fuel subsidies are often justified on the grounds of promoting equity

[2] International Monetary Fund. African Dept. "The Impact of Fuel Subsidy Reemergence in Nigeria." eLibrary.imf.org, Feb. 9, 2022, pp 4–22. Accessed Oct. 28, 2024. https://www.elibrary.imf.org/view/journals/002/2022/034/article-A001-en.xml

[3] Dauda, Risikat Oladoyin. Ph.D. "Fuel Subsidy and Implications for Social Spending in Nigeria: A Research Note." EPR Journal H12022, pp. 25–36.

[4] Dauda, Risikat Oladoyin. Ph.D. "Fuel Subsidy and Implications for Social Spending In Nigeria: A Research Note." EPR Journal H12022, pp 25–36.

[5] Onyambayi, Edward T., Aliyu Abdullahi, Cynthia Unekwu Alogwuja, Yusuf T. Adejo & Audu Esther. "An Ex-Ray of Fuel Subsidy Removal and Deepening of Poverty Among Vulnerable People

and alleviating poverty. However, empirical studies have shown that these subsidies tend to disproportionately benefit wealthier households who consume more fuel compare to the poorer populace.[6] This raises questions about the effectiveness of fuel subsidies as a tool for social equity. In Nigeria, for example, while PMS is subsidized, kerosene—a vital energy source for poorer households—often remains unregulated or priced higher than subsidized petrol. This creates a regressive pricing policy that exacerbates income inequality (IMF, 2022).[7] The removal or reduction of these subsidies frequently triggers public unrest and protests, making it difficult for governments to implement necessary reforms.[8]

Before then, petrol business in Nigeria was in the hands of private enterprises. This framework favoured foreign investment while marginalizing local interests. The groundwork laid during this period set the stage for more significant government intervention and nationalization efforts that would follow since the discovery of oil in commercial quantities in 1956 at Oloibiri by Shell D'Arcy. The Nigerian petroleum industry began its journey with exploratory efforts dating back to the early 20th century. The Nigerian Bitumen Corporation initiated oil exploration in 1908, but it was not until Shell D'Arcy's successful drilling in 1956 that Nigeria's oil potential was realized. By 1958, Nigeria was producing approximately 6,000 barrels of oil per day, which steadily increased as more companies entered the sector, including Mobil and Gulf Oil (later Chevron) in the late 1950s and early

in Nigeria." International Journal of Democratic and Development Studies (IJDDS), vol. 7 (2), 2024, pp 29–42

[6] Ohonba, Nosa, PhD & Ogbeide, Sunday Oseiweh, PhD. "Premium Motor Spirit (PMS) Subsidy Removal and Implications on Businesses and Economy in Nigeria." African Development Finance Journal, vol 6 (2), 2023, pp 133–147

[7] International Monetary Fund. African Dept. "The Impact of Fuel Subsidy Reemergence in Nigeria." eLibrary.imf.org, Feb. 9, 2022, pp 4–22. Accessed Oct. 28, 2024. https://www.elibrary.imf.org/view/journals/002/2022/034/article-A001-en.xml

[8] Kamilu A. Raheem, Kamilu A. & Bashir, Najeem O. "Fuel Subsidy and Education Sector Financing in Nigeria: A Short-run Adjustment to Equilibrium Approach." Lapai Journal of Economics, vol 8 (1), 2024, pp 86–99.

1960s.[9] During this period, foreign companies dominated the Nigerian oil landscape. Shell D'Arcy (later Shell-BP) held a monopoly over oil exploration and production due to favourable colonial policies that restricted licenses to British companies. This monopoly was facilitated by the 1914 Mineral Ordinance, which mandated that only British subjects or companies could obtain leases for mineral exploration.[10] The relationship between these foreign companies and the Nigerian government was primarily transactional. The government's role was limited to collecting taxes and royalties from these companies, with little engagement in operational decision-making. This dynamic began to shift as nationalist sentiments grew in response to perceived neo colonial exploitation of Nigeria's resources.[11] The late 1960s saw early attempts at increasing local participation in the oil sector. Although indigenous companies were few, there were initiatives aimed at fostering local expertise and ownership. However, substantial barriers remained due to the technical and financial capabilities required for exploration and production activities. The government's lack of direct involvement until the enactment of the Petroleum Act in 1969 meant that local players had limited opportunities to engage meaningfully with the industry.[12]

Incursion of Government in Petrol Business in Nigeria

The issue of premium motor spirit subsidy cannot be examined in isolation, without a cursory look into how the government of Nigeria gain control of the

[9] Shell Nigera. "The History of Shell in Nigeria" shell.com. Accessed Oct. 28, 2024. https://www.shell.com.ng/about-us/shell-nigeria-history.html

[10] Isochukwu. "Brief History of Oil and Gas in Nigeria." isochukwu.com, 2021. Accessed Oct. 28, 2024. https://isochukwu.com/2018/07/09/brief-history-of-oil-and-gas-in-nigeria/

[11] Frynas, Jedrzej Georg. Oil in Nigeria: Conflict and Litigation between Oil Companies and Village Communities. Münster: Lit Verlag, 1999, p. 81. In Wikipedia contributors. "Petroleum Industry in Nigeria." Wikipedia, The Free Encyclopedia, 2024. Accessed Oct. 28, 2024. https://en.wikipedia.org/wiki/Petroleum_industry_in_Nigeria

[12] Olajumoke Akinjide-Balogun. "Legal Framework of The Nigerian Petroleum Industry." mondaq.com, April 3, 2001. Accessed Oct. 28, 2024. https://www.mondaq.com/nigeria/corporatecommercial-law/10726/legal-framework-of-the-nigerian-petroleum-industry

petroleum industry starting in 1969. There is a nexus between government control of the industry and the subsidy that has become a widespread feature. Government control of the petroleum industry commenced during the military administration of Yakubu Gowon, when in 1969, it enacted the Petroleum Degree No 51.[13] This degree enabled the government to take greater 'control over the granting of concessions, and more involvement in the refining, distributing, and pricing of crude oil. All oil was now to be controlled and owned by the Nigerian government, with licenses available only to Nigerian citizens or companies based in Nigeria.'[14] In 1970, Nigeria joined the Organisation of Petroleum Exporting Countries (OPEC), prior to that, in 1968 OPEC made it mandatory for its members 'to acquire 51 percent of their oil and participate in all aspects of the oil industry.'[15] On this basis, the Nigerian National Oil Company (NNOC) was formed in 1971 'as a holding company, not an operating company to oversee several subsidiaries.'[16] The company had a remit of amongst others to 'indigenize sectors related to oil production, such as roads, refineries, transport, and pipelines.'[17] The Nigerian National Petroleum Corporation (NNPC) took over the operations of the NNOC, and by so doing, exercised more powers in the industry through its principal operations and its subsidiaries.

Prior to 1973, the downstream sector of the Nigeria petroleum industry was deregulated.[18] With little government control. The first oil refinery in Alesa-Eleme,

[13] Genova, A. and Falola T. 2003, Oil in Nigeria: A Bibliographical Reconnaissance, *History in Africa*, Vol. 30, P. 137.

[14] Genova, A. and Falola T. 2003, Oil in Nigeria: A Bibliographical Reconnaissance, *History in Africa*, Vol. 30, P. 137.

[15] Genova, A. and Falola T. 2003, Oil in Nigeria: A Bibliographical Reconnaissance, *History in Africa*, Vol. 30, P. 140.

[16] Genova, A. 2010, Nigeria's Nationalization of British Petroleum, *The International Journal of African Historical Studies*, Vol. 43, No. 1, p. 118.

[17] Genova, A. and Falola T. 2003, Oil in Nigeria: A Bibliographical Reconnaissance, *History in Africa*, Vol. 30, P. 140.

[18] Balouga, J. 2012, The Political Economy of Oil Subsidy in Nigeria, *International Association for Energy Economics*, Second Quarter, p. 31.

Port Harcourt in Rivers state was built and operated by Shell-BP in 1965. 'The refinery was operated by the Nigerian Petroleum Refinery Corporation (NPRC), as a consortium in which Nigeria held 50 percent equity in the refinery with Shell and British Petroleum holding 25 percent each. In 1972, Nigeria increased its stake in the company to 60 percent in compliance with the Nigerian Enterprise Promotions (NEP) decree. Despite this change, British Petroleum remained the primary manager of the refinery.'[19] The increased nationalization policy of the Obasanjo military regime resulted in a complete takeover of the oil industry by the government through the Nigerian National Petroleum Corporation NNPC in 1979. The move towards complete control especially the downstream sector meant the government could 'effectively implement petroleum product price subsidies.'[20] With the government control of the oil industry, the implementation of subsidy regimes to control the price differential against the actual prevailing market rate of those products has become a part of budgetary allocation since the military era. There has been different exposition on the way the subsidy regime works it is such that 'the government pays petrol marketers for the difference between the regulated price of imported petrol and the Expected Open Market Price.'[21]

The Genesis of Premium Motor Spirit Subsidy in Nigeria

The genesis of the Nigerian premium motor spirit is traceable to the international politics that resulted from the Yom Kippur War also known as the Arab Israeli war of 1973.[22] The United States of America heavily supported Israel. In the operation now known as the Operation Nickel Grass, the United States airlifted 22,325 tons of military tanks, ammunitions, artilleries among several other military equipment

[19] Genova, A. 2010, Nigeria's Nationalization of British Petroleum, *The International Journal of African Historical Studies*, Vol. 43, No. 1, p. 118.

[20] Genova, A. 2010, Nigeria's Nationalization of British Petroleum, *The International Journal of African Historical Studies*, Vol. 43, No. 1, p. 136.

[21] Okeowo, G. and Akorede, S. 2019, *Nigeria's Petrol Subsidy Regime: Dilemma of the world's most populous black nation,* BudgIT Research, p. 6.

[22] For details of the Yom Kippur War, see

to Israel within 32 days.[23] In response to this support for Israel against, Palestine, which is an Arab state, the Organisation of Petroleum Exporting Countries (OPEC), imposed an oil embargo on the United States and other countries that supported Israel during the War. The embargo caused a steep rise in oil prices that became known as the "Oil price shock of 1973'[24] and "lasted beyond the technical end of the embargo.'[25] As a result, 'the situation of the shock led to a global rise in oil prices and if the international rates were maintained in Nigeria would have weakened the economy. This forced the government to regulate local prices for energy products'[26] leading to the commencement of premium motor spirit subsidy regime. Subsidy was reported to have 'increased to 83 percent following the 1973/74 oil price increase.'[27] This had an effect on the prices of petroleum product domestically.

The genesis of subsidy on premium motor spirit as well as its gradual removal over the cause of the years, which has seen increases in the prices of petroleum products cuts across several military governments before the return of democratic rule in 1999. Various government have over the years canvassed reasons why the subsidy should be removed, while others have opposed its removal, because of the hardship that it would place on the masses. Although, governments over the

[23] For details of the Operation Nickel Grass, see Chris Kissinger, "Operation Nickel Grass: Airlift in Support of National Policy," *Airpower Journal Spring 1989*, Vol. Ill, No. I, pp. 15-28.
[24] McCulloch, N; Moerenhout, T. and Yang, J. 2020, *Fuel Subsidy Reform and the Social Contract in Nigeria: A Micro-economic Analysis*, International Centre for Tax and Development (ICTD) Working Paper 104, Brighton, IDS.

[25] Genova, A. and Falola, T. 2003, Oil in Nigeria: A Bibliographical Reconnaissance, *History in Africa*, Vol. 30, p. 139.

[26] Oyedeji, O. 2021, "Much Ado about Subsidy: What it Means and Why Nigerians Should Care", *Dataphyte*, 4 December, 2021, https://www.dataphyte.com/latest-reports/extractive/much-ado-about-subsidy-what-it-means-and-why-nigerians-should-care/?amp_markup=1 accessed on 31 March, 2022.

[27] Ishola, K. A. 1988, Total Withdrawal of Petroleum Subsidy in Nigeria: The Need for Caution, *Management and Economic Studies*, Vol. 5, No. 1, pp. 7-14. Quoted in Nereus I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East*, Year 51, No. 1, p. 84.

last four decades have come and gone, be it military or democratically elected, the points raised as a reason for the removal of subsidy have remained basically the same. To better have a full grasp of the divide across the proponents and opponents of subsidy on premium motor spirit, it is necessary to cast an historical glance on the various positions during the different military eras. Following, the introduction of subsidy by the Yakubu Gowon administration, (1966-1975) the military administrations of Murtala Muhammed (1975-1976) and Olusegun Obasanjo (1976-1979), both followed the same policy, albeit in different guise. In the 1977, the Obasanjo regime promulgated the Price Control Degree, which formally made subsidies to be institutionised. In 1979, the Nigeria Oil industry was fully nationalized by the government through the NNPC[28] as it took over controlling stake at the British Petroleum company which formally ended the latter's participation and investments in Nigeria's Oil industry. This action further increased government control over the industry, and exposed it and the citizenry at large to further variations to prices at the international market which always had an impact on the domestic market.

According to Nereus Nwosu, 'in 1978, following oil price reviews, the subsidy was reduced to 2 per cent and at this time, the price of crude oil to the domestic refinery was increased to $13.80 per barrel. In 1980, the subsidy rose to 65.5 percent following the hike in crude oil price to $40 per barrel, unaccompanied by a review of the domestic prices. It was in 1982, that the then civilian administration under Alhaji Shehu Shagari increased the retail pump price of premium motor spirit from 15.3 kobo per litre to 20 kobo per litre. Thus, by 1985 according to the Nigerian National Petroleum Corporation calculation using 1982 consumption level, the subsidy of N4 per litre remained on premium motor spirit, kerosine on fuel oil respectively. In 1986, President Babangida announced the withdrawal of oil subsidy to the tune of 80 per cent, pushing prices up from 20 kobo per litre to 39 kobo per litre as a partial subsidy withdrawal measure.'[29] 'The levels of subsidy

[28] Genova, A. 2010, Nigeria's Nationalization of British Petroleum, *The International Journal of African Historical Studies*, Vol. 43, No. 1, p. 115.

[29] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East*, Year 51, No. 1, p. 84.

on petroleum derived products have been continually reviewed since April 1988. This, is with a view to gradually removing the remaining subsidy over time. The need for this constant review is because subsidy is like a shifting ground. Its determination is, therefore, dependent on the exchange rate of the local currency against foreign money.'[30]

The Ibrahim Babangida regime reviewed the subsidy paid on premium motor spirit five times, during his eight years at the helm of affairs. The short-lived administration of Ernest Shonekan, reviewed the price in 1993 from seventy kobo (70kobo) to five Naira (N5) per litre which was an increase of 614 percent. The hither and thither of the retention and removal of subsidy by different government continued under the Sani Abacha regime who reduced the price of premium motor spirit from five naira to 3-naira 35kobo (N3.35K) per litre when he became head of state in November, 1993. A year later in 1994, it was increased to fifteen Naira (N15) per litre. During 1994, it was reduced from fifteen naira to eleven naira (N11) per litre. The price stayed the same for four years, until the regime of Abdulsalami Abubakar upped the price to twenty-five naira per (N25) litre in 1998. It was reduced to twenty naira (N20) per litre in 1999, before the civilian administration of Olusegun Obasanjo took over the reins of power on 29 May, 1999.

Table of Price Changes of Premium Motor Spirit from 1973 to 1999

Administration	Year	Price	Percentage Increment/Drop
Yakubu Gowon	1973	6kobo-8.45k	40.8%
Murtala Muhammed	1976	8.4kobo-9k	6.5%
Olusegun Obasanjo	1978	9kobo-15.3k	70%
Shehu Shagari	1982	15.3kobo-20k	30.7%
Ibrahim Babangida	1986	20kobo-39.5k	97.5%
Ibrahim Babangida	1988	39.5kobo-42k	6.3%
Ibrahim Babangida	1989	42kobo-60k	Private cars only

[30] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East*, Year 51, No. 1, p. 85.

Ibrahim Babangida	1989	60kobo uniform price private and public	42.56%
Ibrahim Babangida	1991	60kobo-70k	16.62%
Ernest Shonekan	1993	70kobo-N5	614%
Sani Abacha	1993	N5-N3.5kobo	-35% drop
Sani Abacha	1994	N3.5k-N15	361.54%
Sani Abacha	1994	N15-N11	-26.79%
Abdulsalami Abubakar	1998	N11-N25	127.27%
Abdulsalami Abubakar	1999	N25-N20	-2%

Source: *Nwoga and Ani-Casimir (2013)*[31]

Critics of Fuel Subsidy in Nigeria 1973 1999

The plethora of actions and debate against the removal of the subsidy regime on Premium Motor first reared its head during the military administration of Ibrahim Babangida. It was during his regime that any government made it a main policy to remove the subsidy.[32] Civil society led by the Nigeria Labour Congress NLC, and National Association of Nigerian Students NANS, and the general public had argued against the removal. The NLC had argued against the removal on the basis of the suffering it would place on Nigerian workers against the backdrop of low salaries. The opponents advanced an argument at the time when Nigeria's refineries could still refine petroleum products, that, 'the problem in the oil sector according to this is not caused entirely by the domestic low pricing of oil. Rather,

[31] Nwoga, C.T. & Ani Casimir, K.C. 2013, Fuel Subsidy Removal in Nigeria: Socio-Religious and Value Implication drawn from the Theistic Humanism of Professor Dukor, *Open Journal of Philosophy*, Vol. 3, No. 1A, p. 241.

[32] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East*, Year 51, No. 1, p. 87.

the major problem here comes largely due to inefficiency and official corruption'[33] in the sector. The subsidy regime was 'a policy of the federal government meant to assist the people of Nigeria to cushion the effects of their economic hardship. Fuel subsidy seeks to enhance financial capacity but also to accept the implied financial losses by it in the spirit of its national responsibility to ensure the well-being of the populace.'[34] In the early years of the premium motor spirit subsidy, when much of the product was refined domestically in the country's refineries, the argument in favour of subsidy was on the premise that 'since Naira is not easily convertible in the international market and since the products under discussion are locally produced, and the only medium of transaction in the domestic market is the Naira, there is no basis for looking for the exchange rate of the Naira.'[35] According to Nereus Nwosu, one of Nigeria's foremost Economist, Dr Pius Okigbo opined that 'the complications of the devalued Naira not only made it difficult to determine the actual cost of subsidy on fuel over time, but also exposed the mischief in any comparison of Nigeria's situation to other countries'[36] The 'Nigeria Labour Congress and the Nigerian students argued that government should curb deficit by eliminating extra-budgetary expenditure and corruption instead of removal of subsidy.'[37]

[33] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 89.

[34] Obasi, I. V., Ezenkwa, C. E., Onwa, O. D., Nwogbaba, D. 2017, The Political Economy of Fuel Subsidy Removal in Nigeria, *African Journal of Politics and Administrative Studies,* Vol. 9, No. 1, p. 8.

[35] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 89.

[36] The Guardian» [Lagos] 20 May, 1993, p. 2. Quoted in Nereus I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 89.

[37] Nereus I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 90.

The Rationale for 'Fuel' Subsidy, 1973 1999

The Ibrahim Babangida military administration in 1986 was the first to canvass plethora of arguments against the retention of subsidy. One of the arguments raised for its removal was because of the issue of smuggling of the products to neighbouring countries on account of the low-price regime of the product in Nigeria. In his budget broadcast to the nation in 1987, on the issue of smuggling of products, he hinted that; 'if appeals, surveillance, arrest and punishment are ineffective or become too costly, this administration will not hesitate to introduce the necessary corrective measures through further price adjustment.'[38] The Nigeria National Petroleum Corporation (NNPC) was a strong opponent of the subsidy regime during the Babangida administration, it mounted several public campaigns on why subsidy should be removed. The reasons it advanced for the removal included that Nigeria had one of the cheapest prices of premium motor spirit in Africa.[39] In 'November 1992, the British Minister for Overseas Development, Lady Baroness Lynda Chalker came to Nigeria on a visit and advocated the removal of subsidies on oil.'[40] The Ibrahim Babangida administration during its time in power when this debate started and its agencies in the petroleum industry such as the NNPC and international bodies, especially the International Monetary Fund (IMF) during this period had been on the forefront of advancing economic arguments for the removal of the subsidy. The government and the NNPC points were that, '(i) the need to enhance the productive and distributive capacity of oil firms, NNPC and marketers, (ii) generate more revenue for the government, (iii) alien prices of petroleum products with other prices in the economy in line with government deregulation policy, (iv) conserve oil through rationalization in the use of petroleum products and (v) check

[38] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 87.

[39] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East, Year 51, No. 1, p. 87.

[40] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 92.

the activities of smugglers of petroleum products across the country's borders.'[41] The 'Babangida regime had argued that the financial purse of the country was lean and that the nation had been operating budget deficit for some time, hence, advancing the removal of oil subsidy as an alternative to save the national economy from total collapse.'[42] The Ibrahim Babangida regime was beholden to policy advisory of international bodies. One of such advisories resulted in the introduction of the Structural Adjustment Programme (SAP), it caused the devaluation of the naira and increased pressure on the budgetary allocation for subsidy payment. It is on this premise that The International Monetary Fund IMF also canvassed for the government under the Babangida regime to remove subsidy.[43]

Implications of the Introduction

During the Babangida Administration, a by-product of the removal of the subsidy regime was the introduction of the Structural Adjustment Programme (SAP), as it had one of the cardinal objectives the 'adoption of appropriate pricing policies (by eliminating subsidies especially from petroleum products and public enterprises)[44] The SAP resulted in a two-tier foreign exchange market in September, 1986, and it also caused a devaluation of the naira. 'As the Naira depreciates progressively over the years against the major currencies of the world, the subsidy has increased again. This had led to the upward review of prices of

[41] Ukah, O. C. 2008, An Empirical Analysis of the Impact of Gradual Withdrawal of Subsidy on Domestic Consumption of Premium Motor Spirit in Nigeria 1977-1999, *African Research Review*, Vol. 1, No. 2, p. 104.

[42] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 92.

[43] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East,* Year 51, No. 1, p. 92.

[44] Ukah, O.C. 2008, An Empirical Analysis of the Impact of Gradual Withdrawal of Subsidy on Domestic Consumption of Premium Motor Spirit in Nigeria 1977-1999, *African Research Review*, Vol. 1, No. 2, p. 99.

petroleum products or gradual withdrawal of subsidy by the government.'[45] A major point to note during this period under review was that, the country's refineries were still operating at its the required capacity, and there was almost no importation during these years. A major effect was that the Babangida administration, when its removed 80 percent of oil subsidy in 1986, it increased the minimum wage from N125 to N250 per month[46] after protest from the Nigeria Labour Congress (NLC) and civil society. Following the protest that greeted its increment of prices of petroleum products from N3.5k-N15 in 1994, the administration Sani Abacha set up the Petroleum Trust Fund (PTF) as an 'appeasement measure'[47] to serve as an intervention development agency.

The subsidy system led to artificially low fuel prices, which resulted in increased demand for petroleum products. As prices remained suppressed, the cost of transportation and goods rose when adjustments occurred. Afolabi noted that any significant increase in fuel prices often precipitated economic recessions, as seen during various subsidy removals.[48] The Nigerian economy became heavily dependent on oil revenues, which constituted about 70% of government budgetary funding by the late 1980s. This reliance made the economy vulnerable to fluctuations in global oil prices and reduced incentives for diversification into other sectors.[49] Fuel subsidies directly influenced transportation costs, which are

[45] Ukah, O. C. 2008, An Empirical Analysis of the Impact of Gradual Withdrawal of Subsidy on Domestic Consumption of Premium Motor Spirit in Nigeria 1977-1999, *African Research Review*, Vol. 1, No. 2, p. 103.

[46] Nereus, I. N. 1996, The Politics of Oil Subsidy in Nigeria, Africa: *Quarterly magazine of studies and documentation of the Italian Institute for Africa and the East*, Year 51, No. 1, p. 86.

[47] Ekpu, R. "Petroleum Trust Fraud" *The Guardian*, 5 June, 2018, https://guardian.ng/opinion/petroleum-trust-fraud/ assessed 2 April, 2022,
Mefor. L. "The Buhari PTF Days: The Untold Story", *Pointblank News*, 14 December, 2014, http://pointblanknes.com/pbn/exclusive/buhari-ptf-days-untold-story/

[48] Afolabi, A. "Effects of Fuel Subsidy on Transport Costs and Transport Rates in Nigeria." Journal of Energy Technologies and Policy, 1999.

[49] Ukah, O.C. "An Empirical Analysis of the Impact of Gradual Withdrawal of Subsidy on Domestic Consumption of Premium Motor Spirit in Nigeria (1977-1999)." African Research Review. 2014.

critical for economic activities. As fuel prices fluctuated due to subsidy changes, transportation costs rose significantly, affecting the price of goods across the country. This relationship was particularly evident during periods of subsidy removal or adjustment.[50] The subsidy regime was marred by allegations of corruption and inefficiency. Reports indicated that substantial amounts earmarked for subsidies often ended up benefiting elites and corrupt officials rather than the intended beneficiaries—ordinary citizens.[51]

The announcement or implementation of subsidy removals frequently led to widespread protests across Nigeria. For instance, the removal of subsidies in 2012 sparked nationwide demonstrations, reflecting deep-seated frustrations with government policies perceived as favouring the elite while burdening the poor.[52] The government's handling of fuel subsidies became a litmus test for its legitimacy and responsiveness to public needs. Repeated attempts to remove or adjust subsidies without adequate public communication or alternative measures often resulted in loss of trust between the government and citizens.[53] The volatility surrounding fuel prices and subsidies has contributed to political instability in Nigeria. As seen during various administrations from Obasanjo to Babangida, each faced significant backlash from labor unions and civil society when subsidy policies were perceived as detrimental to public welfare.[54]

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[50] Autogirl. "Fuel Price Evolution in Nigeria from 1973 to 2024 - Fuel Subsidies and Its Effect on Transportation." Autogirl.ng, Jan., 2023. Accessed Oct. 28, 2024. https://autogirl.ng/fuel-price-evolution-in-nigeria-from-1973-to-2024-fuel-subsidies-and-its-effect-on-transportation/

[51] Akinbobola,Yemisi. "Bid to end subsidy stirs protest in Nigeria: Unrest highlights problems of mismanagement and corruption." Africa Renewal, April 2012. Accessed Oct 28, 2024 https://www.un.org/africarenewal/magazine/april-2012/bid-end-subsidy-stirs-protest-nigeria

[52] Autogirl. "Fuel Price Evolution in Nigeria from 1973 to 2024 - Fuel Subsidies and Its Effect on Transportation." Autogirl.ng, Jan., 2023. Accessed Oct. 28, 2024. https://autogirl.ng/fuel-price-evolution-in-nigeria-from-1973-to-2024-fuel-subsidies-and-its-effect-on-transportation/

[53] Ukah, O.C. "An Empirical Analysis of the Impact of Gradual Withdrawal of Subsidy on Domestic Consumption of Premium Motor Spirit in Nigeria (1977-1999)." African Research Review, 2014.

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Conclusion

A major take away from the early years of subsidy regime in Nigeria during the military era is that, decisions were influenced by external factors rather than a prudently thought-out policy of subsidy by the government. The economic rationale behind fuel subsidies was to ensure affordability for the average Nigerian. The subsidy allowed for lower transportation costs, which in turn facilitated trade and mobility within the country. However, this policy also led to significant fiscal burdens on the government. By the late 1990s, Nigeria's expenditure on fuel subsidies had escalated dramatically, contributing to budgetary constraints and limiting funds available for essential public services such as health and education.[55] The financial implications were profound; estimates indicate that Nigeria spent approximately $30 billion on fuel subsidies between 2006 and 2018 alone. This expenditure often came at the expense of other critical areas of development, leading to a debate about the sustainability and equity of such subsidies.[56]

Politically, fuel subsidies became a contentious issue. Various administrations attempted to reform or remove these subsidies but faced significant public backlash. For instance, Ibrahim Babangida's partial removal of subsidies in 1986 led to widespread protests, highlighting the deep-seated reliance on subsidized fuel among Nigerians.[57] The political landscape was further complicated by allegations of corruption and mismanagement within the subsidy regime, which undermined public trust in government initiatives. The opposition to subsidy removal was often framed within a broader narrative of economic injustice. Many

[55] Autogirl. "Fuel Price Evolution in Nigeria from 1973 to 2024 - Fuel Subsidies and Its Effect on Transportation." Autogirl.ng, Jan., 2023. Accessed Oct. 28, 2024. https://autogirl.ng/fuel-price-evolution-in-nigeria-from-1973-to-2024-fuel-subsidies-and-its-effect-on-transportation/

[56] Zinami, Iwariso Fyneroad. "Fuel Subsidy Removal and Its Implications on The Economic Rights of Nigerians." NAUJILJ, Vol. 15(2), 2024, pp 224–234.

[57] Ismail Soile, Xiaoyi Mu. "Who Benefits most from fuel subsidies? Evidence from Nigeria," Energy Policy, Volume 87, 2015, Pages 314-324 and Ebunoluwa Okeridan. History of Fuel prices and subsidies in Nigeria." Youth4Nigeria, LinkedIn, Feb. 21, 2022. Accessed Oct. 28, 2024. https://www.linkedin.com/pulse/history-fuel-price-subsidies-nigeria-youth4nigeria

Nigerians viewed the subsidy as a necessary support mechanism amid rising living costs and economic hardship. Consequently, any attempts at reform were perceived as attacks on the welfare of ordinary citizens.[58] While intended to alleviate poverty and promote economic stability, the inefficiencies associated with subsidy management often exacerbated inequalities. Wealthier individuals disproportionately benefited from fuel subsidies due to higher consumption levels, while poorer citizens faced increased hardships when prices were adjusted or subsidies removed.[59] Moreover, the reliance on imported refined petroleum products meant that fluctuations in global oil prices had immediate repercussions on domestic fuel prices. This volatility contributed to inflationary pressures across various sectors of the economy, particularly transportation and food prices.[60]

The period from 1973 to 1999 covers a critical era in Nigeria's socio-economic landscape shaped by fuel subsidies. The arguments for and against the introduction of premium motor oil subsidy in Nigeria began during the military administration of Ibrahim Babangida. The arguments were both political and economic in nature with both parties having cogent reasons to support their arguments. While intended as a mechanism for protecting citizens from volatile global oil markets, these subsidies ultimately fostered dependency on oil revenues, inflationary pressures, and significant political unrest. The interplay between economic policies and public sentiment underscores the challenges faced by successive governments in managing Nigeria's rich oil resources while ensuring fair benefits for her citizens.

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