The Political Economy of Premium Motor Spirit Subsidy in Nigeria 2023 till Date

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Abstract

The removal of Premium Motor Spirit (PMS) subsidies in Nigeria under President Bola Ahmed Tinubu's administration marks a turning point in the country's energy policy and economic landscape. Announced in May 2023, this decision brought an end to decades of fuel price stabilization efforts that had heavily burdened the national economy. The immediate impact included a sharp rise in fuel prices from N197 to over N1,000 per litre by October 2024, contributing to inflationary pressures and significant public discontent. While proponents of subsidy removal argue that it is necessary for fiscal sustainability and economic reform, critics emphasize its disproportionate effect on low-income households, who face escalating living costs and reduced disposable income. Despite these challenges, the government has introduced initiatives, such as promoting Compressed Natural Gas (CNG) as an alternative energy source, to mitigate the adverse effects of subsidy removal. This policy shift has far-reaching implications, with the potential to transform Nigeria's energy landscape, reduce dependency on imports, and stabilize the naira in the long term.

Introduction

President Tinubu's announcement sparked the increase in fuel price from N197 to between N480 and N570, which immediately triggered a rise in transportation fares and prices of goods and services in the country. In July 2023, the petrol pump price was subsequently reviewed upward to N617/litre at various outlets of the Nigerian National Petroleum Company Limited (NNPC Ltd). In recent months, there have been speculations that the government had partly reintroduced petrol subsidy, unannounced, to keep the pump price at N617 given the continued fall in the value of naira against the dollar and the price of crude oil in the international

market. But the government had repeatedly denied it. On 6 October 2023, the National President of the Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN), Festus Osifo, insisted that the Nigerian government had restored the subsidy on petrol despite the official government policy of ending the subsidy regime. Mr Osifo said due to the cost of crude oil in the international market and the exchange rate, the government still pays subsidies on petrol. "The government has to come clean. In reality, today, there is a subsidy because, as of when the earlier price was determined, the price of crude in the international market was around less than $80 a barrel. But today, it has moved to about $93/94 per barrel for Brent crude. So, because it has moved, the price (of petrol) also needed to move," Mr Osifo said.[1]

In its reaction at the time, NNPC Limited said the Nigerian government has not resumed payment of subsidy on petrol. "No subsidy whatsoever. We are recovering our full cost from the products that we import. We sell to the market, and we understand why the marketers are unable to import," Mr Kyari told State House correspondents after a meeting with the president at the Presidential Villa, Abuja. "We hope that they do it very quickly, and these are some of the interventions the government is doing. There is no subsidy." Again, in April, a former governor of Kaduna State, Nasir El-Rufai, said whether the government admits it or not, the landing cost of petrol shows that there is a form of subsidy being paid. Nigeria's Minister of Budget and Economic Planning, Atiku Bagudu, in a recent interview with Premium Times, maintained that Mr Tinubu's administration has scrapped subsidies on petrol. When asked to be categorical aout whether the government still pays subsidy on petrol, Mr Bagudu said "No" and explained that there was no provision for such. He referred to the Petroleum Industry Act, which gave autonomy to the NNPC Ltd, as well as the policy decision of the Tinubu administration not to pay subsidy on petrol. There is a "public policy decision, rightly, commendably and boldly, that we can't as a nation afford fuel subsidy," Mr Bagudu said. "The policy has been affected and is still

[1] Mary Izuaka. "Despite Tinubu's pronouncement, Nigerian govt spent N3.6 trillion on subsidy in 2023." premiumtimesng.com, June 6, 2024. Accessed 18 November, 2024. https://www.premiumtimesng.com/news/headlines/701270-despite-tinubus-pronouncement-nigerian-govt-spent-n3-6-trillion-on-subsidy-in-2023.html

being affected. But sometimes people are confusing the two elements. Many people are confusing price movements and policy decisions. Our policy on fuel subsidy stands. But we don't control the daily movement of prices," he said. Meanwhile, while Mr Bagudu insisted the Nigerian government is not paying subsidies on petrol, the International Monetary Fund (IMF), in a report published last month, said that the Nigerian government reintroduced petrol subsidy at the end of last year. The IMF said subsidy payment is expected to gulp almost half of Nigeria's projected oil revenue this year. The implicit subsidy will cost Africa's largest crude producer an estimated N8.43 trillion of its projected N17.7 trillion of oil revenue, the IMF said in the report.[2]

The National Bureau of Statistics says 20.30 billion litres of Premium Motor Spirit, also known as petrol, was imported in 2023. The NBS stated this in its Petroleum Products Distribution Statistics for 2023 released in Abuja on Tuesday. The report said the figure of 20.30 billion litres of PMS reported in 2023 amounted to a decrease of 13.77 per cent compared to the 23.54 billion litres recorded in 2022. For Automotive Gas Oil also known as diesel, the report said that 4.94bn litres were imported in 2023. "This indicated a 23. 66 per cent increase compared to the 4.00 billion litres recorded in 2022." The NBS also noted that PMS truck out stood at 20.22 billion litres in 2023, indicating a 16.96 per cent decrease when compared to 24.35 billion litres recorded in 2022. It said 69.71 million litres of Household Kerosene were locally produced in 2023 compared to 44.68 million litres in 2022. "The figure indicates a growth rate of 56.02 per cent over the period." For diesel, the report showed that 109.39m litres were locally produced in 2023, indicating an increase of 6.76 per cent compared to the 102.47m litres recorded in 2022.[3]

[2] Mary Izuaka. "Despite Tinubu's pronouncement, Nigerian govt spent N3.6 trillion on subsidy in 2023." premiumtimesng.com, June 6, 2024. Accessed 18 November, 2024. https://www.premiumtimesng.com/news/headlines/701270-despite-tinubus-pronouncement-nigerian-govt-spent-n3-6-trillion-on-subsidy-in-2023.html

[3] The Editor. "Nigeria imported 20.30bn litres of petrol in 2023 – NBS." Punchng.com, 1st October 2024. Accessed 18 November, 2024. https://punchng.com/nigeria-imported-20-30bn-litres-of-petrol-in-2023-nbs/

The recent trend in government fuel subsidy bills and commitments have become escalated so much that it is outstripping the government's earnings from crude oil sales. As of H1-2023, the landing cost of fuel in Nigeria ranges between N500 – N600 and sells at an average of N200 nationwide. The government is, therefore, responsible for the N300 – N400 excess. In 2022 an estimated N2.74 trillion was paid as fuel subsidy, while just over N600 billion was made in oil revenue. Meanwhile, in the 2023 budget, N3.36 trillion was provided for fuel subsidy up to June 2023, while N2.23 trillion was projected for oil revenue for the year. The situation has degenerated, and the government borrows to pay for subsidy, making it unsustainable for the country.[4] Given the importance of fuel in the daily lives of Nigerians, fuel subsidy makes the product affordable and accessible, as well as sustains the welfare of the people in the face of higher crude oil prices. Due to the volatile nature of crude oil prices, which are the primary raw material in the production of petrol, fuel subsidy keeps the fuel price stable and lower for end users. Fuel constitutes a major input for many businesses in Nigeria due to inadequate power supply and deficiency in transportation and logistics. Therefore, fuel subsidy sustains many businesses across sectors. Stimulate economic growth: With improved access and affordability, fuel subsidy can help stimulate economic activities and growth.[5]

Fuel subsidy payment diverts part of the resource for developmental purposes towards consumption. Hence, the resources that should have gone into infrastructure, education, health, and security with positive externalities are going into consumption. The ever-growing fuel subsidy bills continue to hit deep into government resources. With revenue shortage, fuel subsidy payment means the government will need to borrow to invest in order aspects of governance. By nature, subsidy deviates the prices from market clearing prices. Coupled with the opaqueness in the process, the activities in the market are often disrupted as

[4] The Nigerian Economic Summit Group. "Cost and Benefits of Fuel Subsidy in Nigeria." newsgroup.org, 6 June, 2023. Accessed 18 November, 2024. https://nesgroup.org/blog/Cost-and-Benefits-of-Fuel-Subsidy-in-Nigeria

[5] The Nigerian Economic Summit Group. "Cost and Benefits of Fuel Subsidy in Nigeria." newsgroup.org, 6 June, 2023. Accessed 18 November, 2024. https://nesgroup.org/blog/Cost-and-Benefits-of-Fuel-Subsidy-in-Nigeria

players wait on the government for clearance. The product is often unavailable, and people often buy at higher prices than the market price. Fuel subsidy also discourages investors in the sector as they cannot guarantee their operations efficiency, profitability, and competitiveness due to market distortions. The lower-than-market clearing price causes scarcity. It discourages producers and suppliers from entering the market and is often associated with excess consumption. Besides, the fact that neighbouring economies operate at market-clearing prices encourages the smuggling of subsidized products out of the country. Therefore, fuel subsidy causes scarcity of fuel in the market. Nigeria is a major oil-producing country but depends on imports for fuel. With fuel subsidy in place, the government is ploughing back its earnings regarding foreign exchange and revenue to fuel imports. Therefore, foreign exchange earnings and government revenue is ripped off on the spot with little to commit to public finance. Because of the opacity and weakness in oversight of the process, fuel subsidy payment has allowed unethical and corrupt practices such as the inflation of landing costs and padding fuel import bills. While the many downsides of the current fuel subsidy regime are apparent, the benefits cannot be undermined. Fuel forms the primary energy source for most MSMEs and households, as electricity from national greed is barely available. Also, fuel is a major input in most MSMEs and households' transport and logistic framework. Therefore, the government must reduce their fuel dependence to alleviate the adverse impact of potential fuel subsidy removal.[6]

Bola Ahmed Tinubu Administration and the PMS Subsidy

The Tinubu-led government announced the full deregulation of the downstream oil sector on inauguration on May 29, 2023, in the country and full removal of subsidy on petroleum products.[7] Removing the long-standing fuel subsidy by the Federal Government has triggered profound changes in Nigeria's oil sector, marking the start of a new economic reality. The subsidy, which for years kept

[6] The Nigerian Economic Summit Group. "Cost and Benefits of Fuel Subsidy in Nigeria." newsgroup.org, 6 June, 2023. Accessed 18 November, 2024. https://nesgroup.org/blog/Cost-and-Benefits-of-Fuel-Subsidy-in-Nigeria

[7] Anyadike,N.O. "Assessing the implication of full-scale deregulation of the downstream oil sector on the Nigerian economy: The Neoliberalism approach." Global Journal of Political Science and Administration. Issue 1, 2013, pp 23-48.

petrol prices artificially low at great cost to the nation's economy, was finally eliminated under President Bola Tinubu in his inaugural speech, the President declared, "Subsidy is gone." This announcement was swiftly followed by a surge in petrol prices nationwide. By the evening of May 29, 2023, prices had risen to N500, up from around N198, or slightly more in some areas. As the government moves away from subsidising fuel and allowing market forces to dictate prices, the implications are both broad and deep. The policy and the floating of the naira sharply led to a rise in the cost of commodities in Nigeria, pushing essential items beyond the reach of millions of people across Africa's most populous nation. By September, the high petrol price had pushed inflation to 32.7 per cent. Even despite the high cost of the product, availability has been an issue, with queues snaking into major roads and streets, thereby becoming a regular feature across filling stations in Nigeria.[8]

Aligbe and Momoh noted that while the poor will suffer more in the form of higher transport fares, high cost of living, high cost of running business, increase in lack/need, and income versus expenses, subsidy removal is in the overall interest of the whole economy as funds will be channelled to improving infrastructural amenities, especially in the healthcare, education and transport sectors. Fuel subsidy is targeted at the poor in the society, unfortunately, the poor do not have cars to fuel neither do they have generators to power, they only benefit from fuel subsidy indirectly while the benefits of fuel subsidy go directly to the rich.[9] An increase in the pump price of fuel in the country will also cause an increase in the cost of production as the Nigerian production and manufacturing sector is driven by fuel, either for production or for distribution.[10]

[8] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[9] Bendrix Abdullah Aligbe & Mariam Millie Momoh. "Fuel Subsidy Removal and the Political Sagacity of the Tinubu Administration: Implications and Coping Mechanisms." Kashere Journal of Politics and International Relations, Vol. 1, Issue 2, December 2023, pp 51 to 56

[10] Eme 2011 cited in Majekodunmi, A."The political Management and Social Science economy of fuel subsidy removal in Nigeria."International Journal of Research, Issue 2, 2013, pp 76-81 & Anyadike,N.O. "Assessing the implication of full-scale deregulation of the downstream oil sector

They further noted that Fuel subsidy removal will be beneficial to Nigerians as it will stimulate economic development. The huge fund which is hitherto used to pay for subsidy will become available to the government for the development of the much-needed infrastructure in the country, especially in the healthcare, education, and transport sectors. Deregulation of the downstream oil sector will attract private sector investments, more especially foreign direct investments, to the sector. Availability of foreign exchange with the Central Bank of Nigeria will be another result of fuel subsidy removal. A steady flow of foreign exchange to the Central Bank will lead to a single foreign exchange rate regime in the country, thereby stabilizing the foreign exchange market and eliminating the black market.[11]

They recommended transparent honesty on the part of the government in expending the funds saved from fuel subsidy removal, and the government should give more attention to refining our petroleum here in Nigeria by fixing her refineries. Also noted was that the Tinubu administration through [the] humanitarian ministry has embarked on verification of [a] social register so as to provide basic amenities to the vulnerable citizens. In spite of the negative effects of fuel subsidy removal on the poor in Nigeria, the overall benefit to the economy of fuel subsidy removal outweighs its effect on the poor. Therefore, fuel subsidy removal should be sustained in Nigeria to free funds for the government to develop infrastructure."[12]

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on the Nigerian economy: The Neoliberalism approach." Global Journal of Political Science and Administration. Issue 1, 2013, pp 23-48.

[11] Onwuamaeze, D. & Ekeghe, N. Sanusi lists benefits of petroleum subsidy removal, canvases structural reforms." This Day. September 5, 2020 in Bendrix Abdullah Aligbe & Mariam Millie Momoh. "Fuel Subsidy Removal and the Political Sagacity of the Tinubu Administration: Implications and Coping Mechanisms." Kashere Journal of Politics and International Relations, Vol. 1, Issue 2, December 2023, pp 51 to 56

[12] Bendrix Abdullah Aligbe & Mariam Millie Momoh. "Fuel Subsidy Removal and the Political Sagacity of the Tinubu Administration: Implications and Coping Mechanisms." Kashere Journal of Politics and International Relations, Vol. 1, Issue 2, December 2023, pp 51 to 56

Justifying his "off-the-record" remarks, the President explained that by the time he assumed office, there was no provision for the subsidy, as the previous administration of President Muhammadu Buhari had not allocated funds for subsidy payments in the 2023 budget. As petrol prices soared, the government introduced an intervention which was becoming bogus due to the high exchange rate. Reports of indebtedness by the Nigerian National Petroleum Company Limited later surfaced. Unfortunately, the company, which had previously declared significant profits, could no longer meet its obligations. The immediate effects of full deregulation have been far-reaching, but so too are the long-term implications. The pump price of petrol has further increased by over 100 per cent, as petrol now sells for between N998 and N1,100 and even N1,200 at some fuel stations. At the moment, Nigerians are grappling with the shift while awaiting the expected benefits of deregulation, with the foreign exchange starring them in the face.[13]

Table of Price Changes of Premium Motor Spirit Under the Bola Ahmed Tinubu Administration

Administration	Year	Price	Percentage of Increment/Drop
Bola Ahmed Tinubu	May, 2023	N195-N448 and N557	185.64% increment
Bola Ahmed Tinubu	June, 2023	N557-N617+	10.77% increment
Bola Ahmed Tinubu	September, 2024	N617-N855 and N897	45.38% increment
Bola Ahmed Tinubu	October, 2024	N897-N1,030	15%

SOURCE: tribuneonlineng.com[14]

[13] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[14] Adam Mosadioluwa. "Four Times Petrol Price has Increased Under Tinubu Govt." tribuneonlineng.com, 16 October, 2024. Accessed 21 November, 2024. https://tribuneonlineng.com/four-times-petrol-price-has-increased-under-tinubus-govt/

Arguments for & against the "Sudden Death" PMS Subsidy Removal: Political and Economic Argument for the Introduction

The National Secretary of the IPMAN, James Tor, said petrol prices may drop after the Federal Government allowed marketers to buy directly from Dangote Refinery and import from other sources. Tor, in an interview while speaking on the recent deregulation effort by the Federal Government to allow marketers to directly negotiate petrol prices from Dangote Refinery. He said this move would end the NNPC monopoly as the sole purchaser of petrol products in the country. The end of subsidies also means that Nigerians now pay the true market value of fuel, including the costs associated with refining, logistics, and distribution. For decades, the government subsidised these costs but has now announced that it is unsustainable. Removing subsidies allows the sector to function independently, with prices reflecting the true cost of production. This ensures long-term sustainability after years of inefficiencies and corruption that plagued the subsidy system. To many Nigerians, it was a painful adjustment.[15]

International organizations like the International Monetary Fund (IMF) and World Bank argue that fuel subsidies represent a substantial financial burden on governments. The IMF has recommended that Nigeria phase out fuel subsidies entirely, emphasizing that these expenditures do not effectively reach the most vulnerable populations and often exacerbate fiscal deficits. For instance, the IMF noted that Nigeria's government had spent approximately N204.59 billion on electricity subsidies in Q3 2023 alone, with plans for further expenditures in 2024.[16] The removal of subsidies is seen as a means to create a more favourable environment for private sector investment. By eliminating price distortions caused by subsidies, resources can be redirected to critical sectors such as education, healthcare, and infrastructure. This shift could enhance overall economic growth and improve living standards. Fuel subsidies however, create incentives for

[15] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[16] Desmond Okon. "IMF to FG: Phase out fuel, electricity subsidies completely — they're costly," TheCable, 12 February, 2024. Accessed 19 November, 2024. https://www.thecable.ng/imf-to-fg-phase-out-fuel-electricity-subsidies-completely-theyre-costly/

smuggling, as subsidized fuel is often sold at higher prices in neighbouring countries. Removing these subsidies could reduce smuggling activities and associated security risks, thereby improving national security.[17] Advocates for subsidy removal argue that it could lead to lower carbon emissions by discouraging fossil fuel consumption. Studies suggest that reducing fossil fuel subsidies can contribute to climate change mitigation efforts by decreasing overall demand for oil.[18] The push for subsidy reform aligns with international commitments to sustainable development and climate action, as outlined in the UN's Sustainable Development Goals (SDGs). Goal 12.c specifically calls for rationalizing inefficient fossil-fuel subsidies.[19]

The IMF have estimated that Nigeria's PMS subsidies amounted to NGN 1.894 trillion in 2021, or about 38% of Oil Revenues of NGN 4.98 trillion. The costs rise to NGN 4.611 trillion (or 61.4% of NGN 7.512 trillion of Oil Revenues) in 2022, and NGN 3.135 trillion (or 33% of NGN 9.411 trillion of Oil Revenues) in 2023. As Nigeria produces less oil, it pays more for subsidies it can least afford at the expense of everything required to make Nigeria more habitable. Nigeria simply cannot afford the expensive PMS subsidies because they continue to drive Nigeria to spend very little on everything else that it important. The subsidies are draining the government's finances and preventing investments in critical areas such as education, health, and infrastructure. Nigeria's public expenditure overall is already low compared to global averages, and the subsidies only exacerbate this problem.[20]

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[17] PwC Nigeria, "Fuel subsidy in Nigeria - issues, challenges and the way forward," May 2023. Accessed 17 November, 2024. www.pwc.com/ng,.

[18] Couharde, C., & Mouhoud, S. "Fossil fuel subsidies, income inequality, and poverty: Evidence from developing countries." Journal of Economic Surveys, 34(5), 2020, pp 981-1006. In Ozili, Peterson K and Obiora, Kingsley. "Implicationsof fuel subsidy removal on the Nigerian economy." Munich Personal RePEc Archive, 2023. Accessed Nov. 19th, 2024. https://mpra.ub.uni-muenchen.de/118798/

[19] Jun Rentschler, Morgan Bazilian. "Reforming Fossil Fuel Subsidies: Drivers, Barriers and the State of Progress." Taylor & Francis Group. Vol. 17 (7), 2016, pp 891–914.

[20] IMF Executive Board Concludes 2022 Article IV Consultation with Nigeria; Press Release & Staff Report for the 2022 Article IV Consultation, dated 8th February 2023, accessed from

The World Bank and IMF recently noted statistics, show that the average global public expenditure to GDP is about 30% of GDP. At 13.1% of GDP in 2021, Nigeria's government expenditure ranks quite low globally. Also, Nigeria spent an average of USD 23 on every Nigerian on Education, compared to USD 32 dollars in Mali, USD 88 dollars in Ghana and USD 350 in South Africa. Nigeria's average per capita Education spend is about half the per capita Sub-Saharan African average. Nigeria simply cannot keep the subsidies and at the same time reduce its 14 million children of school attending ages that are out of school, particularly when 1 out of every 5 of the world's out-of-school children are in Nigeria. Nigeria spends even less on health (USD 15) than it does on Health. This gross underspend has profound implications on not only productivity, and human capital development but also on life expectancy; and as a result of the crowding out effect of subsidies, public investment spending on infrastructure in Nigeria is a low 1.7% of GDP, compared to 2.3%, 3.2% and 6% of GDP in Ghana, Egypt and Kenya. Little wonder that access to electricity in Nigeria is 55.4%, lower than 85.9% in Ghana, and 100% in Egypt. With the PMS fuel subsidies, Nigeria simply will not have motorable roads, and the Federal and State Governments will ill afford investments in the electricity grid that continues to face mounting generation and distribution challenges.

For years, the government spent billions of dollars annually subsidising fuel prices, draining resources that could have been invested in infrastructure, healthcare, and education. With the subsidy regime, fuel smuggling across borders became rampaging, as subsidised fuel was smuggled to neighbouring countries where prices were higher, thus creating a lucrative black market. The Group Chief Executive Officer of the NNPCL, Mele Kyari, in an interview with Channels TV, said subsidy created a price disparity between Nigeria and neighbouring countries, making smuggling highly profitable. He said before subsidy removal, the price difference was substantial, incentivising smugglers to transport fuel across borders. "The removal of the subsidy has effectively calibrated fuel prices, eliminating the profitability of smuggling. Fuel subsidies removal has been a game-changer in the fight against cross-border smuggling. For decades, the

https://www.imf.org/en/Publications/CR/Issues/2023/02/16/Nigeria-2022-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-529842 on 31st May 2023.

subsidy created a lucrative opportunity for smugglers to profit from the price difference between Nigeria and neighbouring countries. This is a positive development for Nigeria's energy sector, as it can help to ensure that consumers are paying fair prices for fuel," he said.[21]

The tragic reality is that Nigeria continues to spend more on PMS fuel subsidies at the expense of social protection, and infrastructure delivery. While other countries that started out with Nigeria are moving ahead, Nigeria is lagging, primarily because of subsidies. Nigeria must also eliminate its subsidies to enhance its debt management. Due to the increasing debt burden, Nigeria's revenue receipts are being crowded out by its debt service obligations. In 2016, Nigeria's debt service as a percentage of revenue was 96.8%. While this number decreased to 70.4% in 2019, it increased to a projected 102% in 2022. At this rate, Nigeria's debt service obligations will increase to as high as 160% of revenue by 2027. These and other considerations seem to have influenced the Government to adopt the "sudden death" approach to removing PMS subsidy without delay to address the country's insufficient revenues, growing fiscal deficits, and crowding out effect on public investment spending.[22]

Political and Economic Argument against the Introduction

Critics argue that removing fuel subsidies disproportionately affects low-income households by increasing transportation costs and the prices of essential goods. Following the subsidy removal on May 29, 2023, many Nigerians experienced a decline in disposable income due to rising inflation.[23] The Nigeria Labour Congress has criticised the International Monetary Fund for its denial of responsibility regarding the Nigerian government's recent removal of subsidy on

[21] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[22] 22. World Bank / IMF estimates, from 'Nigeria in Transition… at a Critical Juncture and with a Choice to Make', Paper (April 2023).

[23] Desmond Okon. "IMF to FG: Phase out fuel, electricity subsidies completely — they're costly," TheCable, 12 February, 2024. Accessed 19 November, 2024. https://www.thecable.ng/imf-to-fg-phase-out-fuel-electricity-subsidies-completely-theyre-costly/

petrol. The congress describes the denial as cynical and emblematic of the IMF and World Bank's longstanding pattern of imposing harsh economic policies on developing nations. In a statement by the NLC National President, Joe Ajaaero, he criticised the IMF for presenting its harmful recommendations as growth strategies, which have led to increased socioeconomic hardship and stagnation in Nigeria and other nations that have followed their misguided advice. During a press conference at the IMF and World Bank Annual Meetings in Washington, DC, Abebe Selassie, the IMF's African Region Director, characterized the Nigerian government's decision to remove the fuel subsidy as a domestic issue. "The IMF's recent statement shows evasion, claiming Nigeria's subsidy removal was a 'domestic decision,' while ignoring its significant influence on policy-making in developing countries. Despite this denial, the IMF often advocates for subsidy cuts as necessary for fiscal sustainability, making its disavowal seem hollow in a country that has frequently complied with such recommendations," the statement said.

According to NLC, it is increasingly alarmed by the IMF's denial, which reflects the troubling policies imposed on Nigeria by the IMF and World Bank. "The IMF seems to be distancing itself from the future backlash of these policies, but Nigerians are not naive; we recognize the destructive effects of its harmful strategies on Nigeria and Africa," the union stated. It added, "It is disingenuous for the IMF to deny complicity, especially since we have warned the government about the consequences of adopting these policies." Meanwhile, NLC mentioned that the IMF and World Bank's denial of the social costs of their policies raises further concerns. Although the IMF recognises the "significant social costs," it simply suggests that governments mitigate these hardships through expanded social protections—an approach that often leaves people dependent on ineffective handouts, like the RICE initiative, the union stated. In Nigeria, subsidy removal and rising prices have made essential goods unaffordable, while government social safety nets remain inadequate. NLC asserted that the disconnect between IMF recommendations and the reality in Nigeria highlights a major oversight in the fund's economic policy. By distancing itself from Nigeria's subsidy removal, the IMF shows inconsistency in its guidance, urging austerity while avoiding responsibility for the ensuing hardships. Furthermore, NLC stressed that this undermines its credibility and raises doubts about the sincerity of its economic

prescriptions, especially as its claim of Nigeria's control over its policies contradicts its historical influence, often leading to turmoil and hardship. Also, NLC emphasised the need for Nigeria and other developing countries to reclaim their economic sovereignty, resisting externally imposed policies that fail to consider local contexts and the needs of the masses.[24]

"The IMF's denial of involvement in Nigeria's subsidy removal seems insincere, given its history of recommending similar austerity measures. We hope our economic leaders recognize that when crises occur, the IMF and World Bank will distance themselves, leaving the government to bear the burden," it stated. It added that Nigeria must implement policies that address the genuine needs of its citizens by prioritizing economic strategies that promote growth, social welfare, and equity, rather than austerity measures that result in deeper economic difficulties and social unrest. "We urge the World Bank and IMF to stop stifling our nation so we can breathe freely. They have become a significant challenge for us, and we may soon be compelled to demand their complete withdrawal from Nigeria, as their policies consistently undermine our economy and sabotage both the people and the nation," NLC stated. NLC urged the IMF not to present itself cowardly but should stand up and own up! That is what is called honesty and transparency which is the bedrock of IMF's much-vaunted institutional integrity.[25] There is a concern that subsidy removal could exacerbate existing inequalities within Nigerian society. While intended to promote fiscal responsibility, the negative impacts on poorer households may outweigh potential economic benefits if not managed carefully. The political landscape in Nigeria complicates the subsidy removal process. Many politicians may resist such reforms due to fear of backlash from constituents who are adversely affected by rising costs.

[24] Henry Falaiye, "NLC slams IMF for fuel subsidy removal denial." PunchNewspaper, 28th October, 2024. Accessed 19 November, 2024. https://punchng.com/nlc-slams-imf-for-fuel-subsidy-removal-denial/

[25] Henry Falaiye, "NLC slams IMF for fuel subsidy removal denial." PunchNewspaper, 28th October, 2024. Accessed 19 November, 2024. https://punchng.com/nlc-slams-imf-for-fuel-subsidy-removal-denial/

The argument is often made that the subsidies should remain because they are the only guaranteed economic benefit from the Government that benefits ordinary Nigerians. This is however untrue as the rising PMS fuel subsidies, ironically, do not benefit the poor, as much as they do the more economically empowered groups in the population. According to the World Bank, the poorest 40% of Nigerians purchase just 3% of all subsidized petrol. This means the subsidies benefit richer economic classes, and to some extent, the urban poor who rely heavily on PMS-fuelled transportation, much more than the rural poor populace. This undermines the arguments of lobbyists for the PMS subsidy continuance, particularly as the rent seekers who exploit arbitrage opportunities to sell imported Nigerian PMS across the border to neighbouring countries.[26]

It is a well-known fact that due to the subsidy, the price of petrol in Nigeria is lower than in neighbouring countries, which creates an arbitrage opportunity for traders to buy petrol in Nigeria and sell it in those countries at a higher price. This results in the diversion of subsidized petrol to neighbouring countries, where it is sold at market prices, while Nigerians face fuel scarcity and long queues at petrol stations. Compared to the estimated PMS pump price of NGN 189 per litre in Nigeria, PMS prices are NGN 333, NGN 365, NGN 381 and NGN 399 in Chad, Niger, Benin and Cameroon respectively.[27] Indeed, in response to the PMS subsidy removal by President Bola Tinubu, GCFR, pump prices in the Republic of Benin almost doubled from 450 CFA to 800 CFA, underscoring the widespread belief that significant quantities of subsidised PMS were smuggled out of Nigeria into neighbouring countries. Truth be told, the PMS subsidies primarily benefit richer Nigerians, rent seekers, and those able to take advantage of arbitrage opportunities and engage in corrupt practices such as round-tripping by importing more refined PMS than they deliver to Nigerian consumers, then

[26] 22. World Bank / IMF estimates, from 'Nigeria in Transition… at a Critical Juncture and with a Choice to Make', Paper (April 2023).

[27] 23. World Bank / IMF estimates, from 'Nigeria in Transition… at a Critical Juncture and with a Choice to Make', Paper (April 2023).

smuggling the residual supplies to neighbouring markets to sell at more market-determined prices.[28]

President Bola Ahmed Tinubu, GCFR during his Inauguration Speech on 29th May 2023, announced to Nigeria and the world that: "the Fuel Subsidy is gone!" signalling the end of the fuel subsidy on Premium Motor Spirit ('PMS').[29] This was immediately followed by increases in PMS prices nationwide, with the Nigerian National Petroleum Company ('NNPC') Limited, on 31st May 2023, adjusted retail prices for PMS to prices ranging between NGN 488/litre in Lagos State to NGN 555/litre in Maiduguri, Borno State.[30] The new price list revealed that the North Central has the highest increase in the average pump price of 181% from N190 to N534 per litre, North West had a 179% increase from N194 to N541 per litre, North East had an increase 178% from N199 to N552 per litre, South East had an increase of 174% from N189 to N518 per litre, South South had an increase of 169% from N191 to N512 per litre while South West had the lowest increase with 165% from N188 to N498 per litre. The new price also revealed Borno and Yobe states as having the highest new pump price of N577 per litre while Lagos state had the least pump price of N488.[31]

Over the years, the subsidy policy has been a controversial issue in Nigeria – an oil producing country that paradoxically relies on imported PMS. Indeed, Nigeria

[28] BBC news article "Di African kontri wey Nigeria fuel subsidy removal dey affect", of 2nd June 2023, accessed from https://www.bbc.com/pidgin/articles/c51qx0d0gpzo on 2nd June 2023. In KPMG Nigeria.

[29] Premium Times Newspaper Article "Fuel Subsidy is gone — Tinubu declares" 29th May 2023, accessed from: https://www.premiumtimesng.com/news/top-news/601239-fuel-subsidy-is-gone-tinubu-declares.html.

[30] Independent Newspaper Article NNPC Increases Fuel Price to N555 Per Litre, of 31st May 2023, accessed from https://independent.ng/just-in-nnpc-increases-fuel-price-to-n555-per-litre/ on 31st May 2023

[31] KPMG Nigeria. "Removing Nigeria's PMS Fuel Subsidies: We Can't Have Our Cake & Still Eat It." home.kpmg/ng, June 2023, pp 9-18. https://kpmg.com/ng/en/home/insights/2023/06/removing-nigeria-pms-fuel-subsidies.html

has a long history of fuel subsidies dating back to the 1970s' oil boom, when the Federal Government introduced subsidies on key commodities such as petrol, kerosene, and diesel to cushion the impact of price fluctuations on its citizens and residents. While many stakeholders in this debate argue that the PMS subsidies are the last hope for the common man to benefit from the "national cake," the reality is that the subsidies have been a tremendous drain on the country's resources and a source of corruption and government inefficiency. The stark truth is that the PMS fuel subsidies have really benefited neighbouring counties, rent-seekers and the rich, as opposed to the poor. Furthermore, if Nigerians – rich, middle-class, or poor alike – wish to see accelerated levels of socio-economic development, the expensive and unaffordable PMS subsidy must go. Already, within days of the subsidy removal announcement and the adjustment of PMS prices in Nigeria, data from Global Petrol Prices, which tracks the retail prices of refined petroleum products reveals sharp increases in the petrol prices of neighbouring countries. The simple truth is Nigerians simply cannot have our cake and eat it! We can't push for development while at the same time insisting on substantial expenditure on inefficient consumption such as subsidy that exceeds the combined expenditure on health, education, and infrastructure and that is largely not benefitting its intended beneficiaries and that we have to acquire debt, as is the case today to keep in place.[32]

Many options have been proposed by critics in place of the "sudden death" removal of the PMS fuel subsidy implemented by the Administration of President Bola Tinubu, GCFR. Some commentators suggest other approaches such as the partial deregulation with market response pricing, with a gradual adjustment in pricing that can be phased over a period of time. As the opposition to the PMS subsidy removal grows, the President Bola Tinubu Administration is discovering how politically unpalatable the immediate removal is in the short run, as it is risking immense unpopularity in its honey-moon period. Labour, unions, and other civil society groups arguing for the Partial / Gradual Deregulation Option

[32] KPMG Nigeria. "Removing Nigeria's PMS Fuel Subsidies: We Can't Have Our Cake & Still Eat It." home.kpmg/ng, June 2023, pp 9-18. https://kpmg.com/ng/en/home/insights/2023/06/removing-nigeria-pms-fuel-subsidies.html

contend that Nigerians would more readily adjust to higher PMS fuel prices, if the removal was more gradual, allowing the populace to slowly adjust to post-PMS subsidy realities. With inflation rising to 22.22% in April 2023, there are concerns regarding the sudden impact that full and immediate deregulation as well the removal of the PMS fuel subsidy would have on "already elevated prices" of food, transport services and fuel sources, nationwide. However appealing, the gradual adjustment in pricing appears, it remains unclear that political economy realities will enable the Federal Government to adopt a gradual subsidy removal model and still stay the course over an extended period of amount of time. Past experiences demonstrate that once international oil prices spike, there is increased public pressure for the return to the PMS subsidy regime. Given the increasing geopolitical tensions precipitated by the Russia – Ukraine war, the prospects for high and volatile international oil prices remain likely. Full deregulation of PMS market is the preferred option over the partial deregulation option because full deregulation reduces the chances of the subsidy returning and avoids continuous politicization of the PMS pricing.[33]

Furthermore, any attempt to gradually adjust the price of PMS upwards would almost certainly spark widespread hoarding and trigger speculative additional demand for PMS at current regulated prices, as experienced in the immediate aftermath of the PMS fuel subsidy removal on 29th May 2023. Indeed, significant segments of the motoring public resident outside urban areas of Lagos, Abuja and Port Harcourt were already used to paying for PMS at much higher than the previous regulated pump price of NGN 189 per litre. It must be stated that full deregulation is mandated in the Petroleum Industry Act, 2021. Full and immediate deregulation will be optimal for Nigeria as the 650,000 barrel per day Dangote Refinery that was recently commissioned will be coming fully onstream over the next year – thereby enabling Nigeria benefit from the import substitution effects

[33] KPMG Nigeria. "Removing Nigeria's PMS Fuel Subsidies: We Can't Have Our Cake & Still Eat It." home.kpmg/ng, June 2023, pp 9-18. https://assets.kpmg.com/content/dam/kpmg/ng/pdf/removing-nigerias-pms-fuel-subsidies23.pdf

of the refinery. Accordingly, both the enabling law and economic incentives to encourage investment domestic refining capacity should be aligned.[34]

Nigeria's Government Premium Motor Spirit Comparison with Other Africa Countries: September, 2024

	Countries	Price per litre
1	Nigeria	N865
2	Tunisia	1,371
3	Ethiopia	1,152
4	Sudan	1,147
5	Algeria	568
6	Angola	529
7	Egypt	505
8	Libya	52
9	Ghana	N1,617
10	Liberia	N1,503

SOURCE: dubawa.org[35]

As of 2024, many African nations, preeminent oil producers, are grappling with significant economic challenges. Different underlying factors, such as public debt distress, political instability, inflation rate, and cost of living, are hindering the projected moderate economic growth on the continent. Also, climate change and global crises such as the Russia-Ukraine war and the Israel-Gaza crisis have reduced demand for African exports, hindering economic recovery efforts and slowing down foreign investment in Africa. Despite being one of Africa's largest oil producers, governance issues and public discontent threaten to worsen Nigeria's economic crises. Citizens recently expressed frustration at the

[34] KPMG Nigeria. "Removing Nigeria's PMS Fuel Subsidies: We Can't Have Our Cake & Still Eat It." home.kpmg/ng, June 2023, pp 9-18. https://assets.kpmg.com/content/dam/kpmg/ng/pdf/removing-nigerias-pms-fuel-subsidies23.pdf

[35] Adafin Praise. "Top 10 African Countries with Cheapest Petrol Prices in September, 2024." Dubawa.org, September 25th, 2024. Accessed November 21st , 2024. https://dubawa.org/is-nigerias-fuel-price-among-the-cheapest-in-africa-as-claimed/

government's inability to address food insecurity and inflation, which surged to 34% in June 2024. Though the Organisation of Petroleum Exporting Countries (OPEC) said Nigeria produces approximately 1.3 million barrels daily, Nigerians have criticised the scarce and expensive fuel supply.

Data obtained on Global Petrol Prices (a platform tracking retail petrol prices in selected countries) as of July 2024, revealed that Libya ($0.031), Egypt ($0.279), Algeria ($0.342), and Angola ($0.351) are the only four countries in Africa that sell fuel at cheaper rates than Nigeria ($0.503). Sudan ($0.70), Tunisia ($0.806), Liberia ($0.939), Gabon ($0.973), and Ghana ($1.026) make up the top ten on the list. At the spectrum's other end, the Central African Republic is the African country with the most expensive price at $1.83 per liter. Senegal ($1.646), Seychelles ($1.595), Zimbabwe ($1.590), Morocco ($1.527), and Uganda ($1.475) are other countries with costlier fuel price per litre, while Malawi ($1.458), Côte d'Ivoire ($1.455), Kenya ($1.453), and Sierra Leone ($1.448) round up the list.[36]

While the data indicate that Nigeria's fuel price is commendable in relation to other African countries, it does not reveal Nigeria's dire economic state. For instance, available data from July 2024 showed that Nigeria had the highest inflation rate among the cheapest fuel sellers at 33.4%. Angola, at 31.09% (June 2024), came close in second position, while Egypt (25.7%), Sudan (22.5% as of March 2024) and Ghana (20.9%) make up the top five. The rest selling the lowest fuel prices in Africa have inflation rates in single digits, starting with Libya at 2.3% (June 2024), Gabon (3.4%), Algeria (6.13% in June 2024), Liberia (6.2% in May 2024) and Tunisia (7%). Among the countries selling costly fuel in Africa, only Zimbabwe's inflated economy trumps Nigeria at 33.6%. Malawi (33.3% as of June 2024) and Sierra Leone (31.93% as of June 2024) are the other countries with double-digit inflation rates. Data from other countries present commendable single-digit inflation rates. As of July 2024, Seychelles has 0.61%, and Senegal follows with 0.7%. Despite selling Africa's most expensive fuel price, CAR's inflation rate was 1% in June 2024, while Morocco comes next with 1.3%. Other

[36] Phillip Anjorin. "Is Nigeria's fuel price among the cheapest in Africa as claimed?" dubawa.org, August 21, 2024. Accessed November 21st, 2024. https://dubawa.org/is-nigerias-fuel-price-among-the-cheapest-in-africa-as-claimed/

countries in this category are Uganda (4%), Côte d'Ivoire (4.1% in June 2024) and Kenya (4.3%).[37]

Cost of Subsidy Payment from 2023

	Year	Amount
1	2023	N3.6tn
2	2024	N5.4tn

SOURCE: nairametrics.com[38]

The Federal government said fuel subsidy is projected to gulp about N5.4 trillion in 2024 as against the N3.6 trillion budgeted for the same intervention in 2023. This is contained in a draft copy report of the Accelerated Stabilization and Advancement Plan (ASAP) presented to President Tinubu by the finance minister, Wale Edun, on Tuesday. The report showed that the estimated expenditure on fuel subsidy for 2024 is N5.4 trillion, this is a swooping sum of N1.8 trillion more than the amount spent in 2023. The government had previously maintained that the contentious petrol subsidy is gone after President Tinubu announced on May 29, 2023, that the subsidy is gone. However, a draft copy of the ASAP report showed a projection of N5.4 trillion in subsidy expenditure, despite the claim that subsidy is no more. "At current rates, expenditure on fuel subsidy is projected to reach N5.4 trillion by the end of 2024. This compares unfavourably with N3.6 trillion in 2023 and N2.0 trillion in 2022," the report said. In an earlier statement, the Minister of Finance and Coordinating Minister of the Economy, Wale Edun, said the fuel subsidy removal is an ongoing process that depends on a combination of factors. Edun said the government is working to ensure a complete elimination of fuel subsidy in the country's economy, adding that the policy direction of the government now focuses more on Compressed Natural Gas (CNG) to power energy in the country. "It is an ongoing conversation, it is an ongoing process of

[37] Phillip Anjorin. "Is Nigeria's fuel price among the cheapest in Africa as claimed?" dubawa.org, August 21, 2024. Accessed November 21st, 2024. https://dubawa.org/is-nigerias-fuel-price-among-the-cheapest-in-africa-as-claimed/

[38] Cyrus Ademola. "FG spent N3.6 trillion on fuel subsidy in 2023, projects N5.4 trillion in 2024 – Report." Nairametrics.com, May, 2024. Accessed 18 November, 2024. https://nairametrics.com/2024/06/05/fg-spent-n3-6-trillion-on-fuel-subsidy-in-2023-projects-n5-4-trillion-in-2024-report/

ensuring that fuel subsidy that fuel subsidy is eliminated from the Nigerian economy, that is what Mr. President intent is and that is what is being worked towards," Edun said.[39]

The removal of fuel subsidy has been a contentious issue for some months as crude oil prices increase and the exchange rate continues to depreciate, leading critics to suggest partial subsidy remains despite talk of a removal. Several observers maintain that the federal government has restarted the subsidy on petrol since its removal on May 29, 2023. For instance, the former governor of Kaduna State, Nasir El Rufai, said the federal government is spending more on petrol subsidy than before. In addition, the Special Adviser to the President on Energy, Mrs. Olu Verheijen, said that the Federal Government reserves the right to pay fuel subsidy intermittently to cushion hardship in the country. On its part, however, NNPC has insisted that no subsidy is paid to its account from the federal government. Addressing the issue in August 2023, the GCEO of the oil firm, Mele Kyari, stated that the company is only recovering the cost of import, adding that the federal government hasn't paid a subsidy since May. "I told you there's no subsidy whatsoever, we are recovering our full cost from the products that we import. We sell to the market; we understand why the marketers are unable to import. We hope they do this quickly, and these are some interventions the government is making. There is no subsidy." Kyari said.[40]

Effects

Independent Petroleum Marketers Association of Nigeria President, Abubakar Garima, when he was featured as a guest on Channels Television's breakfast show Sunrise Daily stated that, "Well, we know now that we cannot call it an increase

[39] Cyrus Ademola. "FG spent N3.6 trillion on fuel subsidy in 2023, projects N5.4 trillion in 2024 – Report." Nairametrics.com, May, 2024. Accessed 18 November, 2024. https://nairametrics.com/2024/06/05/fg-spent-n3-6-trillion-on-fuel-subsidy-in-2023-projects-n5-4-trillion-in-2024-report/

[40] Cyrus Ademola. "FG spent N3.6 trillion on fuel subsidy in 2023, projects N5.4 trillion in 2024 – Report." Nairametrics.com, May, 2024. Accessed 18 November, 2024. https://nairametrics.com/2024/06/05/fg-spent-n3-6-trillion-on-fuel-subsidy-in-2023-projects-n5-4-trillion-in-2024-report/

but rather, we can call the removal of subsidy deregulation. Now, deregulation has started taking place fully,". He said with the sector now fully deregulated, availability will be a thing of the past. "The change that Nigerians are going to expect now: one, we are expecting availability since there is no subsidy," Garima said. "The NNPC is not the sole importer. Other marketers too will participate. It is the same thing in buying the product. Other marketers will buy products directly from Dangote [Refinery]. It is not only NNPC."[41]

With the new pump price adjustment across the country, the Nigeria Labour Congress called for a reversal of the pump price hike, arguing that the new cost of the commodity will further "deepen poverty as production capacities dip." It said, "In light of this, we urge the government to immediately reverse this rate hike as previous increases did not produce any good results. People only got poorer." Many Nigerians believed that local refining, particularly from the much-celebrated Dangote Refinery, would bring an immediate reduction in fuel prices. Regrettably, the price at the pump remains stubbornly high. The conception that local refining, particularly by the Dangote Refinery and the NNPC refineries would instantly result in cheaper fuel prices is a misconception. The benefits of deregulation extend far beyond lower prices at the pump. This transformation will drive competition, boost investments, and propel the country toward energy security and economic stability.[42]

The $20bn refinery began operations in January, rolling out naphtha and jet fuel. After over a year of its launch in May 2023, Dangote Refinery, on Tuesday, September 3, 2024, rolled out its first Premium Motor Spirit, also known as petrol. By September 15, the NNPC began loading at the Dangote Refinery gantry, after some hitches were sorted. The Federal Government committee also activated the October 1 commencement date for the sale of crude oil to Dangote Refinery in

[41] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[42] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

naira. The NNPC refineries in Warri, Port Harcourt and Kaduna also beamed hope for Nigerians. It was reported that the NNPC spent N16.7tn (approximately N17tn) on the turnaround maintenance of the three refineries between 2002 and 2022. At a sitting of the ad hoc committee to investigate alleged economic sabotage in the Nigerian petroleum industry in August 2024, the Senate raised concerns over the $1.5bn approved in 2021 by the Federal Executive Council for the turn-around maintenance of the Port Harcourt Refinery. By September 2024, the refinery had failed to begin fuel production for a record seventh time. The Dangote Refinery, which recently commenced operations, is, however, poised to be a major force in reshaping Nigeria's oil industry. It offers independent marketers the ability to source fuel directly, not only from its facilities but also from other local and international suppliers. This marks a significant departure from the past, where the Nigerian NNPCL held a near-monopoly over fuel procurement and distribution.[43]

With the deregulation of the oil sector, NNPCL now operates as a commercial entity, competing alongside other players in the market. This competitive landscape is expected to promote greater transparency and efficiency, as marketers can now purchase fuel from the most cost-effective sources. While competition should, in theory, drive down fuel prices over time, current petrol prices remain tied to global market conditions, and even domestic producers like Dangote Refinery must sell at prices that reflect international benchmarks. Despite local production, the cost of petrol in Nigeria is still tied to global market forces. This means that the prices consumers pay are influenced by the global price of crude oil, refining costs, and exchange rates. The reality is that the Nigerian oil industry operates in a global market where these factors heavily dictate pricing.[44] However, as more refineries come online and local production capacity increases, the reliance on imported fuel is expected to diminish, contributing to long-term

[43] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[44] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

price stability. The Nigerian government's fully deregulated approach under the Petroleum Industry Act fosters this competitive environment, mandating that all participants — whether NNPCL or private marketers — abide by market rules and operate transparently. This evolving structure is also anticipated to drive significant economic benefits. As local refining expands, Nigeria should see a decrease in fuel imports, helping to stabilise prices while stimulating job creation across the refining, logistics, and retail sectors. Additionally, as global oil prices fluctuate, these changes will increasingly have a direct impact on fuel costs in Nigeria, but a robust domestic refining sector could mitigate some of the volatility.[45]

Observations

How the full deregulation of the oil sector was carried out demonstrated that the government would be resolute. The way it quelled uprisings against the fuel hike and the attendant harsh economy is worth studying. The President, in some of his campaign outings, stated that no matter how long the protests held, he would remove subsidies and he had done so. Nigerians should, however, brace up and face realities. In the wake of rising petrol prices, the government has been promoting alternatives like Compressed Natural Gas through the Presidential CNG Initiative. CNG is a cleaner and more affordable alternative to petrol, and it is priced significantly lower, offering immediate relief to consumers. The government has initiated a "convert-now-pay-later" scheme to help vehicle owners switch to CNG, and more CNG stations are being set up across the country. CNG adoption is expected to reduce transportation costs and decrease Nigeria's dependence on petrol. The shift to cleaner energy sources also aligns with global trends toward reducing carbon emissions and promoting environmental sustainability. This diversification will provide Nigerians with more energy options and help mitigate the impact of volatile global oil prices. Nigerians should hope for more investments in critical infrastructure as the government pledged to use the savings from subsidy removal for developmental

[45] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

projects. Now, the citizens must hold the government accountable for how these funds are spent, ensuring that they are used to improve essential services and the quality of life for all citizens.[46]

The real economic gains will be how local refining contributes to industrialisation, job creation, and infrastructure development. Dangote Refinery and other local refiners will help drive investment in downstream infrastructure which has stagnated for over four decades. Thousands of jobs will be created across the value chain, from refining to distribution, and the overall economic environment will improve. Also, local refining will significantly reduce Nigeria's dependence on imported petroleum products. This has the potential to stabilise the country's forex market and strengthen the Naira. By producing and refining oil domestically, Nigeria can retain more of its economic value within the country, reducing the demand for foreign currency and ultimately helping to curb inflation. In the future, Nigeria's ambition to become a net exporter of petroleum products will not only earn forex but will also bolster its standing in global markets. With refineries like Dangote's operating at full capacity, Nigeria will no longer be vulnerable to global fuel shortages or disruptions in import logistics. This stability will catalyse industrialisation, as businesses can rely on a consistent energy supply to power production and growth.[47]

The expansion of downstream infrastructure—pipelines, storage facilities, and depots—will also create a more resilient supply chain. Akwa Ibom State, for example, is already preparing to establish a petroleum depot in partnership with federal agencies to ensure steady fuel supplies at reasonable prices. Such initiatives are key to moderating fuel costs and ensuring that regions across Nigeria benefit from deregulation. Nigerians are not known for the patience being demanded by the President for the policy to mature. Records of Nigeria's past leaders make it hard to believe any policy is meant for the good of the country.

[46] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[47] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

Experts, however, thought that the short-term effects of full deregulation may be challenging, but the long-term benefits will enable shared prosperity and economic stability. The road to economic recovery will require Nigerians to adapt to the new realities of a deregulated oil sector. Ben Murray-Bruce, a prominent business leader in a video posted on X.com, emphasised that the government can no longer control fuel prices. Instead, Nigerians must focus on reducing energy consumption, exploring alternative energy sources such as solar, and embracing electric vehicles. Carpooling, switching to solar panels, and investing in mass transportation can also help reduce the high cost of living.[48]

Former Minister of Police Affairs, Humphrey Abba, in an interview with Channels, said, "What we have today is 'hardship pro max.' We have imported policies that are irrelevant to our needs… Who can survive inflation at 32.7%?" The Independent Media and Policy Initiative, however, believed otherwise. Speaking on the economy, the policy think tank said the data available show that the Nigerian economy is responding progressively, with the recent full deregulation and harmonization of the foreign exchange. In a policy statement signed by its Chairman, Dr Niyi Akinsiju, IMPI argued that there is a changing paradigm in the economic landscape due to ongoing reforms. "Indeed, our desk research on the economy indicates that the Federal Government is making solid strides in different segments of the nation's economic spheres. More impressive, to our minds, is the renaissance of the Federal Government's saving capacity, targeted at infrastructural development across the 36 states and the Federal Capital Territory."[49]

Conclusion

The removal of PMS subsidies under the Tinubu administration reflects a bold and contentious step toward addressing Nigeria's fiscal and economic challenges. For

[48] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

[49] Laolu Afolabi. "Grappling with tough economic implications of total fuel subsidy removal." Punching.com, 18th October 2024. Accessed 18 November, 2024. https://punchng.com/grappling-with-tough-economic-implications-of-total-fuel-subsidy-removal/

decades, the subsidy regime has drained government resources, fostered inefficiencies, corruption, and fiscal deficits while disproportionately benefitted wealthier Nigerians and neighbouring countries through smuggling. By removing subsidies, the government seeks to reduce public debt, attract private sector investment, and encourage competition in the downstream oil sector. However, the immediate socio-economic effects have been profound, with rising inflation, increased living costs, and public dissatisfaction becoming prominent concerns. While deregulation is a critical step toward sustainable economic growth, its implementation has revealed deep-seated systemic weaknesses in Nigeria's energy and governance structures. The persistent reliance on imported fuel, despite being a major oil-producing nation, underscores the urgent need for domestic refining capacity. The Dangote Refinery, which has begun limited operations, holds promise for reducing import dependency and stabilizing fuel prices, but its full impact is yet to be realized.

To maximize the benefits of subsidy removal, the government must prioritize transparency and accountability in utilizing the savings. Investments in infrastructure, healthcare, and education are essential to demonstrate the policy's broader economic benefits. Additionally, expanding access to alternative energy sources such as CNG can mitigate the adverse effects on low-income households and small businesses. In conclusion, while subsidy removal marks a necessary shift, it must be supported by comprehensive reforms to ensure its long-term success and equitable benefits for all Nigerians.

Fuel Subsidy Policing

Fuel subsidy policing refers to the regulatory frameworks and enforcement mechanisms established by the Nigerian government to manage fuel distribution and pricing. This includes monitoring fuel prices at the pump, ensuring compliance with subsidy regulations, and combatting corruption and smuggling associated with subsidized fuel. The Nigerian National Petroleum Corporation (NNPC) plays a pivotal role in this policing, overseeing the distribution of subsidized fuel across the country.[50] This is because, over the decades, these

[50] 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 to 271

subsidies evolved into a significant fiscal burden on the Nigerian government, consuming vast amounts of national revenue that could have been allocated to critical sectors such as healthcare, education, and infrastructure development.[51]
The economic implications of fuel subsidies are profound. The World Bank reported that Nigeria spent over USD 30 billion on fuel subsidies from 2000 to 2010 alone. This expenditure has led to significant financial strain on government budgets, diverting funds from essential services.[52] Moreover, households in the lower income brackets account for a minimal percentage of total fuel consumption, indicating that subsidies primarily benefit wealthier segments of society. Corruption also remains a significant challenge within the subsidy regime. Reports indicate that a substantial portion of subsidized fuel is smuggled out of Nigeria to neighbouring countries where prices are higher. In June 2022, it was estimated that approximately 58 million litres of petrol were being smuggled daily, exacerbating local shortages.[53] This mismanagement undermines public trust and complicates effective policing efforts. Attempts to remove or reduce fuel subsidies have historically led to widespread protests and civil unrest. For instance, in 2012, a proposed subsidy removal resulted in significant public backlash, leading to strikes and demonstrations across major cities.[54] The government's inability to effectively communicate the benefits of subsidy removal has often resulted in political instability.

In response to economic pressures, President Muhammadu Buhari's administration, initiated discussions about gradually removing fuel subsidies

[51] KPMG Nigeria. "Removing Nigeria's PMS Fuel Subsidies: We Can't Have Our Cake & Still Eat It." home.kpmg/ng, June 2023, pp 9-18. https://assets.kpmg.com/content/dam/kpmg/ng/pdf/removing-nigerias-pms-fuel-subsidies23.pdf

[52] Pwc. "Fuel subsidy in Nigeria - issues, challenges and the way forward." PricewaterhouseCoopers, May 2023. https://www.pwc.com/ng/en/assets/pdf/fuel-subsidy-in-nigeria-issues-challenges-and-the-way-forward.pdf

[53] 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 to 271

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beginning in 2016. Despite extensive consultations with stakeholders, these efforts faced challenges due to public resistance and fears of increased living costs. The situation escalated in early 2023 when the government announced plans to fully remove fuel subsidies by mid-year. This decision was met with mixed reactions as citizens worried about potential price hikes amidst already high inflation rates.[55] The removal of fuel subsidies has far-reaching socio-economic implications. While proponents argue that it could free up resources for investment in critical sectors such as healthcare and education, there are concerns about immediate negative impacts on low-income households who are most vulnerable to price increases.[56]

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