

## **THE RISE AND FALL OF NIGERIA'S OIL SECTOR**

LAWANSON BUKOLA\*

### **ABSTRACT**

*There have been various concern over the implications of the hustling of price of Oil for the general economy especially Nigeria which is majorly dependent on oil for its revenue. This write-up titled "The rise and fall of Nigeria's oil sector" is aimed at unveiling the effect the fall in oil price has on Nigeria's economy and the prices of crude oil in the international market. This study also ascertains the reason for the increment in oil price as a result of the conflict between the United State of America oil sector and the United Arabs (The shale Vs sheik oil) respectively. Here the Sheik oil sectors are able to sell their crude oil with Zero profit leaving Nigeria to feel brunt because it has only \$500 million in its Sovereign Wealth Fund (SWF). Furthermore, the write up identifies some major issues Nigeria is faced with as a result of this and probable root cause. It is however, recommended amongst others that Nigeria should privatize the refineries, also to develop other sector of the economy so that the danger faced by the country, hence the over-dependence on oil would be reduced.*

### **1.0 INTRODUCTION**

The oil and gas industries is being considered to be the biggest sector in the world in terms of dollar value, it is also regarded as the global powerhouse with hundreds of thousands of workers being employed worldwide as well as generating hundreds of billions of dollars globally each year. While in some regions oil and gas industries are also vital as they often contribute a significant amount towards national GDP. The oil and gas industry can be categorized into three major key areas, these are Upstream, midstream and downstream.

The Upstream of the industry focus on exploration production, it involves the search for underwater and underground natural gas fields or crude oil fields and the drilling of exploration wells to recover oil and gas. In the downstream is where the filtering of the raw materials obtained during the upstream phase. At this stage the crude oil are refined and the natural gas also purified. This means refining crude oil and purifying natural gas.

The Midstream carried out the marketing and commercial distribution of the finished products to consumers and end users in various kinds such as natural gas, diesel oil, petrol, gasoline, lubricants, kerosene, jet fuel, asphalt, heating oil, LPG (liquefied petroleum gas) as well as a number of other types of petrochemicals.

However the largest volumes of products of the oil and gas industry are fuel oil and gasoline (petrol). Petroleum is therefore integral to many industries, and is of critical importance to many nations as the foundation of their industries. In recent years there has been a decline in the petroleum industry since the period of 1990s and a speed industrialized. There was a material construction by the iron and steel sector which led to the discovery of oil.

There was a high level of development in this industry because of the breakthrough of the spindle top geyser in 1901. There has been income for companies in recent times that have made profits, this helps them to decommission more than two third of their manipulations and third of their manipulation and they quickly invest in exploring and producing.

Basically, prices of oil are falling again and they don't meet up to what producers need to drill although these prices have for a few times over the years have retrieved. A group of people running this industry believes that the oil prices will hopefully go back to the actual price which was within 190 to 100 per barrel.

## **2.0 LITERATURE REVIEW**

### **2.1 OVERVIEW OF OIL AND GAS INDUSTRIES**

The shale indoor production has nearly bifold over the last several years, forwarding out oil imports that need to find another home. The Federal Republic of Nigeria along side, Saudi Arabia and Algerian oil, which was very useful and highly sold in the United States is abruptly competing for Asian Markets and note that their producers are compelled to drop prices.

Russians being in an economic nodus, administer to keep pumping at the record levels. Even the Iraq and Iranian oil production is not left out and exports are rising year after year. There are lots of augury, however, there has been drop in exploration investments and this causes the crumbling oil production. There are several capital markets calculated which are proven to be capable of producing more than a half million barrels a day that were delayed, cancelled and shelved by countries alone both last year and this year.

In recent times, production in Canada dropped by about a million barrels a day, roughly 40 percent of the area's output and also their oil company's severely withdrawn or stopped pumping altogether. The insurgent attack in Nigeria has also boiled down the supply in that region. These and many more have led to the demand for fuel which is dense a bit although there are signs that demand is amplifying in the United States.

### **3.0 SHEIK AND THE SHALE (THE CARTEL)**

#### **3.1 THE RISE AND FALL OF OIL PRICES**

The shale oil burst, sanctions against Russia, and also OPEC'S influence on oil prices has been borrowed by the rise of alternate sources of energy. The price of oil have backlash from more than \$100 to less than \$45 in the last

year. The oil cartel has been about faces by this advancement and that has influenced oil prices for the last four decades.

There were various speculations on conspiracies that these cartels planned to bring the oil prices down. Whereby some oil executives are quietly noting that the Saudis want to hurt Russia and Iran, likewise the United States motivation enough for the two oil-producing nations to force down prices. Soviet Union, was brought down due oil price drop in the 1980s. Other contributing factor is basically centered around the demand and supply principle, whereby the United State that happened to be the highest buyer of crude oil over the last several years has nearly doubled their domestic production, pushing out oil imports that need to start sourcing for new buyers. This has caused countries like Algeria, Nigeria, and Saudi who has their major oil importation to United State of America to refocus their oil importation to Asia and this makes the competition amongst the oil producing nations. As a result the cost of oil falls.

In addition some oil companies in Canada stopped pumping of oil due to forest fire that devastates the oil region. The Oil production in this region dropped by a million barrels per day. And it takes probably weeks or months for the oil companies to come back to normalcy. In South-South region of Nigeria which is the major oil producing area, there are so many issues about the various militants groups and rebel attacks on the pipelines, and most oil wells shutting down and no longer functioning. This also has caused the oil-producing nation, great loss of production over years, most investor leaving the region for safety and the amount of risk involved in the region.

All aforementioned circumstances have greatly impacted on the production and supply of oil in the region. The demand for fuel in developing countries

for example Europe is becoming very weak as the vehicles are now becoming more energy-efficient.

### **3.2 BRIEF HISTORICAL BATTLE.**

The United States (shale) was the largest producer of oil in the world, although oil was first commercially avulsed and put to use there. It is important to also note that the pricing power for the fuel lay within the United States. Approximately, the prices of oil were airy and high in the early years because things which indicate current extraction and drilling processes were not present.

The dependent of American on imported oil began in the period of Vietnam War and the economic busted period of the 1950s and 1960. Then the Sheik and the OPEC were provided. The introduction of functional pipelines helped abridged the price of oil. However, the discovery of oil in Persia (present day Iran) in 1908 and Saudi Arabia during the 1930s and world war approximately made the demand and supply for oil.

### **3.3 THE BIG BOSS – WHO IS IN CHARGE**

Oil bombshell away the alarm in OPEC'S favor in the year 1973. The crises which was cause by the Yom kippur war had extensive effects on oil prices. OPEC and Iran cancelled the supply of oil to the United States.

Oil prices were controlled by OPEC via its pricing over volume policy. In the foreign Affairs magazines' view, the oil embargo deviated the structure of the market from a buyer's to a seller's market.

The consortium acquires its pricing power from about two drift: a lack of viable economic alternatives and absence of sources of energy in the industry. The fact that it holds over the world's lowest barrel production costs and holds

three quarters of the world's conventional oil reserves. Permit it to have a wide ranging influence over oil prices. However, OPEC maintained control over oil prices due to a number of events that happened over the world for example the decentralization of the Soviet Union and many more.

## **4.0 ROOT CAUSE ANALYSIS**

### **4.1 WHY THE FALL?**

This is a very byzantine question, although it all situate around the economies of supply and demand. Algeria, Saudi Arabian and the Federal republic of Nigeria oil that once was sold in the United States is unanticipated competing for sheik market and the producers are forces to drop prices.

The major factor of oil price drop is basically centered around the demand and supply principle, whereby the United State that happened to be the highest buyer of crude oil over the last several years has nearly doubled their domestic production, pushing out oil imports that need to start sourcing for new buyers. This has caused countries like Algeria, Nigeria, and Saudi who has their major oil importation to United State of America to refocus their oil importation to Asia and this makes the competition amongst the oil producing nations. As a result the cost of oil falls.

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production over years, most investor leaving the region for safety and the amount of risk involved in the region.

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#### **4.2 TO WHOSE ADVANTAGE WHEN THERE IS A DROP IN PRICE?**

The most recent drop in prices –regular gas nationally now average \$2.18 a gallon. Families, drivers can tell that prices have dropped. Anyone who uses heating oil to warm their homes is also affected.

#### **4.3 TO WHOSE DISADVANTAGE WHEN THERE IS A DROP IN PRICE?**

The Republic of Nigeria, Venezuela, Brazil, Russia, Ecuador and few other oil producing countries are suffering economic and perhaps even political turbulence. A good example is in Nigeria prices of oil from N87 to N145. This is causing so much confusion in the state<sup>9</sup>.

#### **4.4 HOPE FOR THE FUTURE**

Looking ahead to 2017, we see positive development that could help the industry evolved to a better place. US oil production is estimated to peak at 9.7 Million barrels this year note that the last time the production was high in the year 1972 when US oil production peaked at 9.6 million barrels per day. OPEC being a monopolist over oil prices shows that there might be in danger of shift. The shale oil producer is clearly surviving the current low oil price environment through cost-cutting measures and hoping on innovation and technology that can increase efficiency and lower the cost of production.

However, no matter how complicated the fact that oil prices are chancy, the end –all are clear. Hence, more nuclear deals are awaited to be introduced by

Iran –US oil into the market. Geopolitical tensions within the Middle East for example rise of ISIS, whose leader called for bombing of Saudi Arabia (OPEC’S largest oil producer) and Yemen’s alliance could also diminish oil supplies.

## **5.0 CONCLUSION AND RECOMMENDATION**

Apparently, the function of supply and demand is the oil price. The price drops as soon as the demand and supply increases. The United States supervised oil prices for a great number of previous century, only to alienate it to the OPEC countries in the 1970s. However, subsequent events, may lead the pricing power waving back towards the Western oil companies and United States.

### **5.1 PRIVATIZATION OF THE COUNTRIES REFINERIES (UPGRADE AND EXPANSION)**

Privatization might take different forms, it can be partial (Government still retiring some shares in the business) or total (ownership is entirely transferred to the private persons who have paid an agreed amount to the government. Privatization is a direct obverse of nationalization. It involves the sales of formerly public enterprises to private individuals and groups. Industry Operators agreed that the privation of the national oil company is the best thing that could happen in the sector.

However, attempt by government to offload the existing refineries to competent private hands remain hampered by misguided policies, corruption and lack of political will to confront entrenched, short term interests.

Hence, in the public interest to sell the refineries and we have a golden opportunity to do so now which will raise much needed revenue, conserved foreign exchange, reduce corruptions and argument national security by

reducing our vulnerability to imported oil products to be our mutual and collective benefits.

## **5.2 MODERNIZATION OF NNPC**

Nigeria National Petroleum Corporation (NNPC) has generated so much controversy within a broad spectrum of stakeholders

There is a need to restructure and unbundle it because the corporation is the pillar of Nigeria's Economy, accounting for over 80% of National Exchange earnings and revenue.

The unbundling or restricting of NNPC in a manner that appeared secretive and denied citizen the opportunity not only of understanding what is intended to be done and achieved with also providing input to the arrangement prior to implementation is unacceptable.

It is a surprised that the government came up with such dream structure for NNPC while the petroleum industry bill (PIB) that should point the way forward is still laying comatose at the National Assembly. Hence, it is suggested that if the PIB has been incorporated if the PIB has been incorporated into law, it would have no doubt, rebated the NNPC perhaps far beyond the present contemplation of the corporation of the corporations current managers.

## **5.3 CANCELLATION OF LONG CONTRACT AWARD**

The process of contract award in the Nigeria oil and gas upstream sector is tedious and lengthy. The duration of contract award between initiation and eventual execution of the agreement could take as much as 3Month in some cases<sup>16</sup>. However, this could affect the project economics of contracts.

## **5.4 RESOLUTION OF NIGER DELTA**

Niger Delta has most of Nigeria's oil in its heart, yet people in that region live in serious poverty. Pollution in that area is very high. The government of the federal Republic of Nigeria has to commence an amnesty program which could have most of the Niger Delta Youth rehabilitated and set outside the country also for training. This will bring about peace in Niger Delta

## **5.5 BETTER INFRASTRUCTURE**

The lack of good infrastructure is affecting the downfall in our oil and gas sector of Nigeria. Note that to ensure sustainable electricity delivery for domestic and industry uses should be the target of the Nigerian government.

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