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**Nigeria-OPEC relations: Analysis of the change in Nigeria's
foreign policy behavior toward OPEC: 1983-1985**

Adogamhe, Paul Garuba, Ph.D.

City University of New York, 1990

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**NIGERIA-OPEC RELATIONS: ANALYSIS OF THE CHANGE
IN NIGERIA'S FOREIGN POLICY BEHAVIOR
TOWARD OPEC: 1983-1985**

by

PAUL GARUBA ADOGAMHE

**A dissertation submitted to the Graduate Faculty in
Political Science in partial fulfillment of the
requirements for the degree of Doctor of Philosophy,
The City University of New York.**

1990

1990

Paul Garuba Adogamhe

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This manuscript has been read and accepted for the Graduate Faculty in Political Science in satisfaction of the requirement for the degree of Doctor of Philosophy.

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PREFACE

Nigeria became a member of the Organization of Petroleum Exporting Countries in 1971, and since then OPEC has become the most important international organization directly linked to the Nigerian economy. Petroleum has become the mainstay of the Nigerian economy since the early 1970s and now accounts for about 95 percent of its foreign exchange earnings as well as about 67 percent of its gross domestic product. The oil revenues which accrue to the Nigerian government are clearly related to OPEC pricing and production policy and changes in the world oil market. The adverse effect of the unexpected sharp fall in oil revenue on national budgets and development programs have led the Nigerian government to adopt policy actions inconsistent with OPEC pricing and production policy.

This study therefore has attempted to analyze Nigeria's policy behavior toward OPEC within the context of the changing environment of the world oil market. The primary objective was to identify the determinants of Nigeria's behavior in terms of its responsiveness to the changing oil market conditions. Nigerian decision-makers' perception of Nigeria's national interest constitutes the basis of Nigeria's policy behavior. Since 1981, the Nigerian decision-makers

have perceived the existence of an "oil glut" in the world oil market that had threatened the socio-economic well-being of the petroleum exporting countries. This changed oil market condition has affected OPEC's ability to control oil production and pricing policy as its role has become marginal in the face of increasing competition from non-OPEC producers. OPEC had to resort to imposing a production ceiling on its members as the only way to maintain market stability and prevent the total collapse of its official price structure.

The unstable oil market situation and OPEC's restrictive policy have explicitly affected the position of Nigeria's crude oil in the world oil market. The achievement of Nigerian national objectives as perceived by Nigerian decision-makers required the maximization of oil revenues. The reaction of the Nigerian government was not automatic but based on the perception of the opportunities and constraints existing in the global oil market. In this situation, Nigerian decision-makers viewed their opportunities as being unilateral adjustment to the market conditions in cooperation with foreign oil multinationals at the expense of OPEC.

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During the process of this study, I have come to be indebted to so many people. It would be impossible to mention all the names of those who have contributed to the success of this dissertation. But I wish to acknowledge their valuable contribution and to express my gratitude to them for making it possible to complete this project.

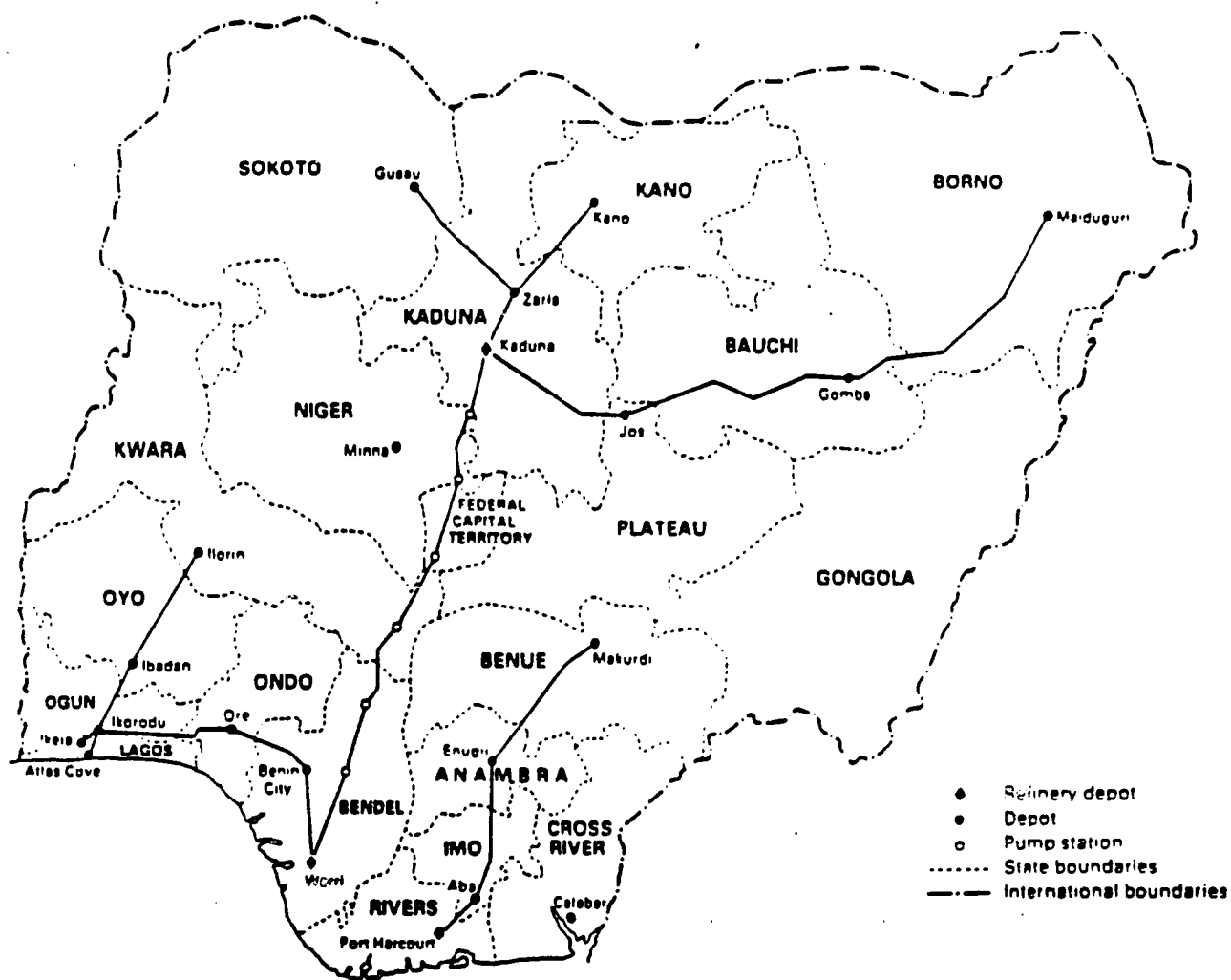
I would like to take this opportunity to thank members Supervisory Committee, especially my sponsor, Professor Wentworth Ofuatey-Kodjoe and reader, Robert Engler. Their constant encouragement, guidance and patience provided me a tremendous source of inspiration in the writing of this dissertation. Furthermore their scholarly suggestions and insistence on clarity have helped to improve the quality of this work and sharpened my own views of the subject matter. In addition I would also like to extend my sincere gratitude to the management of the NNPC Secretariat, Ministries of Petroleum Resources and National Planning for allowing me to use their resource facilities in connection with this project. It is my ardent desire that this study will not only provide useful insight into the analysis of Nigeria's policy behavior but will also be a significant contribution to the question of Nigeria/OPEC relations.

I want to give special thanks to my benefactors, especially Bishop Patrick Ekpu for the material, financial and moral support during the course of my studies in the United

States of America. I am also grateful to Bishop Francisco Garmendia, without whose special assistance and hospitality this project would not have been possible. I would also like to express my profound appreciation and gratitude to the Sisters of Notre Dame De Namur whose friendship and love have always been a source of encouragement and strength during my stay in the United States. In addition I want to thank Rev. Dr. Emmanuel Babatunde, Dr. Sino Sambo, both of Lagos University, and Mr. Raphael Okunmuyide of CIBA-GEIGY, for their assistance while I was in Nigeria doing research for this project.

Finally I am grateful to my loved ones, especially my parents Alhaji Nusa Adogamhe and Alhaja Melemu Adogamhe and the rest of the family, for the understanding, patience and love which have sustained me through various stages in my life struggle. They have sacrificed so much during my long absence from them. May the good Lord continue to bless and reward them. I dedicate this work to the greater glory of God and the good of humanity.

**A MAP SHOWING NIGERIAN NATIONAL PETROLEUM CORPORATION:
REFINERIES PRODUCTS PIPELINE NETWORK AND PRODUCT DEPOTS**



Source: NNPC, Public Sector Information Pamphlet, 1978

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CHAPTER I INTRODUCTION

The Development of the Nigerian Oil Resources and Petroleum Industry: A Survey

For most of the past quarter of a century oil production has played an ever-increasing role in the country's economy, building up to a level whereby Nigeria became OPEC's fourth-largest producer. Apart from the period of the civil war (especially 1968-69) when operations were severely disrupted, the history of the Nigerian oil industry had been one of steady progress until the present oil glut in the world market. Although crude oil production in commercial quantity dates to 1958, it was in the second half of the 1960's that crude oil production became really intensified. Production was initially small, about 5,000 barrels per day, but by 1966 it had reached nearly half a million barrels a day. Ignoring the sharp drop in production which occurred because of the civil war, by 1971 production had reached 1.5 million barrels per day, representing an increase of over 300 percent in five years. Since 1972 crude oil production has been rising at an average of 2.5 percent annually, reaching a peak of 2.34 million barrels a day in 1979 (see Table 1:1).

Table 1:1

Nigeria: Crude Oil Production and Exports 1958-1985
(Million Barrels)

Year	PRODUCTION		EXPORTS	
	Total Production	Daily Average	Total Exports	Daily Average
1958	1,876,062	5,140	1,820,305	4,987
1959	4,095,611	11,221	3,957,446	10,842
1960	6,367,187	17,397	6,043,527	17,059
1961	16,801,896	46,033	16,505,985	45,222
1962	24,623,691	67,462	24,697,969	67,665
1963	27,913,479	76,475	27,701,320	75,894
1964	43,996,895	120,210	43,431,562	118,665
1965	99,353,794	272,202	96,984,975	265,712
1966	152,428,168	417,611	139,549,969	382,329
1967	116,553,292	319,324	109,274,902	299,383
1968	51,907,304	141,823	52,129,855	142,431
1969	197,204,486	540,286	197,245,641	540,399
1970	395,835,825	1,084,482	383,446,359	1,050,538
1971	558,878,882	1,531,175	542,545,131	1,486,425
1972	665,283,111	1,817,713	650,640,779	1,777,707
1973	750,452,286	2,056,034	725,017,584	1,986,350
1974	823,320,724	2,255,673	795,710,044	2,180,028
1975	651,509,039	1,784,956	627,638,981	1,719,559
1976	758,058,376	2,071,197	736,822,998	2,013,178
1977	766,053,944	2,098,778	744,413,355	2,039,489
1978	692,269,111	1,896,628	667,357,065	1,828,376
1979	841,226,770	2,304,731	818,726,943	2,243,008
1980	752,223,285	2,055,254	700,138,614	1,912,947
1981	525,500,562	1,439,728	447,814,027	1,226,888
1982	470,687,221	1,289,554	366,410,179	1,003,864
1983	450,974,545	1,235,547	341,360,910	935,235
1984	507,998,997	1,387,975	400,428,085	1,094,066
1985	547,089,595	1,498,876	453,938,597	1,243,174

Source: OPEC Annual Statistical Bulletin 1986 p.59

The history of the Nigerian oil industry dates back to 1908 when potential oil resources were first discovered by a German company, the Nigerian Bitumen Corporation, at Araromi in Ondo State.¹ Following the outbreak of the first world war the pioneering efforts of the German company folded up. Another attempt at exploration was made in 1937 by Shell D'Archy, an Anglo-Dutch consortium that later became Shell Petroleum Development Company of Nigeria Ltd.² As the process of oil exploration continued Anglo-Dutch Shell was granted the sole concessional right over the entire country by the British colonial authorities. In 1956, Shell BP discovered oil in commercial quantity in Oloibiri in the present River State.

Facing the strong growth in oil demand of the post-war years, the other multinational oil companies were quick to move into Nigeria when Shell-BP's pioneering work proved there was oil to be found. By the early 1960's the "seven sisters" were all represented in Nigeria: Exxon (Esso), Royal Standard Oil of California (Social/Chevron), Gulf, Mobil, Texaco, Royal/Dutch Shell and Shell BP. Today nine multinational oil companies in joint ventures with the state-owned company Nigerian National Petroleum Corporation (NNPC) exploit the Nigerian oil wealth (see Table 1:2, Nigerian Annual Report). The attractiveness of Nigerian petroleum legislation relative to the other producing countries, the location of Nigeria vis-a-vis the market and the quality of its oil were all strong incentives to new entrants. The

influx of new companies resulted in increased activity in various branches of the industry especially exploration, seismic surveys, test drillings in facilities such as flow stations and pipelines.

Table 1:2

Nigeria: Oil Companies Operating in 1985
(list of rightholders)

		Participation Interest %	Sq.km.held as of 31 Dec.1984	changes in area
AGIP 1	Nigerian AGIP Oil Co. (optr)	20.0%	5,259.00	0
	Nigerian National Petroleum Corp.	60.0%		
	Phillips Oil Co. (Nigeria) Ltd.	20.0%		
AGIP EN	AGIP Energy & Natural Resources	100.0%	19,664.70	0
ASHLAND	Ashland Oil Nigeria	100.0%	1,119.00	0
ELF 1	ELF Nigeria (opts)	40.0%	8,255.60	0
	Nigeria National Petroleum Corp.	60.0%		
GULF 1	Gulf Oil Co. (Nigeria Ltd.) (optr)	40.0%	14,138.00	0
	Nigerian National Petroleum Corp.	60.0%		
MOBIL 2	Mobil Producing Nigeria (optr)	50.5%	974.0	0
	Sun DX Nigeria	12.5%		
	Tenneco Oil of Nigeria	37.5		
NIGUS	Nigus Petroleum Nigeria	100.0%	1025.00	0
NNPC	Nigerian National Petroleum Corp.	100.0%	21,135.00	0
PAN 1	Nigerian National Petroleum Corp.	60.0%	1,0005.00	0
	Pan Ocean Oil Co. (Nigeria) Ltd. (optr)	40.0%		
PHILLIPS	Phillips Oil Co. (Nigeria) Ltd.	100.0%	232.00	0
SHELL 1	Nigerian National Petroleum Corp.	80.0%	31,909.00	0
	Shell Pet. Dev. Co. of Nigeria (optr)	20.0%		
TEXACO 1	Chevron Oil Co. (Nigeria)	20.0%	2,570.00	0
	Nigerian National Petroleum Corp.	60.0%		
	Texaco Overseas (Nigeria) Pet. (optr)	20.0%		
Former Rightholder:				
ELF NIS	ELF Aquitaine Nigeria Services	100.0%	0	.23,320
	Country Total		109,938.00	.23,320

Source: Petroconsultants (Geneva), Nigeria, Annual Report 1984, April 1985

Nigeria's downstream development has been less impressive than those of many other oil producers. With its large domestic market for oil-derived products -- the population is in excess of 90 million and growing rapidly -- the priority for the Nigerian government's downstream development has been the provision of refining capacity sufficient to eliminate imports. In theory this position has already been achieved: consumption is estimated at 190,000 barrels a day while capacity stands at 260,000 barrels a day. One refinery was established at Alase-Elеме near Port Harcourt in 1965 with a capacity of 60,000 barrels per day. But with the rapid growth of the economy and the attendant increase in demand for refined petroleum products, the capacity has been enlarged and two new refineries have been opened in Warri (in the south) and Kaduna (in the north) with the capacities of 700,000 and 100,000 barrels per day, respectively.

Long-standing plans to utilize Nigeria's mostly flared associated gas and to exploit the various gas fields found in the course of oil exploration have still not come to fruition. The Shell-led project for a major Liquefied Natural Gas (LNG) plant is still alive but the government is at present unable to raise finances for its majority share and markets for the gas are viewed as uncertain. Limited development in petrochemicals is under way with the objective of replacing imports of basic materials but plans for a large ethylene cracker and a plastics facility are looking doubtful.

In July 1971, Nigeria became a member of the Organization of Petroleum Exporting Countries and has since been involved in all of OPEC's activities. However, just before it did, it took steps to fashion both the fiscal and legal structures of its oil industry on a similar basis as those that existed in OPEC member countries. In May 1971, for example, the royalties and taxes due to the government per barrel of crude oil were substantially increased in a new agreement that became effective in March 1971 and were to remain in force until December 31, 1975. In fact, the May 1971 agreement could be interpreted as an attempt by the government to match the terms of the Teheran Agreements of February 14, 1971 between the six Persian Gulf states (the original members of OPEC) and twenty-two international oil companies.

With membership in OPEC, Nigeria became involved in all actions taken by the organization with respect to obtaining increased monetary and technological benefits from oil. First development regarding financial agreements with the oil companies were essentially dictated by the prevailing OPEC resolutions. Notable among these are the Smithsonian Agreement of December 1971 and the Geneva Agreement of January 20, 1972, which established an increase of 8.49 percent on posted prices for oil as well as allowing for future price adjustments based on the movement of a single average of nine currencies. Oil revenues collected from the crude oil exports

have increased dramatically over the years. The OPEC oil price increases experienced as an aftermath of the 1973 Arab-Israel War further increased the revenues accruing to the Nigerian government. Table 1:3 gives the picture of the total revenue to the government from petroleum operations (from 1958-1984) showing a remarkable improvement from 1971/72 upwards.

In keeping with the general trend among the OPEC countries with regard to increased participation by member countries in the exploitation of their petroleum resources, Nigeria reaffirmed its support for this policy by establishing the Nigerian National Oil Corporation (NNOC) and by the acquisition of equity shares in all foreign oil companies operating in the country. The history of the NNOC goes back to May 1971 when the government agency was empowered to engage in all phases of marketing as well as in other activities associated with the oil industry. In 1972, it was declared that this public corporation would be the sole beneficiary of all future oil concessions, though it might make use of private companies as contractors or minority partners. However, in 1977 it was amalgamated with the former ministry of mines and power to form the present Nigerian National Petroleum Corporation (NNPC) and this new corporation protects the national investment in the oil industry. With the acquisition of participation by the Nigerian government, the

Table 1:3

Nigeria's Revenues From Oil 1958 to 1981

Year	Receipts		Annual % Change
	Million Naira	Million US\$	
1958/1959	0.2		
1959/1960	3.4		1,600.0
1960/1961	2.4		-29.4
1961/1962	17.0		608.3
1962/1963	17.0		-
1963/1964	10.0		-41.2
1964/1965	16.0		60.0
1965/1966	29.2		82.5
1966/1967	45.0		54.1
1967/1968	41.8		-7.1
1968/1969	*29.6		-29.2
1969/1970	75.4		154.7
1970	176.4		134.0
1971	603.0		241.8
1972	735.0		21.9
1973	1,368.6		86.2
1974	4,184.00		205.7
1975	4,568.0		9.2
1976	4,834.0	7,715	5.8
1977	5,333.3	9,600	24.4
1978	4,333.9	7,900	-17.7
1979	8,833.3	15,900	101.3
1980	13,571.0	24,428	53.6
1981	9,602.98*	17,285.36	-2.3

Source: Progress of Public Sector Participation in the Nigerian Oil Industry, p. 24. Date N/A

Note: Exchange Rate from 1977 is N1 = 1.80

*Estimate

relative holdings of the foreign oil companies dropped, with the Nigerian government now holding at least a 60 percent share in each of the companies. Government interest in Shell stands at 80 percent. It is the responsibility of the Joint Venture Department of the NNPC to interact closely with the oil companies in order to monitor effectively the management of operations and therefore protect the government participation interest in the joint-venture operations.³

The government participation interest was motivated not solely to support OPEC policies but also for the monetary benefits it would derive from such participation. Since Nigeria is a country with a big population, it needs all the funds it can get from oil to implement its development programs. The fact that the Nigerian government lacks the experience, technical know-how, equipment and funds to participate fully in the oil industry has made it adopt a cautious attitude towards oil policy in order to avoid scaring away potential oil investors. This also afforded it the opportunity to learn and understand the intricacies and complexities surrounding the international petroleum industry.

The Problems and Significance of Nigeria/OPEC Relations

Since Nigeria joined the Organization of Petroleum Exporting Countries (OPEC) in 1971, the Nigeria/OPEC relations have evolved from a relatively harmonious period of partnership to a period of tension and change in Nigeria's

behavior. During the 1970's tight oil market, Nigeria, as an oil producer, managed to accommodate its interests within the organization's policy guidelines and played a moderating role in intra-OPEC politics. According to the Kuwaiti Oil Minister, Shaikh 'Ali Khalifah al-Sabah, "Nigeria is a country which despite its problems adheres to OPEC's resolutions."⁴ Nigeria's oil policy, though based on maximization of revenues from the oil sector like others in the "price hawks" group in OPEC, has not until recently taken any leadership role in oil price determination. A West Africa editorial commented on Nigeria's role in OPEC's internal politics thus:

Nigeria traditionally has not played an activist role at OPEC meetings in the determination of oil prices and production levels. When disagreements occurred, which were often, its representatives were always to be found among those seeking a middle ground. Government officials have always defended the country's low profile posture with the argument that Nigeria considered the survival of OPEC more important than any temporary advantages⁵ that may be gained from a refusal to compromise.⁵

Since 1981, no other issue has sustained public debate within Nigeria as much as the nature of Nigeria-OPEC relations. Indeed most of the public officials in the Nigerian government have taken every opportunity to re-affirm Nigeria's intention to retain its links with this inter-governmental organization. This reaffirmation should be viewed as an implicit reaction to the insistent clamor by some well-meaning Nigerians who are advocating that Nigeria should opt out of OPEC. Apparently such calls are largely motivated by the sluggish movement of Nigerian oil in the global market.

The underlying factor of this position is that in the main the Nigerian economic programs are directly linked to the depressing fortunes of this organization in the global oil market.

In 1983 there was a change in Nigeria's behavior regarding strict adherence to the organization policy guidelines. Nigeria was one of the states that lowered its oil prices below OPEC's agreed price levels. It unilaterally cut oil prices to \$30.00 per barrel down from \$35.50 per barrel on February 19, 1983 and to \$28.00 per barrel in October 1984 -- an action which posed the most serious threat to the survival of OPEC since its inception.⁶ In addition, there were indications that Nigeria's military governments were engaged in some major counter-trading and long-term deals with Brazil, France, Italy and Austria altogether amounting to over \$4.5 billion,⁷ in spite of official disapproval by OPEC, because of the opportunities for disguised price-cutting. Furthermore, Nigeria insisted that these deals should not be subtracted from the overall quota, an insistence which caused considerable friction within OPEC.

In the face of the common international threat (a glut in the world oil market) to OPEC member states why did Nigeria's foreign economic policy behavior differ so much from others and from her previous pattern of behavior? The purpose of this study is an attempt to explain the change in Nigeria's behavior toward OPEC in 1983-85.

There are several reasons why this study is important. Nigerian policy-makers, whether military or civilian, have always paid particular attention to Nigeria-OPEC relations. This is because like other OPEC countries the general health of the nation's economy, the stability of the political system and its influence over other states have depended on the ability of the Nigerian government to obtain a reasonable flow of revenues from the oil industry. The oil revenues of the Nigerian government are clearly related to OPEC pricing and production policy and changes in the world oil market.

Since the 1970's oil has become the mainstay of the Nigerian economy and provides the lion's share of its foreign exchange and wealth. The dominant position of petroleum as a revenue source in Nigeria's economy is clearly demonstrated by the fact that it accounted for 4,611.6 million naira (79%) of the total 4,861.5 million naira federally collected revenues in 1975-76 and 6,560.7 million naira (75%) of the total revenue of 8,805.6 million naira in 1979-80.⁸ In 1984, despite the recent decline in its oil income, the revenue from the petroleum industry still accounted for around \$11.5 billion -- more than 90% of the total export earnings and slightly under two-thirds of all government revenues.⁹ The above statistics clearly show that Nigeria's political economy is significantly dependent on oil revenues and in the absence of a diversified economy, the oil industry has become the

vital source of revenue for the implementation of the economic and developmental programs of the country.

However, the OPEC policies regarding the world oil market have had an important effect on all revenues which accrue to each member of the Organization. Of special significance is the effect of lowering oil prices on the oil-exporting countries, whether they belong to OPEC or not (assuming OPEC production at its target level of 18 million barrels a day). In such a financial situation, virtually all indebted oil-exporting countries would be unable to service their debt and also continue to import necessary consumer and capital goods. Nigeria, with an estimated \$25 billion of foreign debt and a population of about 90 million, has immense social and economic problems to tackle which are indirectly influenced by OPEC's policy. With the glut in the world oil market since 1981, Nigeria's political economy has been thrown into a crisis and the austerity measures have intensified unemployment, labor strikes, inflationary problems, urban-rural poverty and political instability within the country.¹⁰

According to Aribisala,

the pivotal role which Nigeria has come to play in OPEC derives not from the extent of the country's oil reserves, or in the size of its OPEC oil quota, but from its status as the most economically unstable and politically volatile OPEC member-country, a distinction, paradoxically, that has made it perhaps the second most important OPEC country after Saudi Arabia."¹¹

In spite of the importance of Nigeria/OPEC relations, the topic has not been adequately treated in the contemporary

literature. The treatment of the subject in works such as Akinbobola (1979), Asiodu (1973), Onoh (1983), Arthur Nwankwo (1983) and G.O. Nwankwo (1983) does not constitute either a coherent reflection nor a systematic analysis on the question of Nigeria/OPEC relations.¹² While they all make passionate pleas for OPEC unity and for Nigeria to stay within the Organization, they address the topic with more emotional fervor than analytical clarity. J.K. Onoh's Nigeria and Oil Economy is a case in point. The author concluded the book with a general discussion of the Iran-Iraq war and Middle East geo-political issues, while neglecting to focus on the Nigerian experience itself. Some other analysts have attempted to explain Nigeria/OPEC relations solely in terms of desired output and price levels. For instance, in concentrating on "pure" economic forces of international oil affecting the Nigerian state, G.O. Nwankwo (1983) loses sight of the broader political and institutional factors, such as the socio-political conditions of the country and OPEC's internal power structures and their linkages with world oil-market forces.

Finally, because of the relationship between the multiple objectives and means in foreign policy, it is not possible to explain the behavior of a state in one particular aspect -- such as raw materials like oil or security issues -- without putting it into a broader framework of foreign-policy analysis. Therefore, there exists a need for

a broader conceptual framework that is sufficiently comprehensive to explain the multidimensional facets of the Nigerian foreign relations.

Theoretical Framework for the Analysis of
Nigerian Foreign Policy Behavior

The conceptual framework advanced for this study has drawn from the insights of several approaches and attempts to identify points at which they can be joined together to obtain a comprehensive view of foreign-policy making. The objective is to combine the central features of a decision-making perspective with structural approaches to foreign-policy analysis in order to overcome the chief limitations now associated with each. This explanation requires the conceptual tools of the political economy approach, which enable the identification of structural constraints under which state policies are formulated and implemented and how these constraints are expressed by conflicting forces within the state to produce foreign-policy behavior. This raises the issue of the nature of the state in Nigeria and how it functions.

The character of the state in any society depends largely on the pattern of class relations.¹³ Theoretically, this is significant in that the socio-economic and political arrangement within a specific social formation ensures that the interest of the dominant classes prevails over those of other classes and this partly explains the state policy

behavior. "The political behavior of any class, group or category is not an inherent function of the class itself but rather of its interaction with other classes, in the context of the overall political system."¹⁴ The state incorporates the values that prevail among the dominant social classes and its officials are likely to be recruited from these groups. As O'Donnel Guillermo correctly noted,

the state should be understood from within the civil society, though in its objective institutional form it appears to be and proclaims itself to stand above society...this tension between the underlying reality of the state as guarantor and organizer of social domination, on the one hand and as agent of a general interest which though partialized and limited, is not fictitious, on the other hand is characteristic of any state. This tension is the key to the theoretical analysis of the state.¹⁵

This theoretical perspective is crucial to the understanding of the character of the Nigerian state and its oil policies. For the key to the accumulation process in most OPEC producing countries is that they depend largely on the state, which receives large oil revenues in the form of rent from the international oil companies. Therefore we need to know in whose interest does the state use the oil revenues and why?¹⁶ Any foreign economic decision is likely to affect groups within the society differently. Like domestic policy, foreign policy produces private differential benefits to various individuals and groups within national society. It is for this reason that different groups within society advocate different foreign policies.¹⁷

The political economy approach, which tends to view the state as an area for political conflict and a relatively passive political actor, could be enhanced by focusing more explicitly and positively on the role of state officials and institutions in the policy process. This suggests that the state serves as an important independent or intervening variable between social and international forces, on the one hand, and foreign policy on the other.¹⁸ While it is recognized that numerous domestic and international factors can and do influence foreign policy behavior, these influences must be channelled through the political apparatus of a government which identifies, decides and implements foreign policy.

Decision-making approaches have successfully identified two important factors that can sometimes interfere with rational foreign-policy actions: first, organizational and bureaucratic processes, and second, individual cognitive processes. The strength of the intervening variable depends on the relative autonomy of the government decision-makers in their relationship to the foreign-policy elites. We need to understand the policy process and how domestic and international forces and constraints are transmitted through the black box of government.¹⁹ This approach provides insights about how one might disassemble the black box, as it were, to explain specific cases of Nigerian foreign policy.

This approach assumes that the state decision-makers are important to an understanding of the foreign policy process and that they play a critical role in shaping the manner and the extent to which the social forces exert influence on foreign-policy behavior. Such analysis is in fact compatible with the comparative framework, if these governmental decision-makers are viewed as they certainly should be, as variously representing, responding to and in some degree guiding and being guided by socio-economic forces. For the decision-making approach represents an analytic framework for relating several explanatory variables for the analysis of foreign-policy behavior. It conceives the foreign policy-making system to be based on these principles:

- 1) As an international political actor, a state is made up of individuals, organized within an institutional framework, attempting to achieve certain objectives.
- 2) A person is affected by the reality of the environment within which he operates (his operational environment); however, the motivation of his actions is derived from the way in which he perceives and evaluates that environment (his psychological environment).²⁰
- 3) Thus, we conceptualize foreign policy as emanating out of a decision-making system which acts as a conversion system that receives input from the psychological environment of the decision-makers and transmits

decisional outputs into the operational environment. Therefore foreign policy making is made up of three components: the operational environment, the psychological environment and the decision-making system.

The operational environment is the environment within which foreign policy decisions are implemented. It includes the external setting which exists outside the state. Decisions are implemented in the setting by using diplomatic, economic and military instruments. The other part of the operational environment is the internal setting which encompasses the inside of the state. The internal setting, however, extends to the whole structure of the political system. Two crucially important variables in the internal setting are, of course, the state's military and economic capabilities which set limits to what the government can do.

The psychological environment is the decision-makers' cognitive, affective and evaluative perceptions of their foreign policy operational environment. This is the source of all inputs into the decision-making process, since no factors can be considered as affecting the decision process unless they are filtered through the psychological environment of the decision-makers.²¹ The psychological environment includes conditions and events of relevance to foreign policy behavior that exist outside the state, and an internal setting

made up of their perception of relevant conditions existing within the state.

The decision-making system denotes the dynamic process by which foreign policy objectives and strategies are formulated and implemented. By authoritative decision-makers we mean those public officials, whether elected or appointed, who have formal responsibility for acting on behalf of the state. The process includes the interaction between all persons, agencies, bureaus and informal bodies from the initial gathering of information to the determination and evaluation of decisions.²²

Our conceptualization of decision-making does not stop with the making of one or a series of choices but includes as an integral part of the process the translation of the decision into action and/or inaction. The decision-making process, in contrast to its limited definition, refers to the broader span of activities ranging from initial recognition of a problem necessitating decisions to any resulting implementation. A decision-making process can be categorized into the following stages: (1) information collection and interpretation; (2) option formation; (3) choice-making; and (4) implementation.²³

Smith and Clarke noted that foreign policy analysis until recently has focused almost exclusively on the decision as that which is to be explained: explain foreign policy decisions and you have explained foreign policy behavior.²⁴

They contended that a broader conceptualization of the process shifts the focus from decision to behavior itself. This is of critical importance, since it is to behavior and not the decision to which other states decision-makers have to respond. To be sure, the decision is clearly an important determinant of behavior, but it is only a determinant. However, the literature of foreign-policy analysis has tended to see the decision not as a determinant but as that which is determined.²⁵ The implementation stage forces us to consider the extent to which behavior was an intended consequence of the implementation process. As such it offers a potentially very powerful perspective for the examination of the explanation of foreign policy behavior.

Based on this framework we can see that the formulation and implementation of foreign policy are characterized by information flows from the psychological environment, through the decision-making process to the operational environment, then back into the psychological environment through a feedback process. On the basis of this conceptualization it is possible to establish an explanatory model which can show explicitly the relationship between the behavior to be explained (dependent variable), the decision-making process (as the intervening variables) and decision-makers' perceptions of environmental factors that have an impact on the decision process (independent variable).

Theoretical Propositions

Foreign policy is the output of a decisional process in which decision-makers are subjected to a large variety of inputs from both international and domestic settings (i.e., all the five source categories outlined by Rosenau). This framework conceptualizes foreign policy as a strategy or strategies that inform the behavior of the state.²⁶ Thus, foreign policy behavior is the application of the state's foreign policy in particular circumstances, not the foreign policy itself. Foreign policy behaviors of states are discrete actions of decision-makers that are taken in response to an occasion for a decision created by the prior action of domestic or foreign entities.²⁷ In other words, the behavior of the state is an attempt to influence the international arena by the deployment of foreign-policy instruments in the process of making threats, promises and normative appeals. The behavior of the state is viewed here as the observable artifact of the political-level decision. It is not the decision but a product of the decision. Thus, the action of the state may be conceived as the outcome of a decisional process which has four components: perception, interpretation, choice of response and reaction, as discussed below.²⁸

Perception - The authoritative decision-makers initiate the foreign-policy actions of the nation and official commit that nation's resources in the international arena.

The role of perception of the environment is that it provides opportunities and constraints for actual choices and thus establishes the human dynamics of the decision-making process itself. For decision-makers act in accordance with their perception of reality, not in response to reality itself.²⁹ This perceptual approach also helps us to find and understand the interest and cognitive patterns of social groups which informs the broader social perspective reflected in policy-making: what is the perceptual disposition of this political group?³⁰ According to Charles Hermann, foreign policy results from the decision-makers' perceptions of present or expected problems in the relationship between a nation and its international environment (both human and non-human).³¹

This implies that it is their perceptions of the reality of the environment that must be understood in order to explain the decision and action components of foreign policy.³² The observer may regard an action of decision-makers as unwise and may in fact prove disastrous, but neither the judgement nor the outcome serves to explain why the actors proceeded as they did. Only by transcending his own judgement and adopting the perspective of the actor can the observer engage in explanatory analysis.³³

Every factual situation presents a number of problems.³⁴ A situation -- an attitude, behavior or action of a foreign state -- normally is a problem when it presents a challenge to the policy objectives and commitment of the

state. Whether actual or merely contingent, the situation is not a problem unless it is perceived by decision-makers (i) as significant, that is, it offers a threat or an opportunity to the values and goals of the state in question; (ii) as involving choice, so that the decision-makers are in a position to do different things about it; and (iii) as involving a measure of control, so that the decision-makers in question have some chance of affecting the outcome of the situation by the actions they take or do not take.

Interpretation - The notion of national objectives is an assumption that there exist in the minds of decision-makers what they are attempting to achieve as a preferred state of affairs to which they intend to commit some national resources. A line of policy contains a statement of (i) strategic objectives or long-term goals of a desired condition that the policy is intended to bring about or foster; (ii) the current and/or probable obstacles and threats to the enactment of such goals; and (iii) the intermediate goals relevant to overcoming these obstacles, with judgments of the moment in time in which they should be sought, the priority in terms of immediate attention demanded by each and their relationship to each other and to the long-term goals.³⁵ Since foreign-policy objectives are the way the values of a state are projected into the international arena, the interpretation of an act as being threatening may be seen in terms of how that may affect the foreign policy objectives of that state. In

that sense the foreign-policy objectives of the state are the major interpretative mechanisms with which the state interprets foreign acts and international events.³⁶

Consideration of alternative options - Reactions by policy-makers to problem situations are not automatic but the result of deliberations based on alternative responses which take into consideration perceptions of the availability of instruments, the relative effectiveness of alternative instruments within the available time constraints and potential cost of using particular instruments in terms of such problems as the adverse effects it might have on state capabilities (e.g., prestige) or objectives (e.g., cooperation or security) in subsequent time frames. In decision-making bodies there are bound to be differing perceptions of the potential cost and effectiveness of certain advocated policies due to differences in the cognitive maps and organizational affiliations of participants. A line of proposed action will also contain an assessment of the certain and highly possible cost that will be incurred in undertaking or sustaining this line of action, of the probability or chance of success if the action is undertaken (and the index by which success or failure will be gauged) in terms of the action (how long these commitments are expected to last until success is reached or the action is abandoned).

The essential point about change from market...to political decisions is that in the latter instance everyone knows where the decision will be made...A market is diversified and the actors largely invisible. In

politics, decisions are made in a cockpit and confrontation is direct. Inevitably therefore, the spread of political decision-making forces the organization of persons into communal and interest groups, defensively to protect their places and privileges or advantageously gain place or privilege.³⁷

Reaction - For each situation and each goal a state has certain capabilities that are relevant. In other words, what facilities does the state have (or could it get) that could conceivably be employed to gain its actual or possible ends in this situation? The power instruments are mainly diplomatic, economic and military.³⁸ It is through these instruments that the state reacts to the situation. The effectiveness of the instruments is not inherent in the instruments themselves but in the extent to which they can increase the effectiveness of the threats, promises and normative appeals that are the real manifestation of political power and influence.³⁹

Decisional structure - How the situation is defined influences the types of decision unit that will be used and that decision unit in turn affects the government foreign-policy behavior. The decision structure and process variables intervene between government definition of a situation and its foreign policy behavior. The intervening variables refers to the process, procedures and personalities whose tasks are to convert policy inputs into policy output. The analysis therefore will not only be concerned with the objective elements of operational environment (situational and relational conditions and activities existing in external and

internal environments) but also with the ways these elements are perceived by decision-makers to influence the choice.

Research Design

The research design presented herein is based on the idea that the foreign policy behavior of a state emanates out of the decision-makers' perceptions of the national objectives, international opportunities and constraints, and national capabilities. It is postulated further that the decision-makers' perceptions of the national interest is influenced by the interests of the most influential groups in the society,⁴⁰ that is, those groups that can be considered the foreign policy elites due to the potency of their influence over the decision-makers.

Based on the above analysis of the foreign policy elites, it will be argued that the Nigerian decision-makers' perception of national objectives, and of the international opportunities and constraints that they face, are heavily influenced by foreign policy elites who are inclined to define their national objectives in a way that would be consistent with the interests of European governments and multinationals.⁴¹ Thus, the decision-making system is embedded in both the domestic and the international socio-political structure which is characteristic of such peripheral states and therefore reflects the broad outline of its policies.

On the basis of the above discussion, the hypothesis that informs our investigation of Nigeria's behavior towards OPEC in 1983-85 can be stated as follows: Nigeria's decisions on oil production and pricing policies were based on Nigerian decision-makers' perceptions of the glut in the world oil market, which affected the pattern of demand and supply of Nigerian crude in the international market. The Nigerian decision-makers interpreted the oil situation in terms of their national objectives of acquiring foreign exchange for the purpose of national economic development, national security and Nigerian influence abroad, especially in Africa and the Third World. According to Nigerian elites, the achievement of all these objectives required the maximization of oil revenues. The reaction of the Nigerian decision-makers was based on their perception of international opportunities and constraints. In this situation, the Nigerian decision-makers viewed their opportunities as being in unilateral adjustment to the market conditions in cooperation with European multinationals at the expense of OPEC.

The above hypothesis will be tested by using the data collected from a combination of documentary sources and interviews with Nigerian decision-makers. In addition to its explanatory potential, this design supersedes traditional models and methodologies used in the analysis of this topic, in that it makes it possible to incorporate within it all

these elements that link domestic and foreign policies -- changes in the world oil market, the actions and strategies of OPEC, Nigeria's political economic condition, and Nigeria's decision-makers' perceptions, which are particularly important in explaining Nigerian foreign policy behavior toward OPEC.

Procedure for Data Gathering

The data needed for this analysis are as follows.

1) Identification of the Nigerian Authoritative Decision-Makers

The decision-makers can be divided into two groups -- senior political officers and high-level bureaucrats. The list of bureaucrats will consist of officials on the level of director and above in all agencies that have some responsibility for the formation and implementation of foreign policy. The first step is to identify those persons who took part in top-level foreign policy decision-making by virtue of their official position. This will be done by employing the two-step "institutional and reputational research approach."⁴² The steps refer to the identification of the decision-makers by their official positions and, second, to that identifying those who were known to have participated in certain foreign policy decisions in order to discover the exact membership of the decision-making group in this specific case.

2) Decision-makers' Perceptions of the World Oil Market Situation

The first step is to delimit the time frame under consideration without having to begin at some arbitrary point by isolating the provocation, the subject matter of this investigation. The method that will be used in this operation involves the gathering of information on Nigerian decision-makers' perceptions of the world oil market by reconstructing the action or reaction of the Nigerian government, to provide the best available evidence of their perceptions.

The sources upon which this study will be based will comprise both primary and secondary materials. The primary sources will come from public documents -- Nigerian government publications, Ministry of Petroleum bulletins, national development plans, Ministry of Information publications in Lagos, OPEC bulletins, OPEC documents, etc. Public documents can be considered valid sources of data for perceptual variables and have been used with success before for perceptual variables.⁴³ However, because of the contemporary nature of the issues discussed, evidence from oral interviews and written questionnaires, newspaper articles and magazine publications will feature prominently. This will include local and foreign publications -- West Africa Business Times, Lagos, Mid-East Economic Survey, Oil and Gas Journal, Petroleum Economist, Platt's OilGram, Energy Policy, Journal of Energy and Development, Journal of Commerce, Petroleum Intelligence Weekly, etc.

3) Decision-makers' Interpretations of the Situation

By looking at general policy statements of the Nigerian leaders or decision-makers, a checklist of the goals sought by the state can be drawn up. We will also investigate the policy objectives by looking at the actions of the policy-makers. This can be done by examining the choices that have been made in actual cases. This information will be clustered under the categories of foreign policy behavior as used by Wolfer (e.g., possession, cooperative and security goals, etc.) to ascertain the state's foreign policy goals.⁴⁴

Some types of state action, such as diplomatic notes, are self-explanatory; however, there are many state actions that are designed to achieve the objectives which are not necessarily in the same issue area. For instance, the state frequently takes economic actions that are designed to achieve political goals and vice-versa. Therefore, it is difficult to infer foreign policy from the state actions through which it is implemented without knowledge of the objectives that the actions are intended to achieve. This relationship between ends and means requires knowledge of the cognitive process of the decision-makers. In fact the ability of the analyst to describe the foreign policy accurately requires him to be able to identify the perceptual sources of the actions designed to implement it. The definition of objectives reflects a choice among values which differs from state to state. This will also require an analysis of the changes in Nigerian political economy and its relations to oil in order to assess the

internal and external needs that are reflected in its foreign policy objectives.

4) Decision-makers' Consideration of Alternative Responses

The consideration of alternative responses requires the assessment of their perception of available capabilities, or the resources available for external pursuit of national objectives. The pursuit of foreign policy requires the deployment of foreign policy instruments. This calls for the identification of the state foreign policy instruments used during that time. The determination of national capabilities will therefore involve an inventory of foreign policy instruments, namely economic, military, political and diplomatic. This also requires interviews with relevant decision-makers and an assessment of documentary evidence to ascertain their evaluation of potential effectiveness and cost of state action on the national capabilities both internally and externally.

FOOTNOTES

1. Scott R. Pearson, Petroleum and the Nigerian Economy (Stanford, California: Stanford University Press, 1970), 15.
2. Ibid.
3. J. Orife, "Joint Ventures Division," Paper delivered at the Public Relations Seminar Held in February 1987, Lagos, Nigeria, 2.
4. See details in Middle East Economic Survey Vol. 26: No. 27, 18/4/83, A3.
5. West Africa editorial comments. February 28, 1983, 527.
6. Nnamid Anyadike, "OPEC in disarray: Instability in the Oil Market Continues to Cast A Shadow Over OPEC's Internal Cohesion," West Africa July 15, 1983, 1517.
7. Countertrade is defined here as "a form reciprocal transaction between parties in different countries in which each side agrees to take a product from the other in exchange for goods supplied. Idemudia Taiwo and Abdul-Malik Mu'Aru, "Nigerian Oil, The Base for the Countertrade," OPEC Bulletin, Vol. XVII, No. 1, February 1986, 27. Latest evidence of the military government's "Nigeria first" policy on oil is a sharp stepping up of oil-for-goods countertrading -- officially disapproved of by OPEC because of the opportunities for disguised price-cutting. Under deals recently agreed on or currently being negotiated, Nigeria will be committing over 200,000 barrels per day to countertrade, Petroleum Economist estimates. Proposals at a less advanced stage could cover an additional 100,000 barrels per day or more. See Petroleum Economist, June 1985, 1517.
8. Ade T. Ojo, "Energy Planning and Investment for Increased Earnings: The Case of Nigerian Oil and Gas Resources," in Energy Policy, 1984, 22-23.

9. Petroleum Economist, March 1985, 52.
10. Falola, Toyal and Ihonvbere, Julius The Rise and Fall of Nigeria's Second Republic, 1979-84 (London: Zed Press, 1985), 114.
11. Femi Aribisala, "Nigeria in OPEC: The Weakest Link in the Cartel Chain," in Nigeria's External Relations: The First Twenty-Five Years, G. O. Oluganya and R. K. Akindele, eds. (Ibadan, Nigeria: University Press Ltd., 1986), 110.
12. For details see the following: A. Akinbobola; Should Nigeria Be In OPEC ? (Lagos, Nigeria: Nigerian Institute of Internal Affairs), 1979; P.A. Asiodu, Nigeria and the Oil Question (Lagos, Nigeria: Federal Ministry of Information, 1973); J. K. Onoh, Nigeria's Oil Economy (New York, N.Y.: St. Martin's Press, 1983); Arthur Nwankwo, After Oil What Is Next? Oil and Multinationals in Nigeria. (Enugu, Nigeria: Fourth Dimension Press, 1983); and G. O. Nwankwo, Nigeria and OPEC: To Be Or Not To Be? (Ibadan, Nigeria: African University Press, 1983).
13. This conception of the state is the focus of the important and stimulating debate on the state that has emerged within the neo-Marxist school. Useful recent recapitations can be found in Bob Jessop, "Recent Theories of the Capitalist State" in Cambridge Journal of Economics, 1, 1977, pp. 353-73; David A. Gold, Clarence V. H. Lo and Erik Olin Wright, "Recent Development in Marxist Theories of the Capitalist State," Monthly Review, 17(5), October 1975, pp. 29-43 and 16(6) November 1975, pp. 36-51; Hamza Alavi, "State and Class Under Peripheral Capitalism," in Sociology of Developing Societies edited by Hamza Alavi and Teodor Sharnin (New York, N.Y.: Monthly Review Press, 1982), pp. 289-331; and Ralph Miliband, The State in Capitalist Society (New York, N.Y.: Basic Books, 1977).
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15. Guillermo O'Donnell, "Tensions in the bureaucratic Authoritarian State and The Question of Democracy" in David Collier, ed., The New Authoritarianism in Latin America (Princeton, N.J.: Princeton University Press, 1979), pp. 91-2.
16. Peter Nore and Terisa Turner, Oil and Class Struggle (London: Zed Press, 1980), 3.

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25. Ibid., 3.

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27. East, 185.

28. Paul Egon Rohrllich, "Economic Cultural and Foreign Policy: The Cognitive Analysis of Economic Policy-Making," in Internal Organization, 41, 1 Winter 1987, 66; Charles H. Hermann, ed., International Crisis Insights from Behavioral Research (New York: Free Press, 1972), 12-13. Also see Ofuatey: Kodjoe, "Toward A Research Design for Crisis Analysis," unpublished manuscript, 1987.

29. Brecher, 11-12.

30. Rohrllich, 66.

31. Hermann, 72.

32. Robert Jervis, Perception and Misperception in International Politics (Princeton: Princeton University Press, 1976), 1-31; Sprout and Sprout, Foundations of International Politics, (Princeton, New Jersey: D. Van Nostrand, 1962), 48-49; Lovell, J.P., Foreign Policy in Perspective, (New York: Holt, Rinehart and Winston, 1970), 9-10; and Deutsch, K.W., Nerves of Government, (New York: Free Press, 1966), 101.

33. Rosenau, 255-56.

34. Feliks Gross, Foreign Policy Analysis (New York: New York Philosophical Library, 1954), 134-41.

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36. Ofuatey-Kodjoe, "Toward a Research Design Crisis Analysis," 3.

37. Nathan Glazer and Daniel P. Moynihan, Ethnicity: Theory and Experience (Cambridge, Massachusetts: Harvard University Press, 1975), 145.

38. J. Holsti, International Politics: A Framework for Analysis (Englewood Cliffs, New Jersey: Prentice Hall, 1977), 198.

39. Ibid., 204-205.

40. In different situations, such influentials have been identified as dictators, a small clique, a secret cabal, a dominant ethnic group, monopoly capital (Lenin, 1939), a hegemonic class (Poulantzas, 1973), or even foreigners in a penetrated system (Rosenau, 1966). Whatever their characteristics, they are here designated as the foreign-policy elites.

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CHAPTER II

THE NIGERIAN FOREIGN POLICY DECISION-MAKING SYSTEM: 1983-85

The Structure of the Nigerian Decision-Making System

According to Michael Brecher, the political structure refers in part to the political institutions and constitutional matrix in which authoritative decisions are made. He argued that it is necessary to assess the influence of these characteristics in the specific issues under analysis. He states:

...It is only through an integrated framework of a foreign policy system that the foundations of cumulative insights into this branch of social science are well established. And only thus is it possible to amass sufficient knowledge about state behavior in the past to permit tentative predictions of probable response to similar challenges in the future.¹

Another significant advantage of this type of framework for analysis is that it puts in perspective the role of various political institutions in the formulation and implementation of policy-making. For instance, J.E. Uduchi, a permanent secretary in the executive office of the president, clearly states the very powerful presence of the executive in Nigerian policy-making: "the policy-making arm of the government is the executive."²

The limitation of this approach to analysis is that too much weight is given to institutional forces with the result that "the impact of socioeconomic structure and social classes is de-emphasized, if not completely ignored."³ And in the absence of such human inputs, institutions are sterile and meaningless. This was probably what a commentator had in mind when he declared that

...men make their institutions effective and not the other way around. Men bring their knowledge, personality, courage and moral resolve to the offices they hold in a nation's institutions and thus animate them.⁴

As Joy U. Ogwu rightly pointed out, "the constitution as superstructure can only influence and condition the domestic base to a limited extent. For without a corresponding change in the material conditions extant in the system, the political structure and the constitution may be ineffective."⁵

The transition from a colonial to a neo-colonial political economy in Nigeria has resulted in the crystallization of class relations and generated internal contradictions that cannot be resolved with federal arrangements alone, as provided in the constitution. Our analysis must take into consideration the structure of the political economy -- the socioeconomic inequality and the ownership of the means of production in the country -- for these phenomena also impinge on the rational decision-making process. According to Ake, "Our problems are rooted in our history and in the concrete economic and social structures

which it has evolved." Therefore any attempt to grasp the dynamics of state behavior in Nigeria must examine the interaction between the socio-economic and the institutional variables of the decision-making process. "There are social processes which are involved in the making of a given political decision, complemented by intellectual and cultural processes which give to each society a distinctive mode of decision-making. Each decision maker is a product of the national culture; cultural values shape political decisions in many subtle ways."⁶

Our analysis must therefore deal with ethnic and socio-economic factors which impinge on decision-making. We must conceive Nigerian society as a totality and political relationships must be treated in light of the interplay of forces that constitute the dynamics of politics. Markovitz, in arguing for a suitable methodology for analyzing African politics, contended that,

...In the African context, class models must certainly be modified by factors of cultural values and communal concern, as well as those of race and ideology. The normal and historical logic of the social sciences is that of an either/or situation, to think in terms of class and community as mutually exclusive categories. Yet the political facts of the real world indicate the need for a different logic and a more subtle formulation. Sometimes a given population acts in unity on the basis of a perceived common identity; at other times "a people" split into clashing classes. When and why does this happen? Are appeals to ethnic or tribal loyalties simply another device of the dominant classes to strengthen their rule? What are their alternative explanations?⁷

The superimposition of the colonial capitalism since the late 18th century transformed the social and class structure of Nigerian society and set in motion the process of its incorporation into a peripheral capitalist system. There emerged at independence a class structure that had established a very well-defined class interest that was effectively linked with the dominant sector of the metropolitan bourgeoisie. What Crawford Young said about the whole continent of Africa was also true of the Nigerian society:

"Thus during the third quarter of the century of colonialism in Africa, quite novel patterns of social stratification were taking form, shaped by the colonial state itself, the status value it introduced and the peripheral capitalism, it sponsored....The end of colonialism brought important changes into the nature and doctrine of the state which in turn had repercussions for the dynamics of class and cultural pluralism."⁸

The most visible and significant was the emergence of a state bourgeoisie which took control over the political and bureaucratic apparatus of the state. As Sklar has pointed out that in independent Africa, the dynamics of classes are shaped by power relations rather than relations of production. Independence opened up the upper reaches of the state hierarchy previously closed to Africans, politics created new superstructures (legislatures, parties, ministries, etc.).⁹

Apart from successfully imposing colonial and late neo-colonial dependent structures and institutions on Nigeria, those foreign economic interests succeeded through the western educational system in shaping the social, political,

ideological, intellectual, psychological and cultural values of the country and thereby sustained for a long time the economic structures and processes which they had foisted on the nation. In fact it is this situation that has conditioned the pattern of economic development, the worldview of the Nigerian ruling class, the nature, direction and content of foreign policy initiatives and action.¹⁰ It is therefore not difficult to see why our political ruling class, top managers and business executives, economic planners and university intellectuals and elites in general tend most of the time to promote economic theories and policies which obviously protect economic interests and preferences of dominant economic interest groups, rather than the interests of the majority of Nigerians. They do so because they have been unconsciously co-opted as allies of foreign economic interests with serious policy implications. According to Steve Smith and his companion,

Actions are formulated and implemented within a particular "world view" which reflects the prevailing notions of what is right and is appropriate....But world view also reflects a deeper level of assumption which forms the structure of and is normally institutionalized into the policy-making and implementing process. The assumptions reflect basic approaches to understanding policy and are called decision-making epistemologies by Miriam Steiner.¹¹

Political Economy of the Nigerian State

The development of the Nigerian state has engendered the development of a stratum, the ruling class, who share considerable status, power and wealth within Nigerian society.¹² The Nigerian ruling class, like their counterparts in other parts of the capitalist world, possess the major instruments of economic production and distribution and the means of establishing their political dominance over the rest of the social classes. Segun Osoba observed that

there is a general consensus about the smallness of the power elite in Nigeria and other African countries, but there is no doubt that the role played by Nigerian elites in the life of the country in the period under review was out of all proportion to its numerical strength....It played a dominant role in the sectors of the national economy not directly controlled by foreign business interests, it virtually monopolized all the key decision-making positions, in regional and federal bureaucracies and exerted an unusually strong influence on the value orientation of the people at large.¹³

It is necessary to state that local capital in Nigeria is partially independent of both state and foreign capital and is able to play them off against each other for its own interests. Local capital is engaged in a complex dual alliance with both the state and foreign capital which, although it provides a basis for immediate individual accumulation, may not provide much of a basis for national capitalist development. The most common feature of the new enterprises in Nigeria tend to be what Peter Evans called "a complex triple alliance" among elites of local capital, international capital and state capital.¹⁴

Political Elites

This is an extremely small privileged group who participated in actual decision-making as well as policy implementation of the state. These include top party leaders, ministers, members of the national assembly, top army and police officers and senior civil servants identified with the state bureaucrats and parastatals. Some members of the state bourgeoisie were the nationalist elites and former state functionaries who inherited the functions of the colonial British expatriate personnel and are committed to the capitalist path to development. As Gavin William has put it, the British, through their control of the political process of decolonization, promoted class and power relations which would ensure the continued domination of Nigeria by international capitalism.¹⁵

Although these administrative officers may not be directly involved in productive activity (playing any of the traditional roles of the bourgeoisie as entrepreneur, employer of labor, innovators, risk-takers or profit maximizers) they usually enjoy a "high salary bracket" and a potential for high consumption of both domestic and imported goods. They represent the well-do-do in Nigerian society and are quite bourgeois in their style of life and social values. The indigenization policy of the government after independence has strengthened their position vis-a-vis the private sector

as the need to provide administrative and technical expertise increased.

The senior civil servants, although subject to the control of the political and military authority, occupy an extremely strong position in the state apparatus. This function in government enables them to select and organize the information to be presented to ministers responsible for the formulation of state policy. These top bureaucrats take part in a number of commissions and board meetings and act as chief advisors in the cabinet meetings. During the military regimes the federal bureaucrats, often referred to as "super permanent secretaries," actually ran the affairs of the government.¹⁶ Apart from their strategic location in the state apparatus, their influence is also derived from their relationship with foreign and local capitalists. It is quite common for companies to influence them through bribes, kickbacks into their accounts in the negotiation for government contracts and projects especially those who have interest in maintaining extensive relations with the business community. Kleptocracy has become the hallmark of the Nigerian political system -- another instrument used by members of the indigenous bourgeoisie to satisfy their ambition for personal wealth and power.¹⁷

Business Elites

Appended to the state bourgeoisie (bureaucrats, the military and politicians) is another faction, the commercial bourgeoisie, whose commercial activities have brought significant wealth and power within their reach. They constitute both the indigenous and foreign entrepreneurs. But unlike the metropolitan bourgeoisie, the indigenous bourgeoisie prefers to engage in commercial distributive trade because of the lucrative profits which accrue from it rather than follow the classic pattern of capitalist development -- organizing labor, capital and raw materials to produce for the market. This is why they are sometimes referred to as a compradorial class -- professional intermediaries who organize the access of foreign traders to the local market.¹⁸ In other words, they occupy a critical role in the social formation, mediating relations between the foreign bourgeoisie and other social classes in the circulation of commodities.

They have formed various sectoral associations and organizations to promote their group interests, including the Manufacturers Association of Nigeria (MAN), the National Association of Chambers of Commerce, Industry Mines and Agriculture (NACCIMA) and other various professional associations. Given the poor material base of this class, it had to depend on the state machinery for its prosperity, using fiscal and mercantile opportunities provided by the state in order to transform itself into a bourgeoisie. For example,

through the indigenization decrees of the 1970's, the military government decreed that foreigners could not engage in certain economic activities and must have Nigerian business partners in other activities. What indigenization seemed to have accomplished is to,

secure a certain position for a growing local elite of private entrepreneurs while at the same time preserving a dominant place for foreign capital elsewhere in the industrial sector.¹⁹

Nigerian rulers rely on foreign companies, especially the oil companies, for funds, support and commercial deals. Among them are large subsidiaries of foreign-based transnationals, other foreign companies which have business connections to Nigeria, banks and finance houses who grant loans and arrange credits to Nigeria, and the IMF, World Bank and global or regional institutions with interests in Nigeria. The dependence of the Nigerian state upon external transactions to meet its own revenue needs has guaranteed the role of this category and provided access to and influence on state decision-making. Foreign firms compete with one another for a share of the lucrative Nigerian market by offering inducements to local middlemen and state officials,²⁰ for the state promotes capitalist development in close collaboration with foreign capitalists as well as the growing class of Nigerian entrepreneurs. Hence, Terisa Turner called this market relationship between the bureaucratic elites, the local middlemen and foreign interests a commercial triangle

because it involves three parties in a buying or selling transaction.²¹

While there is competition for commercial opportunities, the contradiction between foreign and domestic capital is not antagonistic (Beckman, 1981, 1982, 1985). That means even though there are occasional differences among the bourgeois forces in terms of intra-class squabbles and intrigues, they are entrenched both in the upper echelons of the economy and in the state apparatus, so that regime changes do not threaten their position.

The Petty Bourgeoisie

This is a heterogeneous group which consists of professional cadres: doctors, engineers, accountants, management executives, school teachers, intelligentsia, etc. The rapid expansion of university education in Nigeria in the post-colonial era, as well as the increasing division of labor in social production, account for the rapid growth of this category. The essential feature of this group is its aspiration to transform itself into genuine bourgeoisie. They are mainly urban based and have played an important role in Nigerian politics. Some have also engaged in compradorial activities, straddling between their professions and lucrative commercial activities. According to Segun Osoba:

Private practice among state-employed doctors, lawyers, engineers, surveyors, accountants, etc., often yields untaxed incomes in excess of their official salaries and constituted an important instrument of capital formation

and reliable passport into the ranks of the emerging money class, who by virtue of their wealth also come to have considerable influence with the political decision-makers.²²

The logic of the ruling-class analysis is to suggest that as a result of the pervasive economic, social, intellectual and cultural values and structures established by these groups to perpetuate their interests, government economic strategies and policies in general are likely to reflect the interests and preferences of these dominant groups at the expense of other not so well-organized, articulate or powerful interests in this country. The interests, values and perspectives of the groups and individuals who dominate the state apparatus will influence policies designed to provide for capital accumulation because accumulation takes place among elites. But the country's political economy is characterized by a class structure dominated by an elite which is engaged in primitive capital accumulation and which has strong ties to capital in the Western bloc countries.

The strength and weakness of the ruling class can only be accessed in relation to the non-ruling class forces. The Nigerian political economy has been characterized as both complex and fluid. The multiple class identification has made rigid class crystallization imprecise. But despite the fluid character of the social structure, discernible social cleavages can be identified in the social formation. It is important to emphasize that class differentiation is still very much in progress, that both bourgeoisie and proletariat

are still relatively underdeveloped and that ethnic conflict is one of the modalities of both intra-class and inter-class struggle.

The political economy of Nigeria is complex and fluid and cannot be reduced to either the conflict of district classes or class alliances within or across borders or to the play of tribalistic forces. In simplest terms, Nigerian society is comprised of vast layers of the working, peasant, petty-bourgeois classes trying to make a living and get their limited share of the national cake as best they can, with a small ruling class on top. The two layers are linked by patron-client ties, by commonalities in religious, ethnic, regional sentiments, by an intelligentsia that carries the voices of the people into the arena of the ruling classes, and by fractional conflicts and occasional riotous communication.²³

The Working Class

The existence of a working class with distinctive socio-political interest emerged early in the labor history of Nigeria either as a protest movement or as working class organizations to challenge the domination of employers or owners of capital. This antagonistic relationship between labor and management has taken various forms. Since the colonial era, the withdrawal of labor as a form of protest or as a weapon of negotiation with the employers has been a significant development among the Nigerian working class. But the colonial state has also used repressive legislation in order to domesticate the workers.

Prior to the outbreak of the Nigerian civil war in 1967, the state relied on the Labor Control Acts, Ordinances and Regulations, most of which had been passed by the fascist colonial state. These include The Trade Union Ordinance of 1938; the Trade Disputes (Arbitration and

Inquiry) Ordinance of 1941; the Labor Code Ordinance of 1945 and The Wages Board Ordinance of 1957. These ordinances were partly responsible for the internal feuds, competition and crisis which²⁴ plagued post-independence trade unionism in Nigeria.

This policy of repression continued in the post-independence period in order to maximize the extraction of surplus and domesticate organized labor movements. For instance, early in 1975 the military regime of General Gowon passed the Petroleum Production and Distribution (Anti-Sabotage) Decree 35 in order to control strikes and protest in the oil industry on which the state was heavily dependent for government revenues.²⁵ This decree defined any strike action by oil workers (including oil tanker drivers) as an attempt to sabotage the Nigerian economy. It stipulated the death penalty or imprisonment without trial for such criminal acts. Other similar decrees have been promulgated which empowered the state and its agents to prescribe trade unions, prosecute union leaders for encouraging, publishing or embarking on strike actions especially during the Buhari and Babangida military regimes.

The working class is still a relatively small part of the total population. A large segment of the working class remains urban migrant workers or semi-proletarianized, gaining part of its living from production on land or still maintaining close ties with the rural areas. The working class is composed of factory workers (in manufacturing and mining industries), petty-traders, market women, junior

clerks, oil workers, dock workers, etc. The Nigerian Labor Congress (NLC) claims a membership of which only 300,000 are in the private sector; the rest are government employees.

The Popular Masses

The popular masses refer to amorphous groups of the rural and urban majority who are drawn from the peasantry, unskilled and semi-skilled wage-earners and independent producers of the urban informal sectors. The term "popular masses" is used to underlie two major characteristics of this class -- the lack of clear internal differentiation and the unorganized nature of their presence in Nigerian politics."²⁶ The peasants, who form the majority of this class, are widely dispersed through the rural areas of the country and they are engaged in subsistence production and exercise control over their small private plots through kinship groups. During the oil boom of the 1970's, this class of Nigerians came to view the burgeoning cities -- not the farms -- as the place for opportunities, incomes and fortunes are made. These rural dwellers, especially the young -- have abandoned the rural areas and migrated to the urban areas in search of gainful employment and to share in the new oil wealth. This rural-urban drift of the young has damaged Nigerian agriculture and created appalling urban slums marked by high rates of crime, disease and high unemployment.

In spite of the fact that they constitute the majority of the population, their political impact has remained largely disorganized and marginal. They participate in the political life of the country through cultural bound channels and through sporadic violence. They do not have an independent political organization. The cellular structure of the production system in the rural village, the tyranny of work, the lack of political experience beyond the village -- all combine to operate against the peasant's ability to organize at the national level.²⁷

Political and Constitutional Framework

Nigeria as a modern political state or entity is the result of imperialist creation through amalgamation of various ethnic units. The political and institutional developments that have evolved in the country were devised to reflect the cultural pluralism and the complex socio-economic structure of Nigerian society. One of the basic problems that has dominated Nigerian politics is the question of ethnicity.²⁸ Alhaji Shehu Shagari, the President of the Second Republic, correctly noted this perennial problem in Nigerian politics during his inaugural address in 1979:

The problem of creating a national government, a viable economic base and integration of various ethnic groups in Nigeria in fairness and without acrimony, overwhelmed the first republic. These problems are still with us and it is our determination to do our utmost best to contribute to their resolution.²⁹

Eleazu and many other scholars on Nigerian federation have made the same observation. In his study on federalism and nation-building he noted:

One basic problem (among many) in the Nigerian political system is that the basis of association of these various ethnic nationalities is always being called into question: subsidiary to this is the question of developing political instrumentalities that are congruent with agreed on basis of association.³⁰

The socio-cultural pluralism of Nigerian society has tended to emphasize regionalism (1954-1966) and statism (1970-1983). The component units of Nigerian federations have undergone profound transformation since the country obtained independence from colonial rule in 1960. It has evolved from tripartite regional division (North, East and West) at independence to four units in August 1963, when the mid-west region was created out of the Western region. In May 1967 the military government decreed a twelve-state structure, and in February 1976, a further reorganization was carried out by the military government which transformed the federation into one of nineteen units with a new federal capital territory, Abuja, still under construction. On the September 23, 1987, President Babangida created two more states (Katsina and Akwa-Ibom) to bring the number to twenty-one states. The principal argument against creating new states is that the present state governments are already inefficient and expensive to run and that the new trappings for additional state governments,

including more politicians, civil servants and offices, would only lead to more unproductive expenses.

The redivision of the federation into twelve states and later into nineteen states is seen by most observers as an attempt to maintain the national entity against centrifugal forces which have threatened disintegration of the country since independence. The federal structure of government was adopted in order to give each section a share in the exercise of political and economic power in coordinated relationship with the center. Indeed C.S. Phillips aptly commented that "the very essence of federalism is the lack of sufficient national consensus to create a unitary state."³¹

No region was ethnically homogeneous and some minorities demanded autonomy from the majority groups, especially the non-Hausa people living in the southern areas of the Northern region. There were also some movements in Bornu, Benin, and among the non-Ibo peoples of Calabar and River provinces in the East Region. After formal independence in 1960, the constitutions of the three semi-autonomous regions contributed to various political crises leading up to the Nigerian civil war, which lasted for 2 1/2 years. The creation of the new state structures has more or less followed ethnic demarcations.

Federalism as a feature of government has come to color every regime and every important policy in Nigeria.

Section 14(3) of the 1979 constitution has certified this practice:

The composition of the government of the federation or any of its agencies and the conduct of its affairs shall be carried out in such a manner as to reflect the federal character of Nigeria and the need to promote national unity and also to command national loyalty thereby ensuring that there shall be no predominance of persons from a few states or from few ethnic or other sectional groups in that government or any of its agencies.³²

As Idang correctly observed, " Nigerian foreign policy debates had strong ethnic and regional undertones which undermined the interpretation and transmission of foreign policy issues throughout the society in meaningful terms."³³

As it is, the situation in the country has to be handled with care and sensitivity if the existing tenuous thread of national unity is to be maintained and if a broad consensus is going to be created at home for foreign policy actions.

The 1979 constitution brought the country back to civilian rule after almost fourteen years (1966-1979) of military government. Nigeria, like the first republic, had a multiparty political system and its politics continued to reflect regional and ethnic frictions which provided a major backdrop to the 1966 military takeover. Most of the new political parties formed corresponded closely to those of the first republic in all but name. The National Party of Nigeria (NPN) grew out of the Northern People's Congress (NPC). The Nigeria People's Party (NPP) is broadly the former National Council of Nigerian Citizens (NCNC). The Unity Party of

Nigeria (UPN) is the Action Group renamed and the People's Redemption Party (PRP) was formerly the Northern Elements Progressive Union. The Great Nigerian People's Party (GNPP) is a newcomer, having originated from a split with NPP.

It is interesting to point out that the leaders of these parties, like Dr. Nnamidi Azikiwe, Chief Obafemi Awolowo and Alhaji Shehu Shagari, were not only major political actors in Nigeria but also symbolized the tribal aspirations of their people. Chief Obafemi Awolowo of the Unity Party of Nigeria was a personification of Yoruba ethnicity. The Nigerian People's Party, led by Dr. Nnamdi Azikiwe, was a reincarnation of Ibo solidarity while Alhaji Shehu Shargari retained the loyalty of Hausa/Fulani groups. The new political parties still have a strong ethnic or religious bias and in the 1979 and 1983 elections, tended to win all the seats in the home areas of their leaders which correspond to the major ethnic groups.

These competing leaders of major political parties vie for authority to make political and economic decisions in the system. During the 1983 political campaign Chief Obafemi Awolowo and prominent members of his opposition party tried to advocate a change in the country's petroleum marketing policy. They precipitated a national debate regarding Nigeria's membership in OPEC, urging the country's decision-makers to review Nigeria's presence in OPEC. Chief Awolowo, then the leading opponent of President Shehu Shagari in the

1983 election, publicly stated his opposition to OPEC membership:

I never favored Nigeria going into OPEC and I would reconsider membership in OPEC and the price of our oil if I won the election.³⁴

Mallan Yahaya Dikko, the presidential adviser on oil affairs and the president of OPEC during the Shargari regime was forced to defend Nigerian membership in the face of persistent criticism from opposition parties and leading members of the business community. In an address to the Vice-Chancellor of the Nigerian universities, he stated,

Nigeria's interest requires a strong OPEC and its exit from OPEC would lead to the disintegration of the organization and a price collapse which would mean lower revenues for Nigeria and for every oil producer. What needs to occur to prevent this thinking is for every OPEC member to act in such a way that the benefits of OPEC membership can be clearly felt and seen by all the citizens of its thirteen member states.³⁵

Michael Watts and Paul Lubeck interpreted the ethnic situation from the radical perspective. According to them, given the reality of politics in a petroleum state like Nigeria, where the elites distribute patronage through ethnic networks, one should not be surprised that ethnic voting patterns were strongly represented in the 1979 elections. But from the individual's perspective, ethnic loyalty is a mode of resource acquisition, not necessarily a commitment to the primacy of ethnic over class politics.³⁶

Even the revisionist school, while acknowledging the political saliency of ethnicity, is beginning to advance new interpretations of ethnicity and ethnic phenomena. Proponents

argue that instead of ethnicity being based on primordial sentiments, the politicization of ethnicity is often based on the competition among various groups over scarce resources of the modernizing sector. Sklar contended that ethnic movements may be created and instigated to action by the new elites in furtherance of their own special interests, which are often constitutive of emerging social classes.³⁷

The 1979 constitution, in an effort to break this pattern, demands that each party show effective strength and organization throughout the country. However, the persistence of ethnic rivalries channelled through party competition and electoral behavior did not indicate any major shift from the old pattern of party politics. The new parties remain regionally and ethnically based rather than ideologically oriented. Despite a sad level of regional and tribal correlation in voting behavior, one thing demonstrated in the 1979 election was the extent to which the political map of Nigeria had changed during the hibernation of political parties during military rule. It was the first election since the creation of twelve states in 1967, followed by an extra seven in 1978, and in fact, the first fully operational election in 1959.

So it was a chance to see how the break-up of the former powerful regions into lesser units had cracked the old political certainties which the regions represented. In the case of the old north, once under the hegemony of the Northern

People's Congress (of which it used to be said -- "not so much a party, more a way of life") this was undoubtedly visible. Bornu, Gongola, Kano and Plateau states and even the governorship of Kaduna state, which were all NPC strongholds, abandoned the NPN, the nearest thing to a successor to the NPC. The NPN, with a much more genuinely national spread, made important gains in two states that were once part of the eastern region -- Rivers and Cross Rivers. Success was as much as anything a legacy of the Civil War period. It was only the former Western region which voted all one way, for UPN. The 1983 elections, which would have confirmed this crack once and for all in Nigeria's body-politic, were marred by corruption, violence and cheating, so that it was difficult to evaluate the actual electoral behavior in Nigeria. However, bloc votes that related ethnic groups or smaller sectional interests are still very much in evidence and this trend is likely to continue in the foreseeable future.

Some have argued that the history of civilian rule in Nigeria in the first and second republics was not one of radical party politics like class-based parties, strong political trade unions or populist rural organizations. Of course, they admit that social and political factors change as well as economic ones. Indeed, we have pointed out earlier two important alterations in the relationship between states and the federal government, and in the centralization of power in Nigeria. We have looked at institutional changes, too.

It is conceivable that a different leadership -- civilian or military or some coalition thereof -- could come to power in Nigeria with new commitment and different strategies. The organization and constituency base for such leadership would be weak and it would have to build its own base -- which is not an easy thing to accomplish.

The 1979 constitution breaks with Nigeria's inherited British parliamentary system in favor of a U.S.-style presidential model with a strong elected head of state and separation of the legislative, executive and judicial branches. In other words, the Nigerian federation had in the second republic a directly elected president, checked by an elected bicameral legislature and regulated by a supreme court. Each state has the same in miniature. The 1979 elections installed President Alhaji Shagari and his party, the National Party of Nigeria (NPN), firmly in power, despite bitter protests from one major opponent, the Unity Party of Nigeria (UPN), over constitutional interpretations.

The constitution clearly defined the allocation of legislative and executive power not only between two levels of government (federal-state relations) but also clearly delineates the powers of the central government. The constitution outlines a system of government in which the states of the federation have a certain amount of autonomy, and in which the states receive most of their revenues from the federal government according to a formula based on

population and other factors. A new allocation system, devised in 1981, allocates roughly 55 percent of the revenue to the federal government, 35 percent to the states and 10 percent to the local governments. One significant feature of the new system is that Nigeria has moved from a two-tier to a three-tier system of government -- the federal, the state and the local government -- the functions and power of each tier being clearly defined in the constitution.

Apart from ethnic rivalries, there is a long-standing argument over allocations of federal funds. There is a strong belief that certain groups and areas would fare better if they were independent or if revenue allocation was based on a derivation principle. In particular, the oil-producing areas, which provide the bulk of the country's wealth, would like to see a greater share of revenues. Others argue that the state could not expect to be self-contained or self-sufficient: the country as a whole constitutes a single economic system and so long as this system is viable, the viability of the component units can be assured through the normal process of exchange and redistributive actions of the federal government. Through Decree No. 9 of 1971, rents and royalties of offshore petroleum mines were transferred from the states to the federal government. In this way, the federal military government repealed a section of the 1963 constitution which had previously assimilated the continental shelf areas of the federal government.

The practice was accepted by the 1979 constitution and must have been largely motivated by the last Civil War in which there was struggle between the former eastern region of Nigeria and the federal government over the destination of oil royalties and revenues. Indeed, in a bid to remove any doubt, the federal government now has a special arrangement with oil companies in which it is the only lawful authority in Nigeria to whom payment of oil monies should be made at all times. Although the states have relatively few resources for generating revenue within their borders, they may individually determine policy on matters such as education, health care and local industrial development. Prior to the civil war and the oil boom, the political and fiscal strength of the federal center was relatively weak in relation to the regions. Framers of the 1979 Presidential Constitution seemed to have put all matters relating to external relations under the federal government's exclusive jurisdiction.

The constitution provided for a presidential system of government in which the president was the head of state, chief executive and commander-in-chief of the armed forces. During the period under consideration, the constitution gave the executive arm of government pre-eminence in the formulation and execution of foreign affairs. This appears to be evident from section 136(2)(a) of the Nigerian constitution which imposes the onus of policy-making on the president. The constitution states that the president and

the vice president and all the ministers shall meet regularly at meetings, known as the Federal Executive Council, for the purpose, among other things, of determining the general direction of domestic and foreign policies of the federal government, and that the president, vice president and a minister of the government of the federation shall appoint any person as a special advisor to assist them in the performance of their duties, and their remuneration and allowances shall be prescribed by laws and by resolution of the national assembly.³⁸ The logical and perhaps inevitable consequence of this provision is that the president will handle aspects of foreign relations such as international trade, oil, international law, and international finance, and recruit specialists in international relations and foreign policy as special advisers.³⁹

Given the wide powers and talents at his disposal, it is not surprising that the president is a major factor in the formulation and implementation of policy. For example, during the commissioning ceremony of the Kaduna refinery in 1980, President Shagari stated the government policy in the petroleum industry as follows:

- i. The short-term policy in respect of production is that this will be related to the absorptive capacity of the oil market as well as to Nigeria's obligations as a committed member of OPEC. In the long-term, production will be influenced by the estimated reserves so as to create a healthy balance between what is exploited and what is deliberately left in the ground for strategic reasons.

ii. In the areas of crude oil marketing, there will be diversification of customers on both a geographical and ideological basis. We will be responsive to the needs of African countries whereas every effort will be made to remain non-aligned in the true sense of the word, we will extend our hands of friendship to every nation which shares our common desire for peace, progress and justice throughout the world.⁴⁰

This does not imply that other institutions and groups have no important role to play under the Presidential system. In fact, under the constitution supreme law-making powers are vested in the legislative branch of government. The question of mines and minerals, including oil fields, oil mining, geological surveys and natural gas, fall under Item 36 of the exclusive legislative list. Section 43 of the constitution confers power to the national assembly to make law on the exclusive list to the exclusion of the states' house of assembly. Therefore policy in the form of a bill can always originate from any of the arms of the national assembly. In an attempt to facilitate this task of the legislature, it is usually divided into committees. This enables the legislature to break up into manageable parts. It is clear, then, that the importance of these committees cannot be over-emphasized. This phenomenon must have compelled analyst R.A. Akindele to contend that,

The purpose of creating specialized parliamentary committees is not merely to streamline the operations of the National Assembly, but also to develop a body of informed parliamentary opinion on specific aspects of public policy. Besides strengthening the capacity of the National Assembly to oversee and control the activities of the Executive, the existence of an informed parliamentary opinion on specific aspects of public

policy is an important prerequisite for sound legislation and informed criticism in any democratic political system.⁴¹

Furthermore, this underscores the interdependence of the president and the national assembly with regard to the conduct of Nigeria's external relations during the civilian regime.

Interest groups do make their own impact on policy making and implementation by working through lobbying systems -- a phenomenon that has been described as an essential hallmark of the presidential system. These groups range from intellectuals, students, labor organizations and professional groups (especially the press) to business associations. According to Brecher these groups communicate information about the environment to the decision-making elite and they may also advocate policies to those who wield authority in the system. Through lobbying, the affected interest can proceed to bring its problems and proposals to the attention of the decision-makers. Members of the national assembly could be consulted and alternatively or simultaneously representations on the issues could be made to the appropriate minister or even to the president himself. Meanwhile, in the bid to mobilize general support among the citizenry, the particular interest group can make use of the mass media. In this way the issues acquire a measure of topical interest to the reading public, the national assembly and the executive arms of the government. While there are numbers of interest groups making demands to the government, the degree to which the interest

groups shape and limit policy is an open question. For instance Joy Ogwu's observation in her evaluation of the Nigerian situation seems to reflect this position.

As a practical matter Nigerian decision-makers have often formulated policies on an exclusive basis, relying mainly on the 'Kitchen Cabinet' of the bureaucracy, and perhaps the political military leadership. On the broadest level, group pressures have not heavily influenced policy. In the case of economic pressure groups, the options that appear to be a response to economic interests may be coincidental or the parallel response of the ruling elite to its own interests or as claimed, the national interests.⁴²

While in theory the Nigerian president, and thus the office, have ultimate responsibility for external relations, in practice different aspects of Nigerian external relations are parcelled out to different federal ministries. According to Olajide Aluko, the top political leaders of both the executive and legislative arms of government sometimes lack experience in foreign affairs. The members of the Senate and House Representative Committees on foreign relations are sometimes too busy with personal enrichment and other prerequisites of their offices to find time to understand the complex problem of foreign relations. Consequently both legislative and executive leaders are heavily dependent on civil servants for advice on policy proposals and briefings on developments in foreign countries,⁴³

thus making the bureaucracy an important agency in the formulation and implementation of Nigerian foreign policy. Moreover, the senior staff of the ministries inevitably

implement foreign policy decisions and they could therefore have enormous impact on the shape of the policies.

Military Government in 1983

This was the structure of the civilian regime until the Buhari/Idiagbon military coup d'etat which again brought back the three-tier system of the military government, namely the Supreme Military Council (now Armed Forces Ruling Council), the Federal Executive Council and the National Council of States. In theory the Supreme Military Council have the supreme power to make policy decisions for the country, but in practice the head of state/president and the Federal Executive Council exercise this power. In other words, the Executive Council is responsible for executing the general policy of the Federal Military Government within such framework as may, from time to time, be determined by the Supreme Military Council. The government's foreign activities are coordinated at the highest political level of the Federal Executive Council. Invariably membership of the Supreme Military Council and the Executive Council overlapped because members of the armed forces were members of the two bodies. The civilian/political class was coopted into the military regime as ministers, through the Federal Executive Council. The National Council of States, made up of state military governors and the head of state, was specifically concerned with state matters.

As would be expected, this new structure could not but have a tangential influence in the structure of oil management in the country. The long-standing tradition of dividing responsibilities for aspects of Nigeria's external political and economic activities continued with the military regime.

The Role of The Bureaucracy in Nigeria's Foreign Relations

Nigeria's bureaucracy plays a crucial role in the formulation and implementation of Nigerian foreign policy decisions. Professor Aluko Olajide has correctly observed this crucial role by asserting "that in foreign policy decision-making in Nigeria the bureaucrats have played a more critical role than any other individual or organization in the country since independence."⁴⁴ He attributes this partly to security of tenure and the "permanent" nature of civil service careers.

In many respects the permanent officials of the civil service have tended to see themselves as the "guardians" of the national interest rather than serving the sectional interest of the government of the day that can be changed by ballot or by bullet. Much of the confidence and pride they have can be traced to their effective performance under the military. They put emphasis on consistency, coherence, and national interest rather than partisan perspectives.⁴⁵

With the arrival of the military administration in Nigeria the senior civil servants were converted from being only advisors and administrators into policy-makers, as a

result of over-reliance by the military leadership on the civil service bureaucracy for policy initiatives.⁴⁶

While not going to the extreme of Allison Ayida, the former secretary to the military government and head of the federal civil service, there is an element of truth in his 1973 statement that "the civil servants had been the initiators and originators of all policies both under the first republic and under the military."⁴⁷ Therefore one of the legacies of the military regime has been the strong influence of the bureaucracy in the policy process in Nigeria; it is possible that this trend will continue into the future.

An important characteristic feature of the foreign policy bureaucracy is that it displays a highly decentralized machinery in the formulation and implementation of foreign policy. Although foreign economic policy is symbolically linked with the management and conduct of the country's external relations, foreign economic activities have never been the exclusive responsibility of the ministry of external affairs. Until the 1970's the ministry of external affairs was concerned with largely political aspects of foreign relations. It has since been given additional responsibilities for some functional matters such as external publicity, technical assistance to foreign countries, and international economic and financial institutions. Even after the institutional reorganization of the ministry in 1972, the economic division was still not in a position to make or

administer Nigerian foreign economic policies. Aluko was largely correct when he pointed out the economic division of the ministry in 1970 was hardly better than a post office through which, at times, some technical assistance programs were transmitted to the Ministry of Economic Development.⁴⁸

The bureaucracy that has responsibility for aspects of Nigerian foreign economic relations includes parts of the Ministry of Finance, the Ministry of National Planning, the Ministry of Trade⁴⁹ and the Ministry of Petroleum Resources and Energy. Since 1960 the Ministries of Finance and Trade have been allocated the responsibilities for financial institutions and foreign trade, respectively. The Ministry of National Planning has always been responsible for relations with ECOWAS, ECA and UNDP and the coordination and presentation of external technical assistance under the Ministry of External Affairs. Since January 1984, "relations with OPEC" have again been allocated to the Ministry of Petroleum and Energy. G.O. Olusanya and R.A. Akindele rightly observed that,

...As far as the conduct of the whole gamut of Nigeria's external relations is concerned, what has emerged clearly from the post-1966 allocation of responsibilities is the need for and premium placed on coordination and cooperation among the major relevant ministries. It is patently clear that the Ministry of External Affairs has no primary responsibility for the country's external economic relations. This responsibility jointly belongs largely to the Ministry of Finance, Ministry of Trade and Ministry of National Planning.⁵⁰

Much of the work of these ministries centers on the collection and interpretation of information regarding foreign

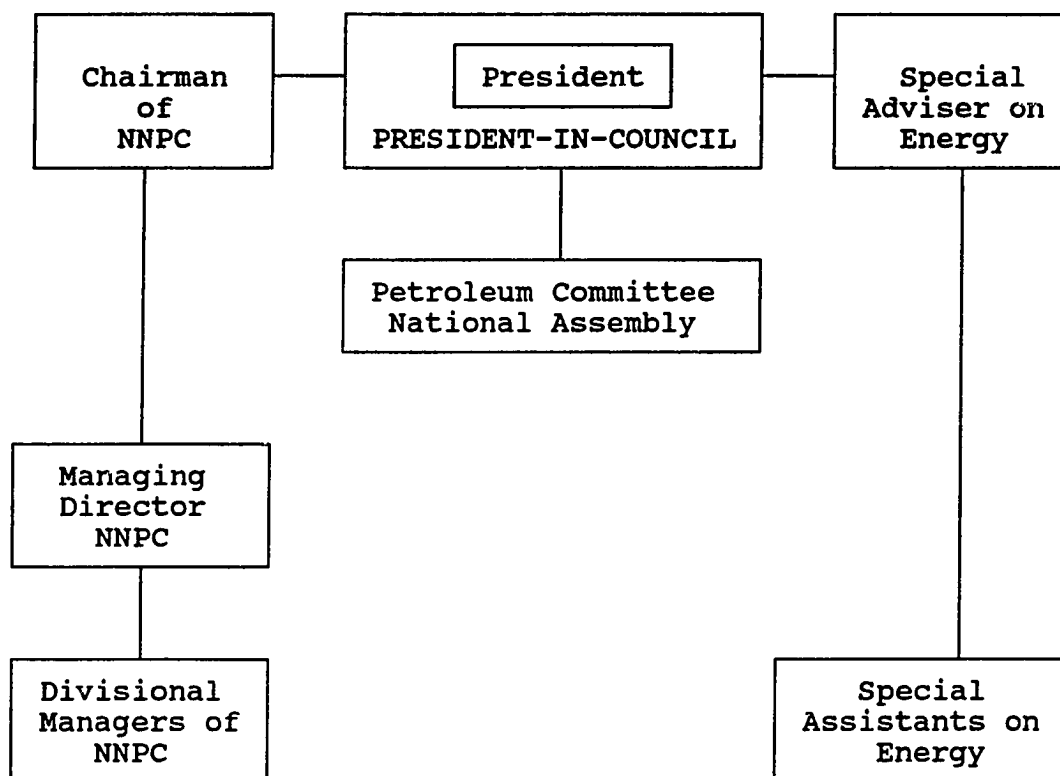
relations. The top officials of the Nigerian bureaucracy command information and expertise acquired partly out of formal training and partly on the job due to the permanent nature of the civil service career. The civil service is the main source of advice and policy proposals tended to the minister and head of state.

But within the Nigerian presidential system, policy formulation is preceded by a number of activities. The ministry (or ministries) charged with responsibility for the activities connected with a proposed policy prepares a memorandum which takes into account inputs from experts and professionals in the ministry and the reaction from the other ministries or institutions that are likely to be involved in the implementation.⁵¹ This memorandum is supposed to give a clear and concise account of the problems, considerations which should guide the search for solution(s), possible alternative approaches and strategies, and anticipated implementation problems and ways of eliminating them. The draft with policy options and recommendations is then presented to the minister in charge of the ministry, who initials the draft and sends it to the council secretariat in the executive office of the president for processing and circulation to the members of the council of ministers and various special advisors and assistants. Decisions are normally made by consensus after which the policy, as decided, is remitted to the ministry concerned for implementation.

This implementation phase is usually affected by the civil servants, associated parastatals and government-owned companies. In most cases, decisions are made by the president and the relevant ministries, but are later referred to the executive council for formal ratification, which is automatic in most cases. Given the nature of external relations, an executive that meets once a week hardly plays an important role in foreign policy decisions.

In the specific case of oil, decision-making responsibility was not placed with a ministry or minister; rather there is a special advisor to the president who reported directly to the president and who performs the functions of a minister (see Figure 2:1). The various divisional managers of the Nigerian National Petroleum Corporation (NNPC), under the overall direction of managing director and the board, fill the place of civil servants in the ministry. At the same time, however, the president also avails himself of the counsel and the advice of some technocrats who are located in the executive office of the president. This brief account of the policy process in the presidential system should be viewed as a rarified conception of the system because it is largely devoid of the human inputs

Figure 2:1

Structure of Petroleum Policy in the Presidential System

Source: Adapted from The President, Issue No. 17, 1981.

that exist under civilian policy making.

In this setting, the relationship between the specialists in the executive office of the president and the NNPC was characterized more by conflict than cooperation, since both groups were engaged in a perennial struggle for the president's attention. For instance, as early as 1981, Onyema Ugochukwu made the telling observation that confusion abounded regarding the respective roles of boards of the oil industry, special advisers and the national assembly, with the result that accountability was virtually non-existent. In this kind of context, it is evident that there was no systematic framework for reaching agreement on long-term objectives and strategies.⁵² And of course, it was also evident that there was no assurance of continuity even when decisions were reached. From the foregoing it is impossible to disagree with an oil analyst who contended,

...All we seem to have had right from the time of the depression of the oil market are a series of reactions to events in the world oil market which unfortunately do not add up to a policy.⁵³

The board of the NNPC, which could have made important contributions in the area of oil policy, was completely devoid of specialists. In fact, it was chaired by a journalist -- a broadcaster who had no sound knowledge about the intricacies of the oil world.⁵⁴ Meanwhile the dismal scenario was complemented by NNPC management which possessed the expertise but could not make policy since it was not a policy making body.

This is significant because the issue of appropriate organization for the oil industry has been the subject of controversy between the technocrats in NNOC and the senior bureaucrats in the controlling Ministry of Mines and Power. The conflict between the technocrats and bureaucrats did not end with the merger of the Ministry of Mines and Power with NNOC in 1977 to form the Nigerian National Petroleum Corporation (NNPC). The explanation of these conflicts or rivalries have been attributed to the composition of the Ministry of Petroleum Resources and NNPC Board, which are mainly constituted by political appointees and senior bureaucrats who have considerable influence on government oil policy. The technocrats, who are located in the NNPC (the state oil company), were mainly charged with the implementation of state oil policy. The technocrats are those state officials whose ability to influence policy decision derives from their technical knowledge and special experience of the industry.⁵⁵

Terisa Turner described the fractional conflicts between the commercial comprador and industrializing technocrats over oil marketing policy and over the control of the Nigerian National Oil Corporation. She attributed the conflict to the technocrats' inability to impose rational methods and national objectives on the state in the face of overwhelming strength of the traditional comprador elements within the civil service. "This group of state officials,

the technocrats, are relatively uncorrupt, not because they possess special moral qualities but because their function is to replace national dependence on foreign firms with local capabilities."⁵⁶ In contrast, "comprador officials who control the new parastatals from their senior positions in the ministries are reinforcing dependence on foreign capital through organizing the access of foreign firms to the local market and to local resources. This difference in their relationship with foreign capital is the source of tension between technocrats and compradors within the state."⁵⁷

Such a perspective, however, fails to appreciate the long-term involvement of state institutions, state capital and the bureaucracy in the promotion of capitalist development, class formation and the creation of a national base for capital accumulation.⁵⁸ The exclusive focus on the dominant intra-class conflicts within the Nigerian state structure tend to underestimate the conflicts with the workers and the peasant and the impact on Nigeria's development. The fractional conflicts between the bureaucrats and technocrats in the oil ministry are probably symptoms of the relative lack of significant influence on oil policies on the part of technocrats than indications of their commitment to autonomous capitalist development through integrated state corporation. Since the colonial period, professionals and technocrats have been in subordinate positions in the Nigerian bureaucracy. In spite of their differences in educational background, in

terms of specialization, these two categories of state officials both subscribe to the government policy of indigenization of the oil sector -- dilution of foreign capital through joint ventures and management with foreign oil companies.

It has been argued that indigenization decrees and other government regulations demonstrate the ruling class's commitment to ending, in a fundamental way, foreign domination of the Nigerian economy. The Nigerian government has stressed the fact that indigenization should not be misconstrued to mean nationalization of industry by the Nigerian government and that the intention is to spread local stock ownership as widely as possible to Nigerian citizens. It is not the government's intention to participate in the private sectors except such as petroleum, iron and steel, communications, utilities and in some cases, banking. Under its policies, the government will take an equity position in a going venture only to make it comply with the Nigerian Enterprises Promotion Decree if private capital is unavailable or if Nigerians are unwilling to invest.⁵⁹

The indigenization policy of the government has not radically altered the basic orientation of Nigerian political economy. Claude Ake in his critique of indigenization policy in Nigeria noted that apart from strengthening the dominant class position in Nigerian political economy, the decree integrates the Nigerian bourgeoisie with international

capitalism by involving them in business partnerships to a greater degree than ever before.

This approach does not address itself to the fundamental cause of dependence. Instead this approach concentrates on the redistribution of ownership and not on the widening of resources base of the economy nor even on changing the conditions and relations of production. Finally this approach does not come to grips with the structural links of the economy to the metropole. It has simply succeeded in instituting a middleman role for the indigenous entrepreneurs in Nigeria.⁶⁰

While it is true that the Nigerian government regulates the establishment and operation of foreign investment through decrees and indigenous equity participation, a critical examination cannot but reveal that the locus of substantive power in the industry is still being wielded by foreign companies. Thomas J. Biersteker's study on multinational, state control and indigenization note that despite the fact that the multinational oil companies operate in a minority position in the Nigerian oil industry, two out of three of the multinational oil companies interviewed maintained that they have retained effective control over their operations.⁶¹

One of the reasons advanced for their position are that they have significant comparative advantage in the exploration process. Another reason stems from the fact that the extreme drop in the real price of petroleum after 1982 enabled the multinationals to renegotiate the terms of their agreements in countries like Nigeria, that are so dependent

on oil revenues for foreign exchange, and the nature of the Nigerian government's participation in the oil industry. While it is true that the NNPC performs a supervisory role over the entire industry, by attending meetings with individual oil companies and monitoring their operations from its headquarters, it does not, however, have enough senior (and competent) personnel to assign to each company as the Central Bank does in the banking sector.⁶² This clearly demonstrates that even though the Nigerian government participates to the same degree (60%) in both the banking and petroleum sectors, the ability to control differs in both industries due to the managerial problems of the government. Quoting an interview with one manager of foreign oil companies who described the nature of Nigerian participation in the oil industry:

[We] look after six blocks (of offshore exploration), NNPC looks after all blocks in the country. Therefore, it has a management problem. NNPC scarcely has 20 percent of the personnel in the oil industry, although it has 60 percent participation in operations. We have fifty people. NNPC probably has two on (us). We may have ten engineers. They may commit one. Therefore in negotiations, the multinational oil companies can predominate. All the NNPC can do is work on general matters.⁶³

The Workings of The
Nigerian National Petroleum Corporation (NNPC)

At the apex of the Nigerian oil industry is the NNPC, a general agency charged with coordinating and regulating activities in the oil sector. The importance of this parastatal reflects not only its crucial role in petroleum management in Nigeria but also the fact that petroleum is not merely an economic commodity but a product with strategic and political implications. The Nigeria National Petroleum Corporation has grown rapidly into a major entity with a substantial stake in national oil industry development. It has become an effective government agency for managing government interests in the oil industry. One of the most important areas in which NNPC has made a significant impact is the marketing of government equity crudes. It handles all contracts for the direct sales of the entire government equity crudes, which reached a peak of 2.3 million barrels before the 1980's oil glut. However, its marketing strategy and policies, especially amidst the uncertainties permeating the world oil market, require some ascertainable criteria for assessing the operational activities that determine or tend to influence the country's marketing options. We will discuss the origin, structure and role of NNPC in petroleum policy formulation and implementation in Nigeria. President Shagari described NNPC as "an institution whose success is critical for Nigeria's progress."⁶⁴

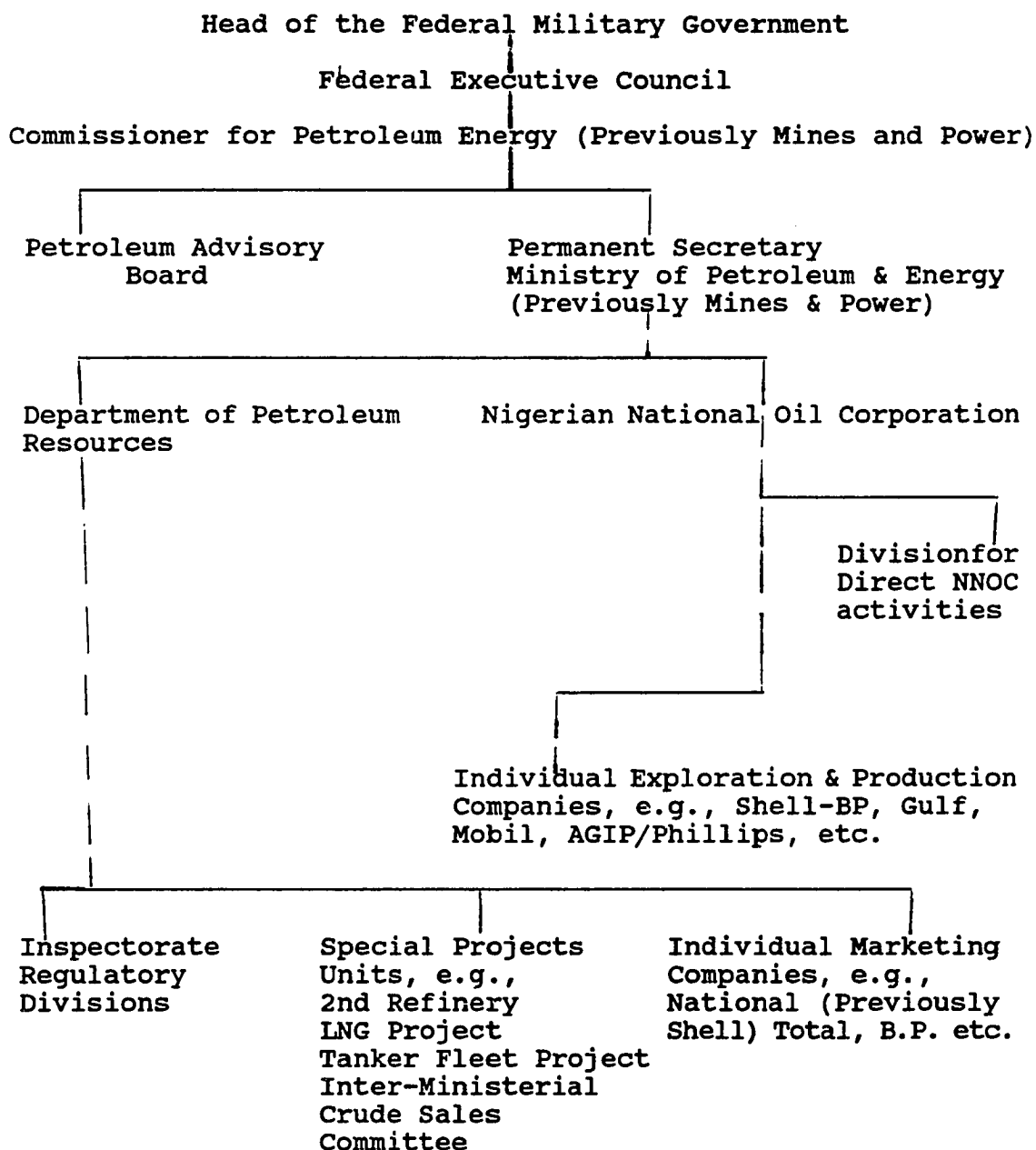
The major aim of government oil policy is the eventual and complete national control of all aspects of the oil industry in order to exploit it for the rapid economic development of the country and the enhancement of the standard of living of the people. In pursuance of this objective, the Nigerian military government, by Decree No. 18 of 1971, established the Nigerian National Oil Corporation (NNOC) as the main vehicle of government empowered to engage in all phases of the oil industry. The creation of NNOC actually marked the start of the government's active participation in the petroleum industry. NNOC was also expected to develop technical and commercial expertise in discovering and exploiting oil revenues, thus paving the way for indigenization of the oil industry. The company was quick to assume a strategic role in the economy following the declaration in 1972 that it would be sole beneficiary of all future oil concessions (though it might use private companies as minority partners or contractors).

By Decree No. 33 of 1977, a further rationalization of the government's role in oil management took place. The Nigerian National Petroleum Corporation was created as a result of the merger of the former federal ministry of petroleum resources and the former state-owned Nigerian National Oil Corporation (NNOC) which had been established earlier (see Figures 2:2 and 2:3). The basic objective behind the merger was to rationalize public sector involvement in the

petroleum industry and thus eliminate unhealthy competition by the two government organs for the scarce technical manpower available to the Nigerian market in the petroleum industry. In other words, the government believed that if the public sector of the oil industry were brought under unified control, better understanding and cooperation would be promoted among the staff -- thereby optimizing the use of scarce indigenous human resources available to the oil industry. According to Lawrence Amu, the former managing director of NNPC, the aim of the merger was to create "a more virile agency" to manage the oil industry.⁶⁵

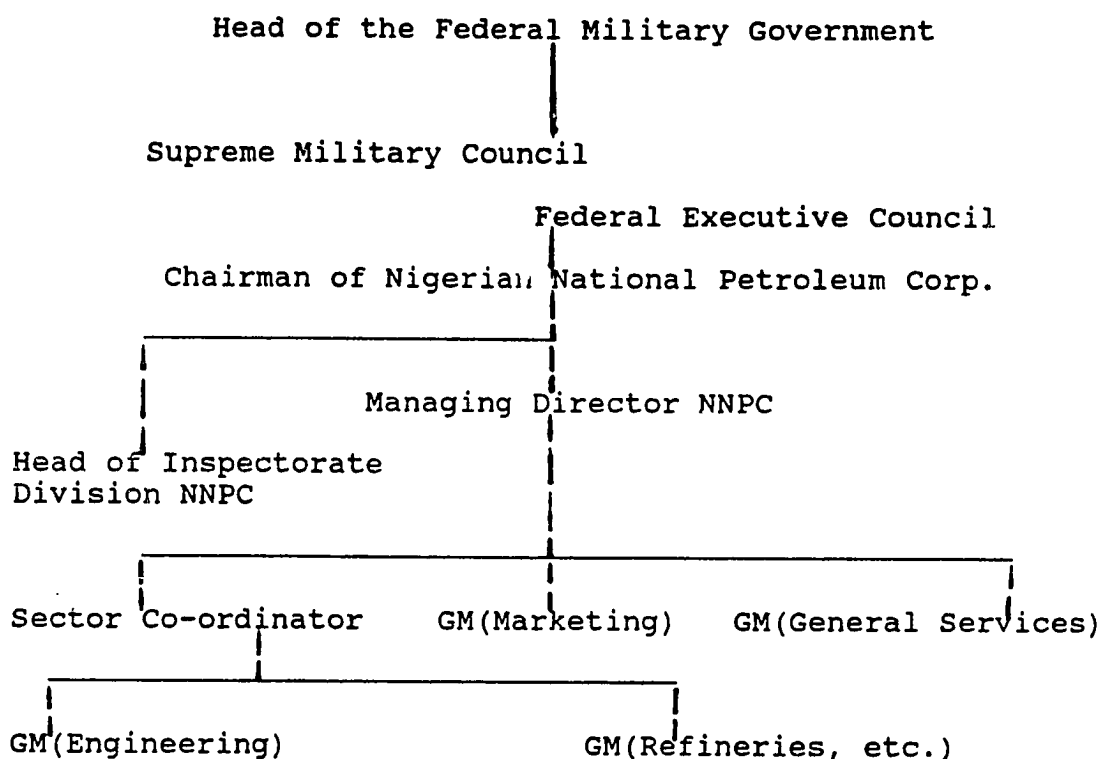
Article 4 of the decree establishing the corporation charged it with the duties of exploration, production, refining, distribution and foreign marketing of oil and oil products -- in short with the responsibility for all facets of the oil industry since the ministry of mines and power (later the ministry of petroleum resources and energy) would cease to exist. The NNPC operates a joint venture project with oil-producing companies, contributing 60 percent of the capital and operating expenses and in turn taking 60 percent of the crude oil produced. The only exception is with the Shell Petroleum Company of Nigeria -- the biggest private firm in the industry in Nigeria -- where the NNPC contributes 80 percent. These duties contrast with those of the dissolved NNOC, which were mainly those of exploration, production and marketing, excluding refining, gas and inspection. Much of

Figure 2:2

Structure and Organization of Oil Management in 1975

Source: P. C. Asiodu - Nigeria and the Oil Question.
1983 p.29

Figure 2:3

Structure for Making Administering Oil Policy in 1979

Source: P. C. Asiodu - Nigeria and the Oil Question
1983, p.30

As regards the reform of this basic structure, the new Administration, after about one year, amalgamated both the Ministry of Petroleum and the Nigerian National Oil Company into one Corporation called the Nigerian National Petroleum Corporation. The Chairman of the Corporation retained his seat in both the Federal Executive Council and the Supreme Military Council. There was no longer a Ministry as such responsible for petroleum affairs. At the management level, the affairs of the Corporation were co-ordinated by the Managing Director. It took, however, another year for an appointment to be made to this post. Even then the Head of the Inspectorate Division of the new Nigerian National Petroleum Corporation was required to report directly to the Chairman of the Corporation. In essence therefore, the structure for making and administering oil policy is now as shown in Fig. 2.3

the work of the NNPC also centers on the collection and interpretation of information, monitoring developments in the global oil market and OPEC's activities. This is the main source of advice and policy proposal tendered to the minister and the president in the oil sector.

The structure of the corporation determining oil policy and administering oil affairs has undergone a number of reorganizations in order to optimize the impact of oil on the general development and effective participation in OPEC. The NNPC is hierarchically organized and direct lines of authority and responsibility run from the highest level of division general managers to department managers and heads of units. The affairs of the corporation are conducted by a seven-man board of directors, made up of the chairman (who is also minister of petroleum and energy) and the following members: the permanent secretary in the finance ministry, the permanent secretary of national planning, the managing director of the corporation and three other persons appointed by the federal executive council. These other persons are considered to be capable of making useful contributions to the work of the corporation because of their specialized knowledge either of the oil industry or business oil matters, or due to their professional attainment. The board sets the policy guidelines and carries out monitoring functions as objective critics of the performance of top management, and ensures proper accountability to the government. The statement of

President Shehu Shagari during the inauguration of the new board of directors in August 1981 underlines the functions of the board. He said:

you are indeed part-time officials but I expect that you will devote enough time to fulfilling the board's role in the corporation, namely that of formulating, with the management, the policies of the corporation, obtaining government approvals for the policies and supervising their precise and timely execution by the management.⁶⁶

The corporation has a managing director appointed by the Federal Executive Council. He is chief executive of the corporation and is responsible for carrying out policies of the corporation and the day-to-day running of its affairs and associated services. The secretary keeps records, conducts the correspondence of the board and performs such duties as the chairman or managing director may from time to time direct. He is appointed by the corporation. For organizational purposes the corporation is divided into a number of divisions headed by general managers, sector by sector coordinators, and so forth. The activities of the corporation require a highly skilled and qualified professional staff to effectively occupy various positions within the management hierarchy. One of the problems that has plagued the corporation has been the drift of highly trained manpower into the private sector as a result of the attractive salary scale in private businesses compared with what's obtained in government bureaucracy. Adjustment of salaries might cause labor unrest in other government

parastatals, whose employees may not see any special reasons why NNPC should enjoy preferential treatment.

The divisions within the corporation were mainly designed to perform the diverse tasks entrusted to the corporation.

- 1) Exploration and exploitation. This division conducts the direct exploration activities and manages the NNPC's participation in joint ventures with foreign companies operating in Nigeria.
- 2) The product marketing division operates and maintains NNPC's system of over 30,000 km of crude oil, product pipelines and petroleum storage depots.
- 3) The commercial division is charged with crude oil sales, administering sales contracts, coordinating the lifting program and central purchasing functions such as a gas department. The marketing research department monitors developments in global oil markets and crude-oil price movement to have ready information on the supply and demand pattern in the market.
- 4) Project engineering division. This division handles all major engineering and construction activities for all divisions of the corporation, notably in oil and gas production refineries.
- 5) Petrochemicals division. This division is charged with production of petrochemicals from oil, gas and

refined products. It is also charged with responsibility for the petrochemical complexes.

- 6) Marine transportation division. It is responsible for moving NNPC oil, products and cargo by sea.
- 7) Personnel and services. This division coordinates and supervises service functions, which include personnel, office administration, central transportation, estate medical security, manpower planning and development functions.
- 8) The finance and accounts division provides the overall management of corporation finance and accounts function.
- 9) Refineries. The three refineries at Port Harcourt, Warri and Kaduna, with combined capacity of 200,000 barrels per day, operated as semi-autonomous units of the NNPC. Each of them has a local management to handle its day-to-day affairs while matters of high-level policy and strategy are cleared with the managing director and other higher authorities.
- 10) Petroleum inspectorate. The head of this division, who reports directly to the minister, confines himself to enforcement of regulatory measures relating to the petroleum industry.

The activities include oil conservation policy, granting of licenses, accounting for the quantity of crude oil produced and exported, rentals, royalties

and overall supervision of seismic drilling, oil production and refining activities to ensure that the operations are conducted in a safe manner.

The corporation has been subjected to severe criticism because of its over-centralization and its independence from other economic arms of the government. Phillip Asiodu, the former permanent secretary in the Ministry of Mines and Power, had this to say about the corporation:

...It does not appear that the reform (of NNPC) has produced a more technocratically competent management of our oil affairs nor increased recruitment and retention of high level indigenous personnel. Over-centralization may indeed already be creating bottlenecks while it is the view of some observers that the new corporation is remote and insufficiently sensitive to the macro-economic considerations which should inform some of its operations, particularly for example sustaining an adequate base-volume of crude oil sales at all times to finance essential government development and expenditure. There is therefore urgent need to reconsider the organizational structure suitable for Nigeria.⁶⁷

As a result of inexperience in marketing crude oil, its lack of adequate storage facilities and its low capacity for oil prospecting and drilling, the NNPC entered into joint ventures with foreign oil companies. But in terms of performance, the report of the Irikefe Judicial Tribunal revealed that the production-sharing arrangement essentially "enriched all concerned at the expense of the country at large." The report states:

Like other joint-venture arrangements, the management of the NNPC has not addressed itself to plans and procedures for controlling and ensuring full protection of its interests in the ventures. Even simple total accounts for controlling these arrangements do not exist in the NNPC. Such accounts will give management ideas of how well the operators are processing. Since the NNOC entered into this Agreement with Ashland in 1973 it was only recently that a team from NNPC was sent to look at the records and accounts in the company.⁶⁸

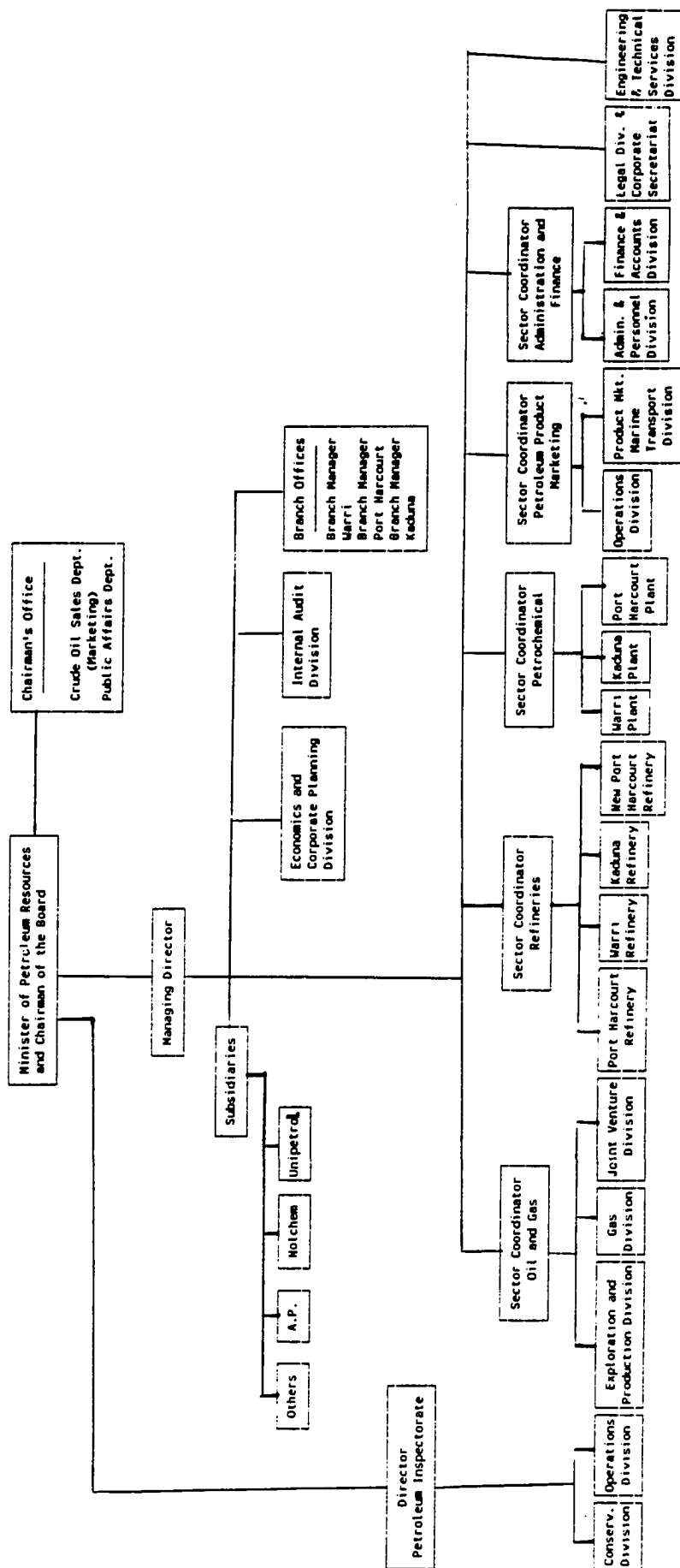
A new reorganization plan was introduced in late 1985 to promote flexibility, efficiency and improved morale (see Figure 2:4). The emphasis of this reorganization has been to decentralize the structure to give more administrative initiative to general managers and sector coordinators to execute and run projects like the liquified natural gas projects, the basic petrochemical projects and the refinery program for local and export markets. The plan divided the NNPC in the following sectors:

1. Oil and gas
2. Refineries
3. Petrochemicals
4. Petroleum products and marketing
5. Administration and finance

The managing director is still the coordinating officer for the corporation. The inspectorate remains under the control of the Petroleum Resources Ministry. The oil and gas sector is to be headquartered in Benin City in Bendel State.

Figure 2:4

NNPC OPERATIONAL ORGANOGRAM, DECEMBER 1985



Source: NNPC, Public Sector Information Pamphlet, 1986

The other criticism of the corporation was that there appeared to be no overall economic body to reconcile the oil sales policy of the NNPC with the revenue requirements of the government. The chief executive of the NNPC, who is concerned with the day-to-day efficient technical and commercial operations of various units in so diversified, complex and important an industry, is often fully preoccupied with technical and commercial questions and cannot at the same time devote attention to very important macro-economic considerations. As was pointed out earlier, the Ministry of Petroleum Resources and Energy was reintroduced in 1984 with responsibility for determining petroleum policies and harmonizing policies with other arms of government. The functions of the ministry have been specified in distinction from NNPC:

- 1) In regulating the public interest and ensuring optimal practices which could be obscured in the shorter-term pursuit of commercial success; and
- 2) In harmonizing policies in the oil sector with the general economic, diplomatic and political programs of the government of the day and the functions of a large, efficient commercial organization providing technical and commercial competence in the exploitation and management of a country's resources.⁶⁹

Others have recommended that there is a need to have an interministerial coordinating board which would be the final

decision-making body for integrating oil policy with economic policy, foreign policy and other policies of government. The minister in charge of petroleum resources, as well as the ministers in charge of industries, finance and foreign affairs, would be members of such a board. The decisions of the board would be ratified by the federal executive council.⁷⁰

As we have clearly pointed out, foreign policy decision-making cannot be effected in a vacuum; rather it is played out within a political system and, because of this, it cannot be administered by the general population. For political decisions are taken by individuals who are located within some kind of decision structure or unit established to cope with the varied foreign problems confronting the state. In other words these individuals operate in an organizational and institutional context. Indeed, it is invariably tied up with the perception and ideals of the leaders.⁷¹ In the next chapter we shall examine the perception Nigerian decision-makers have of the global oil situation.

FOOTNOTES

1. Michael¹ Brecher, The Foreign Policy System of Israel (New Haven, Connecticut: Yale University Press, 1972), 15.

2. J.E. Uduchi, "Policy Formulation and Execution in the Nigerian Presidential System of Government," in The President Issue, No. 17, 1981, 2.

3. G.O. Olusanya and R.A. Akindele, Nigeria's External Relations: The First Twenty-five Years (Ibadan: University Press, 1986), 34.

4. See editorial commentary in Nigeria Forum, February 1982.

5. U.J. Ogwu, Nigerian Foreign Policy: Alternative Futures (Lagos, Nigeria: NIIA MacMillan Nigerian Publisher, 1986), 24.

6. Allan Larson, Comparative Political Analysis (Chicago: Nelson-Hall, 1980), 30.

7. Irving Leonard Markovitz, ed., Studies in Power and Class in Africa (New York, New York: Oxford University Press, 1988), 6.

8. Crawford Young, "Patterns of Social Conflict: State, Class and Ethnicity," in Daedalus, Vol. 111, No. 2, Spring 1982, 80.

9. Sklar, R., "The Nature of Class Domination in Africa," Journal of Modern African Studies, 17 (4) (December 1979), 531-2. Richard Sklar shows how social classes have established in Africa according to a process largely unrelated to economics and hence he called the ruling class the managerial bourgeoisie.

10. Julius Ihonvbere, "The Foreign Policy of Dependent States: The Impact of Oil on Nigerian Foreign Policy 1960-1982," in Indian Political Science Review, January, 1984, 83. Also see R. A. Akindele, "Nigeria's Foreign Relations: Elite Attitudes and Governmental Policy," in International Problems.

11. Steve Smith and Michael Clarke, Foreign Policy Implementation (London, Great Britain: George Allen and Unwin, 1985), 107.

12. Bernard Magabane contended that the concept of elite and class does not seem to be mutually exclusive; the former refers to the groups exercising power at a particular time and the latter to an economic relationship. In the present conditions of Africa, according to him an elite as a group which is not owner of the means of production is a transitory formation whose hold on the state is extremely tenuous as the recent military coups have demonstrated. The concept of elite cannot be a substitute for the concept of class. Rather it is merely a supplementary appendix to the basic classes.

For a detailed discussion see J. W. Sledziewsky, Nigeria -- Contemporary State of Development -- Trends and Prospects (Moscow, 1976), especially 47-56; Dutkiewicz's doctoral thesis, Evolution of Ruling Groups in Nigeria 1960-1979, (Moscow, 1980), especially 16-24; Bernard Magubane, "The Evolution of the Class Structure in Africa," in The Political Economy of Contemporary Africa, eds. Peter C. W. Gutkind and Immanuel Wallerstein, (Beverly Hills, California and London, Great Britain: Sage Publications, 1976), 194.

13. Segun Osoba, "The Nigerian Power Elite 1962-65," in African Social Studies: A Radical Reader, eds. Peter Waterman and Peter Gutkind (New York, New York: Monthly Review Press, 1977), 377.

14. Peter Evans, Dependent Development: The Alliance of Multinational, The State and Local Capital in Brazil (Princeton, New Jersey: Princeton University Press, 1979), 282.

15. Williams, 46-7.

16. For the purpose of effecting a smooth administration, the military regime over-relied on the bureaucracy and thereby created super permanent secretaries. See Alaba Ogunsan, The Nigerian Military and Foreign Policy 1975-1979: Processes Principles and Performance and Contradictions, Princeton, New Jersey: Center for International Studies, University of Princeton, 1981).

17. Osoba, "The Nigerian Power Elite 1962-65," 378.

18. Terisa E. Turner, "Nigeria: Imperialism, Oil Technology and The Comprador State," in Oil and the Class Struggle, Nore and Turner, 204.

19. See P. Collins, "The Policy of Indigenization: An Overview," in Quarterly Journal of Administration (January 1974), 144.

20. Terisa E. Turner, "Multinational Corporations and Instability of the Nigerian State," in Review of African Political Economy, No. 5, January - April, 1976, 63

21. Terisa E. Turner, "Commercial Capitalism and the 1975 Coup," in Political Economy of Africa, eds. Daniel J. Cohen and John Daniel (London, Great Britain: Longmans, 1982), 157.

22. Osoba, 377.

23. Otwin Marrenin, "The Nigerian State as Porcess and Manager," in Comparative Politics, Vol. 20, No. 2, January 1980, 222.

24. Quoted in Falola and Ihonvbere, The Rise and Fall of Nigeria Second Republic, 147.

25. Ibid.

26. Others have used terms such as "crowd," "plebs" or "peasant" to convey more or less a similar situation. See for example, E.P. Thompson in Social History, 3, Vol. 2 (May 1978), 144-5.

27. The common predicament of peasants everywhere is fully explained in Eric R. Wolf, Peasant Wars of the Twentieth Century (New York, New York: Harper and Row, 1969).

28. To argue that the ethnic factor is a crucial problem in Nigerian politics is not to dismiss the other factors like class conflicts. On the contrary, it is to emphasize that ethnic conflict is one of the modalities of societal conflicts in Nigeria.

29. Alhaji Shehu Shagari, "Inaugural Address to the People of Nigeria, October 1, 1979," (Lagos, Nigeria: The Presidential Office), 3.

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CHAPTER III

NIGERIAN DECISION-MAKERS' PERCEPTION OF THE GLOBAL OIL MARKET

The Structure of the Global Oil Market

The perception of the Nigerian decision-makers must be analyzed against the background of Nigerian government involvement in the oil industry and the activities of the major actors identified in the global oil market. We must therefore take into consideration the nature of the oil market, its evolution and the specific oil market situation that led to the chain of events in 1983. The process of government involvement has gradually progressed from regulatory functions to direct involvement in the exploration and exploitation of the Nigerian oil industry. Initially the interest of the government in the oil industry was limited to that of a passive recipient of royalties and dues, which the oil companies offered to it, and to making rudimentary laws to regulate their activities. Lawrence Amu, the former director of NNPC, attributed this limited involvement of the government before the late sixties to the relative insignificance of oil in the Nigerian economy and the lack of personnel with requisite skills and experience.¹

The oil market has become more truly global in scope than any other commodity market today, linking economies with vastly different economic systems and income levels. The direction of oil market trends has therefore become a major concern of virtually all countries because the decisions made by producer and consumer governments and the response of the oil firms to these decisions, continue to influence the present and future structures of the oil industry. The international oil market consists of interacting elements:

There are not only the international major companies, such as Shell and Exxon, which formerly ran the industry much as they pleased and which are still very important elements in it, but also a range of additional companies interested in producing oil and selling it on the markets of over a hundred national governments of both producing and consuming countries through Europe, the Middle East and developing countries.²

The oil market operates within a complex network of these relationships and the interplay of their respective conflicting political and economic interests have continued to influence the nature of crude-oil prices and even dictate oil politics both nationally and internationally. The extremely complex and interrelated links in the world oil markets make a comprehensive framework indispensable for the analysis of oil market trends and behavior. This tripartite relationship involving the host countries, producing companies and their consumer nations also plays a significant role in the determination of crude oil prices in the global oil markets:

- 1) The consuming governments, which are trying to minimize the foreign exchange cost of imported energy and to maintain oil supply security;
 - 2) The oil companies, trying to maximize corporate profit through minimizing total lifting costs;
 - 3) The producing countries, trying to maximize the real transfer of wealth arising from oil exports.
- These main pressures continue to determine oil prices through a process of resolving conflicting interests by means other than the free interplay of market forces.³

In other words the operation of normal free market forces of supply and demand, though important, are not the only decisive factors in crude oil pricing in the world oil market, owing to the peculiar nature of oil as a commodity in international trade. An oil analyst characterized the world oil market as a "non-competitive oligopoly even before the maturity of OPEC."⁴ For the function of an oligopoly or cartel is to generate exceptional revenues for the participants by setting and maintaining a price well above their own cost of production. The point that we want to make is that given the pervasive influence on industrial growth and the record of government and industry interventions over the decades, the oil sector has not generally functioned as a free market in which price is determined by the interaction of many buyers and sellers.⁵ Therefore at most times in the past, oil

has been traded through a contrived mechanism to balance supply and demand.

Therefore, a meaningful analysis of global oil market trends and behavior requires not only an explanation of the immediate economic and technical factors which form the basis of a decision to purchase one type of crude oil relative to the other crudes, but also an intimate knowledge of the oil market's structure and organization. For instance, the 1973-1974 oil price increase occurred not only as a result of immediate global economic and political developments, but also as a result of the changes in balances of international economic and political relationships which have been evolving over the years between the major oil companies in producing and consuming countries.

It is generally agreed that the oil price increases of the nineteen seventies were in large measure a reflection of the longer-term supply and demand for oil even though the timing and abruptness of the increases were influenced by political developments and institutional changes involving the shift in relations between oil exporting countries on the one hand and the major oil companies holding concessions in these countries on the other. The Middle East war of October 1973, the Iranian revolution in 1978-1979 and the transfer of the price-setting authority or full ownership from the oil companies to the governments of the oil exporting countries have been identified as the major immediate factors in the price development.⁶

The world marketing of crude oil has undergone an evolutionary process,⁷ a transition from crude transfer within the integrated production of "the international oil majors" and one largely dominated by the producing countries (especially OPEC), to the current stage of worldwide crude

oil trading driven by the competitive interplay of thousands of buyers and sellers. A number of energy analysts have used different historical divisions to analyze the transitory process of the global oil market.⁸ For the purpose of this analysis, the transition in the global oil market can be divided into three periods: (1) the pre-OPEC era, (2) the OPEC era, and (3) the post-OPEC era.

The pre-OPEC era, which commenced around the turn of this century, concentrates on the dominance of seven major companies in the oil industry which intensified soon after World War II, when petroleum became the main fuel of economic growth and essential to everyday life. These "international majors" not only owned the OPEC oil fields through concessionary rights but also maintained their monopoly on when and where to prospect for oil, how much to produce and at what price to sell it.

The second period, beginning in 1960, marked the emergence of OPEC, which asserted member country's sovereign rights over their natural resources, and the oil price revolution of the 1970's, which allowed OPEC to push the average world oil price from \$2.50 per barrel in the early seventies to \$35.00 per barrel in 1979-1980. This transition transformed the oil market from a buyers' to a sellers' market.⁹ Since 1973, state-owned oil companies from the producing countries have increased the share of oil that they market directly to downstream users, bypassing entirely the

international oil companies. Directly marketed oil rose from 8 percent of the trade in 1976 to reach almost 45 percent in 1980. This shift in power has had its own implications for the pattern of international oil trade.¹⁰ These years witnessed a serious economic crisis in the industrial and developing countries alike.

The third oil era started in 1981 with the glut in the world oil market when oil prices began to slide for the first time since 1973. OPEC's share of the oil market shrank dramatically and its ability to influence the market was greatly reduced. This period still cannot be fully defined due to uncertainty in the oil market and decline in demand.

This suggests that the oil market has shown some structural transformations which are by no means complete but our concern with the structure of the global oil market involves tracing in a nutshell the historical developments of the oil market, the various forces which influenced and shaped the oil market structure in the past, highlighting those major factors which still exert influence in contemporary times and their likely effects on the market behavior of the industry both now and in the future. The structure of the world oil market refers to such elements as the mode of technical and commercial operations in the oil industry; the changing pattern of the industry; geographical distribution of output, sales, and product prices; and patterns of government revenues accruing from the industry. The industrial organization

refers to the way that companies are organized vertically and horizontally, to their ownership and to effective control over their operations.¹¹ This means that the structures through which the transactions flow are not neutral or relatively unimportant but reflect the distribution of power and the bargaining process within the oil industry. For instance, by altering basic features of industrial organization to their own advantage, OPEC altered the way in which the market functioned on a day-to-day basis.¹²

With regard to the petroleum industry, a recurring question is, how is the price of crude oil determined or what is the nature of the factors that influence the pricing of crude oil? Our analysis should also be focused on what could be asserted as the most fundamental connecting valve between pricing theory and industrial organization -- that is, pricing. Price theory encompasses, among other things, analysis of market conduct, market performance and their inter-relationships. Some people have argued that crude oil pricing is purely political inasmuch as government-sponsored companies or some countries could in a round-table conference change oil prices to gain political concessions without recourse to the market. Former U.S. Secretary of State Henry Kissinger's famous "Age of Independence" speech to the United Nations in September 1984 exemplifies this approach to oil pricing policy.

The high cost of oil is not the result of economic factors....Rather it is caused by deliberate decision to

restrict production and maintain an artificial price level....What has gone up by political decision can be reduced by political decision.¹³

This line of argument not only negates the economic factors in oil pricing but fails to appreciate the critical role played by organizational structure or industrial organization in world oil prices. Some other people believe that factors influencing crude oil prices are two-dimensional, political and economic factors. Others have argued that upward movements in crude oil prices have been politically generated most of the time while the downward movements were the result of economic forces acting gravitationally.¹⁴ This perspective takes too dichotomous a view of economics and politics, which can be addressed directly through the process of industrial organization. It underestimates the fluctuating character of the world oil market and overemphasizes the weak market phase or tight market phase.¹⁵

It is now a familiar note that the global oil market experiences comparatively short swings in oil supply and demand in response to either political events or changes in weather conditions in the consuming countries. Minor fluctuations in supply and demand are inherent in the structure of the oil market and exert almost constant upward and downward pressures on oil prices. While long-term shifts in response to changed elasticities and economic growth rates do occur in the world supply and demand for petroleum, intra-OPEC politics is more often the arbiter of pricing policy in

the short-term. Pricing decisions in the oil market seem to be the product of a complex interaction of market forces, government policies and intra-OPEC negotiations. But it is necessary to point out that the world oil market has evolved not through a steady rise in prices and a gradual shift to alternative energy sources, but has progressively become part of an unstable equilibrium that has and will continue to send conflicting signals to market agents (producers, consumers, oil traders). The world oil market encompasses flow, stocks, and institutions. It is both cyclical and extremely volatile. The market's cyclical swings are long-term and they involve enormous magnitudes of change in their impact on the macroeconomics of the world.¹⁶

Pricing theory also entails the process in which production technologies and the psychological perceptions and motivations of sellers and consumers interact to induce firms and industries to follow predictable patterns of market conduct and generate predictable patterns of market performance. It further instructs how changes in structure and conduct could affect the performance of firms and industries. The basic underlying factors for these cyclical swings of the global oil market are the changing perceptions of the world oil market conditions set in motion by the changing environment of the industry, and reactions to the currently prevailing situation from which new market expectations will spring.

For instance, the reaction of a market agent to real or imagined scarcity will depend on the agent's perceptions of the structure of the global oil market and its conditions. In the 1979-1980 price increase, there was market imbalance, not because they were scrambling for additional oil, but as a result of (a) structural changes which led to the withdrawal of the "majors" from the Third Party market and gave rise to state-to-state oil transactions as the major new form of industrial organization; and (b) uncertainty about future developments in Iran which induced a very significant inventory buildup.¹⁷ Therefore, in spite of the changing structure and dynamics of the world oil market and the market forces shaping it, it is possible for the market agents to perceive this complex structure in order to examine market trends and behavior.

The market agents react to market conditions, not in a mechanical sense but rather to the perception of the market structure "which constitutes the context of habits, pressures, expectations and constraints within which actions take place."¹⁸ Robert Mabro's analysis of the behavior of the world petroleum market in 1985 and 1986 showed that the behavior of economic agents remains deeply influenced by the news and perceptions of OPEC, whether the organization is in crisis or in command, whether it is believed to have a sense of direction or regaining the initiative.¹⁹ All of these have practical application not only in the global petroleum

industry and OPEC but also with special reference to Nigeria as a production unit within the industry and as a member of OPEC. For national oil policies or behavior are partly influenced in response to the exigencies of the global oil markets, including the geopolitics of the oil industry. Therefore an analysis of the perceptual disposition of the Nigerian policy-makers is evidently very crucial to the understanding of Nigeria's reaction to market conditions.

The Activities of the Multinational Oil Companies
in the Global Oil Market

The Nigerian oil industry has been dominated since the turn of the century by international oil "majors" who possessed the huge financial resources, technical expertise and the technology that have characterized the international oil trade. In the pre-OPEC era, the world oil industry was mainly dominated by the international oil companies popularly known as the "seven sisters": Exxon (Esso), Royal Standard Oil of California (Social/Chevron), Gulf, Mobil, Texaco, Royal Dutch Shell and Shell B.P. Five of these are American and the remaining two are wholly or partly owned by the British and Dutch governments. In 1966, the seven oil companies were responsible for 76 percent of all oil production outside of the Communist countries, 61 percent of total refining capacity, and over 50 percent of the tanker tonnage operating internationally was owned and controlled by the international majors.²⁰ Given the dominant role in the world oil market at

the time, the seven oil companies had little difficulty in enforcing the output and pricing decisions or realizing their planned growth rates.²¹

That these "Seven Sisters" were able to maintain hegemony over the world oil market for such a long time has been attributed to these interrelated factors:

- 1) The historical background of the interaction between the oil companies and the home governments.
- 2) Their corporate strategies: apart from the limited number of major participants in the market, the oil industry is integrated within networks of close ties between upstream activities (i.e., oil production) and downstream activities (oil refining and marketing). The more integrated the industry, the more amenable the market will be to constructive management.
- 3) The existence of a buyer's market: the ability of the major players to take decisions to rationalize production, deciding where, for how long and under what circumstances production is to start.

The home governments of the major oil companies have always played an important role in securing privileged positions of these companies in the producing countries. Indeed it would be safe to assume that the oil companies won and held on to many of the important concessions with the active backing and protection of their home governments. In

Nigeria, because of British colonialism, mining legislation, especially regarding petroleum, was formulated with British interests as the dominant consideration. There was conscious design on the part of the departing British, who conferred generous terms on the oil companies through the legal provisions of the Mineral Oil Ordinance of 1959 and the Petroleum Tax Ordinance of the same year. The consequence was that while Nigeria obtained royalties which ranged from 8 percent to 12 percent, countries like Libya, Saudi Arabia and Venezuela were able to secure rates of 12 1/2 percent, 15 to 20 percent and 16.67 percent, respectively.²² The financial implication of the tax provisions was designed by the colonial administration to enable the foreign oil companies to get away with a disproportionately large share of the profits.

This symbiotic relationship is only to be expected considering the international oil companies' fiscal contributions to the economies of their respective home governments, especially in their respective balance of payments positions. Another dimension for the support of the home government was the desire of the major consuming countries to gain access to adequate supplies and hence the indirect influence exerted by these companies. Given these positive economic and political inputs, it is not surprising that Britain and the U.S. have consistently forged organic links with the multinational oil companies.

In the evolving pattern of the world oil market, the multinational oil companies maintained their control over the world oil industry spanning from production to marketing. The upstream phase of oil exploration and exploitation was directly linked with the downstream operation networks (refining, transportation and distribution), therefore making for vertical integration at every operational level. In other words, the investment phase is merely a part of each company's worldwide integrated operation, including the royalties and taxes paid to governments of producing countries. Vertical integration became characteristic of the international oil industry.

...as independent companies which were to find large quantities of crude oil had to integrate forward into refining and marketing in order to have an outlet for the crude, particularly in times when there was a glut of crude. On the one hand, independent marketers and refiners found it necessary to integrate backward into crude oil production in order to have assured supplies (particularly when there was a scarcity of crude). Thus, vertical integration became the rule in the industry so that today virtually all large oil companies operate at every level of the industry.²³

In addition to this vertical integration the multinational oil companies organized concession arrangements to develop a network of worldwide operations and thus maintain control and ownership of oil at the point of production. This strategy is often referred to as horizontal integration. Under a typical oil concession the state as the owner of the oil wealth awards the right to explore for, develop and sell oil to a concessionaire in return for some payments, normally

made up of royalties, rentals, houses and taxes.²⁴ Essentially the international majors were granted monopoly rights for exploration of oil in huge areas extending over a period of 50-75 years without any apparent control by the host countries.

Given the nature of this concession system which gave oil companies the right to pricing and output decisions, it was possible for companies to make joint production plans which restricted output to match their crude oil requirements. Their production control mechanisms in this respect governed individual rates of output of the various producing countries to meet their requirements at predetermined growth rate levels. In most cases the companies preferred to live with excess production that would likely drive down oil prices. During this period the oil companies thus played an important role in regulating output among producing countries with the companies' own needs for oil throughout the world, which was crucial to the functioning of the global oil market prior to 1973. The virtual absence of independent oil companies in producing countries like Nigeria, Abu Dhabi and Indonesia reduced the chances of these countries being sources of uncontrolled excess supply.

The "Seven Sisters" were able to carry out their designs in the oil industry because they operated as what is generally referred to as multinational companies. The basic characteristics which underline this definition of

multinational companies are: central control, size and geographic spread. It is necessary to point out that the "multinational" nature of the companies arises not from ownership of several separate nationalities competing with one another, but rather because the companies involved operate internationally within a complex network of relationships which connect most countries in the world. In order to preserve their domestic and global dominance the organizational structure of the "international majors" has been characterized by either outright monopoly or oligopoly. The "Seven Sisters" sometimes divided up sources of supplies by explicit agreement to control their market; they agreed to divide markets, fixed prices and discriminated against outsiders.

Given the horizontal and vertical integrated operations of the companies, it became possible for the companies to jointly plan and program crude oil production in the various countries with a view to avoiding surplus, inter-company competition and above all increase overall profits notwithstanding the interests and aspirations of any oil producing country. Until the acquisition of participation by the government, petroleum development in Nigeria had been based on the concessionaire concept whereby the major oil companies were granted prospecting and mining licenses over certain concessions in which these companies had almost 100 percent control.²⁵ Having granted concessions and settled for

certain payments by the multinational oil companies, the federal government virtually abdicated control over production and appropriation activities to the multinationals. With such control of the upstream and downstream phases of the industry, it was relatively easy for the major oil companies to control what was then known as the oil industry. Tam David-West described this dominant position of the multinational oil companies in the oil market thus:

Between them, "the Seven Sisters" employed both a monopoly of production and perhaps even importantly in the context of the host countries, even a monopoly of decisions on pricing. By this selfish device of "posted prices" they protected each other's interest (no COMPETITION) at the expense of the host countries and also to their clear detriment. There were no crude or petroleum products prices as are known today. Most prices were transfer prices only for internal accounting purposes within the integrated systems of the majors. This concentration of the international oil industry in the hands of the so-called "Seven Sisters" explains overwhelming influence being exerted by the United States and the United Kingdom on the international oil politics.²⁶

However the relations between the Nigerian government and the multinational oil companies have tended to be marked by a steady shift of power from the latter to the former. The initial preponderance of power of the oil companies, reflected in their near monopoly on technical know-how, technology and capacity to raise large capital investment, has been limited by the Nigerian government through various government legislation and decrees. Since they alone initially could tap the country's oil resources, the oil companies demanded high returns in the form of low taxes, few, if any, regulations

about foreign exchange profit repatriation, and other such concessions. But once the initial investment was made, the balance of power shifted steadily in favor of the Nigerian government, through bargaining for the right to demand a greater share of the economic rents, and more say in management through equity participation in mining operations.

Predictably, this asymmetrical relationship, which existed between Nigeria and the oil companies has also been demonstrated in the governmental takings from the oil industry. The attitude of the oil companies has sometimes led producing countries' mistrust and to conflict which from time to time occurred, particularly over the issues relating to profit-sharing. In the early days of the oil industry in Nigeria, royalties were paid by the oil companies to the federal government according to "posted prices" as determined by the oil companies themselves. This was later modified by government regulations: The Petroleum Profit Tax Ordinance of 1959 imposed a standard 50 percent tax on the producing companies, charged on gross proceeds (exports at realized prices) less expenses, including an allowance for depreciation of assets.²⁷ In 1966 new legislation reduced the rate at which companies could write off their assets for tax purposes and in 1967, a new "tax reference" price was agreed on, with the companies and royalties treated as a cost of production.²⁸

The 1969 petroleum decree vested the Nigerian state with "the entire ownership and control of all petroleum in,

under or upon any lands in Nigeria or its territorial waters or in areas forming part of the continental shelf." The decree also accorded extensive powers to the minister regarding the granting of licenses for oil exploration, prospecting, mining and leases. He was also empowered to deal with issues which relate to refineries, control of petroleum and petroleum products, price control and rights of pre-emption in cases of national emergency.²⁹ On the specific context of revenues, the decree stated that a royalty was to be calculated on the full posted prices, rather than the tied storage value. It further directed the oil companies to pay royalties on a quarterly basis, rather than twice a year as provided under the earlier concessions. These were rendered valid for only one year in the first instance, with the licensees having an option to renew the license for one further year, provided that they complied with the relevant provisions of the decree. Evidently, this was a radical departure from the earlier era, when the duration of the concession was thirty years, with the concessionaire having automatic entitlement to renewal for another thirty years for land and territorial waters, and forty years for the continental shelf.³⁰

On the specific issue of manpower development, the decree maintained that the oil companies operating in Nigeria must guarantee that within ten years Nigerian citizens will hold at least 75 percent of the total managerial, professional

and supervisory positions, including at least 60 percent of each individual grade, and that all skilled, semiskilled and unskilled workers are Nigerian citizens. Moreover, they must submit detailed programs of training and recruitment of Nigerians upon application for the lease.³¹ The decree is of interest in that it offers a good indication of government attitudes regarding the future course of its arrangement with the private oil companies.

The attitude of Nigerian policy-makers toward oil multinationals has been generally positive and they are perceived as fulfilling the entrepreneurial functions of finding, producing, transporting, refining and marketing very large volumes of oil. They provide flexibility and expertise which management of such vital and international trade commodity requires if the interests of both producers and consumers are to be effectively served. Although some government officials may sometimes express certain reservations about foreign oil companies' activities in the country, they are largely perceived by the policy-makers as "partners in progress" because of what they consider their positive impact on the Nigerian economy in terms of their contributions to employment and job training opportunities, increases in government revenues and foreign exchange earnings. Tam David-West, the former Nigerian oil minister, best summarizes the general attitudes of Nigerian policy-makers toward the foreign oil companies.

It is understandable that Government participation in the local activities of multinationals could not have gone without some resentment. One thing is certain that the sovereignty of the host government over their natural resources is not in doubt. This was made manifest in the Petroleum Decree Act #51 of 1969 which vested the entire ownership of all petroleum found within Nigeria's territorial boundaries with the Federal Government or its agencies. There is however, the mutual respect and recognition of the role and responsibility of either party in the effort to develop and harness the valuable commodity to their mutual benefit.³²

There is growing recognition on the part of Nigerian policy-makers that foreign oil companies as well as government agencies will continue to play a key role in the transformation of crude oil into its numerous products under which such producer-traders' understanding may continue to evolve. This cooperative and positive attitude of the Nigerian policy-makers toward major oil companies has been reflected in the attractive petroleum legislation and other lucrative incentives to the oil companies by the various Nigerian governments. The two main laws affecting foreign investment are the Companies Decree of 1968 and the Nigerian Enterprises Promotion Decree of 1977, which ensure that all foreign investment is government approved and has indigenous equity participation. The government encourages joint ventures especially in agricultural production and processing, mining, the construction industry and manufacturing. The government's primary interest in regulating foreign investment is merely another facet of its interest in regulating and guiding the economy to self-sustaining and indigenously

controlled development. According to the former director of NNPC, Chief F.R.A. Marhino,

It must be conceded that the ultimate objective is to gain increasing control of the industry through a gradual movement to the role of the operators. This, of course, would call for politics of an even more complex nature. Direct involvement in all phases of the industry is the surest way of assuring that oil technology is internalized, that appropriate conservation policy is pursued, that oil exerts the desirable catalytic effects on the economy and energy and economy planning are integrated.³³

In pursuance of this policy objective, the Nigerian government has chosen to obtain a measure of the largest possible participation in the country's oil industry through normal channels rather than follow the policy strategy of nationalization of the oil industry like some other oil-producing countries (Venezuela, Algeria, Iran, etc.) The Nigerian government's policy of participation with particular reference to petroleum no longer restricts the country to concessionary arrangements geared only to the receipt of rent and in exploration and production, and now includes downstream operation. Three basic arguments have been advanced for this participatory policy of the Nigerian government:³⁴

- 1) that it is the surest way by which the producing countries can gain the first-hand knowledge, skill and experience that are necessary for the ultimate policy of exploitation of their own resources.
- 2) that participation would enable the state to exercise some control over the foreign oil companies.

- 3) that once the national oil companies have been able to produce large quantities of crude oil, the only way to dispose of these without disrupting prices would be through partnership with the concessionaire companies.

Under the constant pressure for more foreign exchange the Nigerian government has been anxious to make deals and concessions to oil companies in order to increase exploration.³⁵ The package of incentives included: exploration incentives, modifications in profit tax, modifications in royalty rates, enhanced annual allowance and investment tax credits. Michael Olorunfemi pointed out that the introduction of the 1977 fiscal incentives marked a systematic attempt to establish an appropriate climate for increased exploration activities in Nigeria.³⁶ The Nigerian government has established appropriate technical costs designed to take account of the rising cost of exploration equipment and the cost of borrowing money so as to determine an undertaking's necessary investment. As the price of crude oil started to decline the effects of rising technical costs and oil companies' profit margins have been a continuous decline in the percentage share of the government take (royalty plus tax). The implication of this, according to him, is that the government had to sacrifice part of its revenue to encourage exploration activities in Nigeria. The government "take" as a percentage of the price of oil has thus

fallen from about 95 percent in January to 91 percent in July 1982 and 87 percent in 1983.³⁷

This situation indicates that despite the fact that the government had increased state involvement in the oil sector of the economy, in the last analysis the government still depends on these same foreign oil companies to sustain the state components in this crucial industry.³⁸ The oil tankers owned by the NNPC are not only managed by foreign firms but the NNPC itself depends on the foreign oil companies for advice and expertise in carrying out its exploration and seismic surveys. Furthermore, the oil companies have developed ingenious ways of circumventing and defeating indigenization policies and efforts to transfer technology to Nigerian employees.³⁹

The Role of OPEC and the Changing Scene Of the World Oil Market

With the establishment of OPEC in 1960, the governments of the oil exporting countries gradually constrained the actions of the oil companies with respect to changes in taxes and prices. According to David-West the underlying motivation for the formation of OPEC by the Third World oil-producing countries was clearly to enable them to have a much greater say in the international oil enterprise.⁴⁰ Nigeria is the eleventh member of this organization and OPEC is perceived by the policy-makers as an important international organization whose activities (especially oil

pricing) touch on the economic base of the nation since oil now constitutes the most vital natural resource on which the Nigerian economy is dependent. It provides an efficient forum in which the Nigerian government can collaborate and coordinate oil policy with other member countries of the organization. According to the former head of state, Major General Mahammedu Buhari,

Nigeria remains an active and loyal member of OPEC and our relations with OPEC countries, especially with Saudi Arabia, will be further developed and strengthened.⁴¹

President Babangida, like other Nigerian decision-makers, recently reiterated the same commitment to the principles and ideals of OPEC.

OPEC is a very important international organization and we in Nigeria have had no cause to regret our membership in that organization. And we remain committed today as ever to the principles and objectives which gave rise to the formation of OPEC 25 years ago. Therefore I want to state categorically that Nigeria has no intention of leaving OPEC.⁴²

This thirteen-member intergovernmental organization includes: Algeria, Ecuador, Gabon, Indonesia, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirates and Venezuela. Nigeria, as a member of the Organization of Petroleum Exporting Countries, subscribes to the principle aims of the organization as clearly stated in Paragraph 4 of Resolution 1.2:

- 1) The coordination and unification of the petroleum policies of member countries and the determination of

the best means for safeguarding their interests individually and collectively.

- 2) Devising ways and means of ensuring oil markets with a view to eliminating harmful and unnecessary fluctuations, and
- 3) Ensuring a steady income to the producing countries and also an efficient, economic and regular supply of petroleum to consuming nations and a fair return on their capital to those investing in the petroleum industry.⁴³

In other words, the modest objectives of the organization were reflected in the key areas where producing countries intended to exert influence, including oil price determination, increasing participation in domestic oil industries, production regulation and control as well as oil supply arrangements. It was not to engage in any direct business of a commercial nature, but to serve as an intergovernmental organization for the harmonization of the policies and actions of its members, in order to maximize the individual and collective benefits accruing from their oil resources. Through the process of consultation, cooperation and exchange of information, OPEC could keep alive the several goals of the organization by safeguarding the "self interests" of its members.

The achievements of OPEC during the first decade of existence were modest and principally reflected in the

preservation of stable prices, the partial settlement of royalties and marketing expenses issues, and the valuable services rendered to the members in the areas of collective support, training opportunities, information services and pressures on the industrialized countries. Tam David-West, the former oil minister, described the position and achievements of OPEC during this period:

With the emergence of OPEC, the bargaining mechanism between OPEC countries and the developed countries soon underwent a fundamental change. Increases in petroleum tax rates, increase in posted prices, elimination of special discounts on sales of crude oil and removal of disparities in crude oil prices among member states, culminated in the "world oil revolution" which defined new parameters within which policies relating to petroleum were henceforth to be made. Suffice it to say that what started as an emergency congress of Middle East and Venezuela oil ministers in Baghdad in 1960 and was regarded a joke by the majors, had now grown to become the source of sanity and realism in the international oil trade.⁴⁴

The other achievement of OPEC during the first decade of its existence was the idea of participation in the equity interest of existing concessions. Under the leadership of Zaki Yamani, the Saudi Arabian oil minister, the organization developed a long-range oil strategy enshrined in an OPEC declaration of 1968. There was to be a partnership between foreign oil companies and the governments of the producing countries, with control shifting as rapidly as possible to the governments. By the early seventies, OPEC resolutions X and V 139 enjoined all member countries concerned to establish individually or in groups with a view to achieving effective participation. Initially it was agreed that producers would

start with a modest share of 25 percent rising to 51 percent in January of 1982. This agreement was to provide a framework for each government to negotiate the details of its own participation. In particular it covered downstream operations, like transport, refining and marketing, which were still a big question. This development was significant in terms of relations between oil companies and producers. According to Michael Olorunfemi, General Manager of Economic and Corporate Planning Division of NNPC,

...this participation served as a catalyst in ensuring full control of producing countries over its natural resources and foreign companies....It also brought the producing countries face to face with markets, leading to direct price determination.⁴⁵

Although Nigeria formally joined OPEC in July 1971, the Nigerian government was already sharing the fundamental interests of the organization, such as following the fiscal policies adopted in OPEC member countries and taking participation interest in foreign oil companies. Nigeria had, through the 1969 Petroleum Act, introduced a fiscal system similar to those in other OPEC member countries for the purpose of determining taxes.⁴⁶ The issue of participation displayed primarily the oil producers' concern for greater control over natural resources. Against this background it could be contended that the Nigerian government entered the seventies determined resolve to participate actively in the oil industry.

The government policy was established first in 1962 with a concession agreement with Agip wherein an option existed for the government to participate in Agip's operations should it prove commercial. The first participation agreement was in 1971 with SAFRAP (ELF) which provided the government with 35 percent interests. In the same year the government exercised its option to acquire 33 1/3 percent interest in the Agrip operation and thereafter all new concessions granted provided for 51 percent government participation. By mid-1974 the government had acquired 55 percent participation in all companies then producing, in conformance with the OPEC resolution, and by 1979 the participation interest increased to 60 percent and has remained at 60 percent except in the case of Shell BP which became 80 percent when the government took a further 20 percent share of the company (see Table 3:1).⁴⁷ In 1981 the government took over 60 percent ownership of the oil refinery in Port Harcourt and it is the sole owner of the two recently constructed and larger refineries in Kaduna and Warri. Similarly, it has 60 percent of the shares in the proposed liquified natural gas (LNG) project. In 1978 the government took an average of 36 percent equity shares in eleven oil service companies.⁴⁸

Table 3:1

Government Interests in the Oil Companies

<u>Company</u>	<u>Parti- cipation %</u>	<u>Date</u>	<u>Consi- deration Million naira</u>	<u>No. of Omls/ Opls</u>	<u>Production Barrels/Day</u>
ELF	35	1 April '71	4,036,270	4	40,000
	55	1974	4,619,376	4	85,000
	60	1 July '79		4	78,000
AGIP/ PHILLIPS	33 1/3	1971	13,210,262	4	30,000
	55	1974	35,605,527	4	125,000
	60	1979		4	230,000
SHELL-BP	35	1 April '73	203,075,490	58	1,240,000
	55	1974		58	1,380,000
	60	1 July '79		58	1,360,000
SHELL	80	1 Aug '79		58	1,360,000
GULF	35	1 April '73	62,544,071	10	368,000
	55	1974		16	390,000
	60	1 July '79		16	380,000
MOBIL	35	1 April '73	92,423,584	4	210,000
	55	1 April '74		4	245,000
	60	1 July '79		4	380,000
TEXACO	55	1 May '75	42,263,462	6	10,282
	60	1 July '79		6	56,000
PAN OCEAN	55	1 Jan '78	13,937,823	1	10,000
	60	1 July '79		1	10,000
ASHLAND	Pro- duction Snaring	June '73	N/A	2	13,000+
AGIP AFRICA	Service Contract	Sept '79	N/A	6	--
ELF AQUITAINE	Service Contract	Sept '79	N/A	3	--
NIGUS	Service	Sept '79	N/A	2	--

Source: Progress in Public Sector Participation in the Nigerian Oil Industry, Date N/A, p.5

It is doubtful that these achievements could have been possible if Nigeria were to engage in a series of bilateral negotiations with the all-powerful oil companies. The Nigerian government was able to take such bold decisions at such an early period in the life of the oil industry because of its membership in OPEC. In the bid to effectively articulate these participatory interests, the government went ahead to establish the Nigerian National Petroleum Corporation (NNPC). The list of duties assigned to the corporation demonstrated Nigeria's determination to involve itself fully in control of all aspects of the oil industry. But the establishment of this corporation, important as it is in symbolic terms, has not completely put the full ownership and management of oil production and technology into the hands of Nigerians.

The revenue from oil crucially depends on the nature of financial agreements the government has been able to elicit from the oil companies during the history of the industry. The Nigerian government oil revenue until the 1960's was derived from such elements as rentals, profit taxes and royalties. But Nigeria's participation in OPEC starting in 1971, coupled with later pricing policies, has contributed to a measure of stability and even an acceleration in the rate of increase of government receipts from oil. In the 1970's government revenue had a spectacular growth. This growth has

been attributed to increased production as well as improved pricing policies within OPEC.

For the Nigerian decision-makers the price revolution of the 1970's represented a turning point in the world oil market, not only in terms of pricing policy but also in the radically altered relationship between OPEC and the consuming nations and their multinational oil companies. OPEC came to world prominence in that it had successfully wrested control of price-fixing power from the oil multinationals. Oil pricing assumed great significance not only in terms of absolute levels but also the changing rates, the frequency and the mechanism. It enhanced the bargaining power of the producing countries like Nigeria vis-a-vis the multinational oil companies in vital matters which the companies had either decided alone in the past or were subject to bargaining with them. When Nigeria joined OPEC in 1971, the posted price for Nigerian Bonny Light was \$3.95 per barrel, but by 1980 the posted price for the same crude was about \$40, representing almost a thirteen-fold increase. In the same period production increased from 1.5 million barrels per day in 1971 to 2.3 million barrels per day in 1980.⁴⁹ These dramatic increases in prices and production have been attributed to OPEC solidarity and price administration. For OPEC's success has been its flexible approach, the lack of rigid quotas and a decision-making process that allows its members to express their views.

The Arab-Israel war of 1973 and the consequent oil embargo against Israel's western supporters by the Organization of Arab Petroleum Exporting Countries (OAPEC) provided a golden opportunity for OPEC to assert its dominance and control over the global oil market. The tight market situation prompted OPEC to seize the initiative in pricing policy and substitute legislation for negotiation. The most important events that dramatically changed the world oil market took place on October 16, 1973, when OPEC producers decided to fix new crude-oil prices unilaterally. All OPEC members with the exception of Saudi Arabia repeatedly voted to increase prices to compensate for the galloping worldwide inflation and the consequent erosion of their oil revenues. The Iranian revolution and the subsequent Iran-Iraq War also caused shortages of oil supplies that forced prices to skyrocket to about the \$40 per barrel range on the oversensitive spot-market as well as a massive re-adjustment of posted prices.

Some oil analysts have argued that the reversal of the power relationship between the multinational oil companies and the producing countries was more apparent in matters of pricing than in the control of the oil industry. The various producing countries could not exercise the inherent power they possessed over the supply and disposition of their oil because of the fully integrated nature of the oil industry. But considering the magnitude of oil import bills and the foreign

exchange involved and their implied transfer of wealth from one region of the world to the other, the pricing issues become very significant for various governments of both the consuming nations as well as the producing countries. According to Michael Olorunfemi,

the organization fought and finally seized the power to fix the price of their oil. When compared to what happens in the other primary commodities that are traded internationally where the prices and the quantities bought are determined by the buyers, it is then we can realize that OPEC's action of 16th October 1973 does fall short of a revolution.⁵⁰

A range of consumers have been affected by changes in the patterns of international oil marketing. The trouble in the Western industrial countries was that the price of oil has quadrupled since the 1973 embargo making imported oil expensive, and its supply was becoming ever more unreliable. The impact of increased oil prices was far-reaching and so intertwined with economic events, that it is difficult to determine the extent to which it affected the industrial countries. Although the U.S.A. produces a substantial amount of oil, it still imports large quantities to meet its domestic demand. Dependence for this imported oil contributed to rampant inflation in industrial countries, a weakened dollar abroad, a constrained foreign policy stance around the world and the ever-present possibility of massive supply interruptions with the consequence of gasoline lines, cold homes, and panicked, angry citizenry.

The attitude and response of the industrial countries toward OPEC, as perceived by Nigerian decision-makers, was confrontational rather than a mutual recognition of interdependence.⁵¹ OPEC was branded a cartel, which by definition is an international syndicate or combine formed to regulate prices and output in some field of business. The West, through its powerful media, has been consistently trying to convince world oil consumers that the sum total of the economic crisis they faced was the result of the steep OPEC price increases since 1973. Oil conservation and substitution programs have been aggressively promoted by the oil importing economies. The International Energy Agency (IEA), formed in 1974 in the aftermath of the first oil shock, included nearly all of the twenty-four members of the Organization of Economic Cooperation and Development (OECD). The objective was to coordinate energy policies in order to frustrate the oil pricing policy of OPEC and to research alternative sources of energy. The former managing director of NNPC, Lawrence Amu, observed,

The success of those measures together with the impact of economic depression has been reflected in a drastic reduction in OPEC oil demand from a level of 33 million barrels per day to 17 million barrels per day currently. This also explains the fall in Nigeria's oil production from 2.3 million barrels per day in 1979 to 1.3 million barrels per day.⁵²

The 1970's oil price revolution has several implications to the world petroleum market. It involved not only the increases of oil prices and the emergence of a

powerful OPEC in the oil market but it also involved a wave of nationalizations of oil companies in the exporting countries including Kuwait, Venezuela, Iraq, Peru and Saudi Arabia and of the oil properties of the international oil companies. Apart from the equity interest transfer which this oil process of nationalizations entailed, the world oil market saw the emergence of an increasing number of national oil companies whose task was to produce and market the crude oil of the producing countries. As marketing agents for the producing countries their market share has increased phenomenally, especially since 1979. The oil majors were responsible for handling as much as 79 percent of the total OPEC production in 1976 but by 1980, this had been reduced to about 40 percent, making the major oil companies short of crude for their integrated refining system.⁵³ The rise of these national oil companies and their lack of coordination of production broke the integrated strategy of the multinational oil companies through which world production has been rationalized. If there is any vertical integration in the emerging structure it is practically vertical integration at a national level since no OPEC country commands any significant downstream operation outside its own national borders.⁵⁴

The price increases and the shift in market power relations generated mutual suspicion and mistrust between the Nigerian government and the oil producing companies.⁵⁵ The

response to the situation by multinational oil companies was characteristic of an entrepreneur, minimizing their risk as best as possible. The multinationals' attitude to participation policies of the host government and price increases was to shift their exploration activities to other areas where political risks were minimal. In addition the high price of oil has made hitherto unprofitable fields more attractive. The shift in exploration efforts from OPEC countries meant a substantial reduction in exploration activities in Nigeria.

It was characteristic of Nigeria to cut back supplies to their long-term customers and sell instead to new buyers at higher prices, in the process forcing their former customers into the market for high-priced oil.⁵⁶ As the role of the majors diminished, the burden of maintaining price discipline has fallen more and more on the exporting countries themselves. The exporting countries have found it is no easy task to maintain a stable pricing structure in the new international environment. In that new environment of direct marketing, individual sellers have more opportunity than they had in the old to demand specific premium prices during shortages and to offer special discounts during gluts. The cumulative effect of this development was imbalance in the world oil market, which later tilted the market pendulum substantially toward lower oil prices.

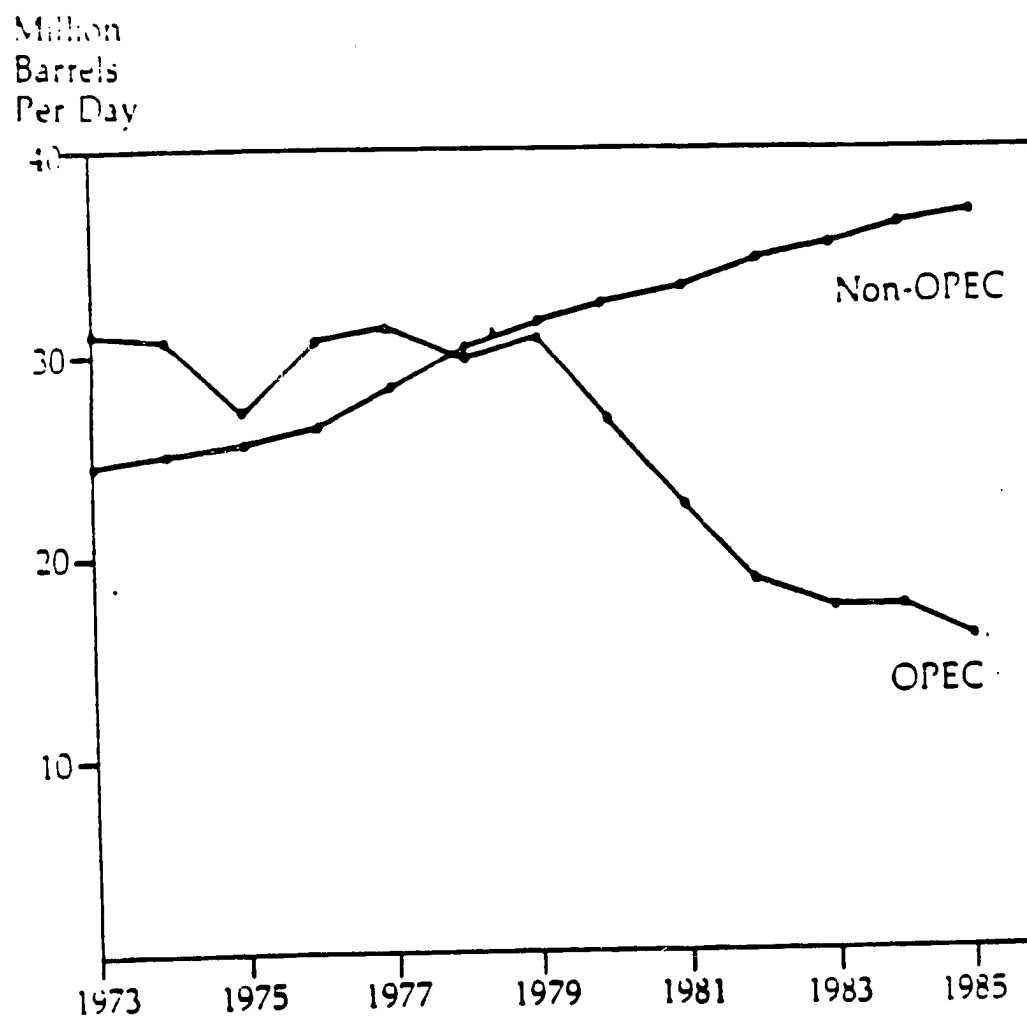
The high price of oil in the 1970's has made it possible for the major oil companies to accelerate their search for oil in high-cost producing areas like the North Sea, Alaska, offshore North America and developing countries where governments permitted the companies to make a reasonable profit.⁵⁷ The fiscal system in the North Sea, particularly in the British sector, offered prospects that enabled oil companies to visualize a much higher return on their investment compared to Nigeria and other OPEC countries. The higher-cost producers have pumped oil at near maximum capacities and have had every incentive to expand production. For instance, it was initially estimated that some North Sea fields have exploration development costs as high as \$20 per barrel. Oil market analysts believed that an additional \$2 decline in the world oil price could make a number of North Sea projects uneconomical. But by shutting their production and refusing to deal with the problem of continued decline in demand, the OPEC countries have in effect subsidized the prices for the high-cost producers. Britain was gradually displacing Nigeria as the second-largest exporter of crude oil to the United States.

There are many other countries which are non-OPEC oil producers: Mexico, Malaysia, the U.S.S.R., Egypt, Brunei, Peru. As the oil production from these new suppliers and others outside OPEC increased, OPEC's market share fell from a high of 55 percent in 1973 to 30 percent in 1981. This is

also reflected in the decline of OPEC oil output from close to 31 million barrels per day in 1979 to 17.5 million barrels per day in 1982. The production of non-OPEC nations has risen from 18 million barrels per day to 25 million barrels per day in the same period.⁵⁸ (See Figure 3:1 and Table 3:2). In other words, the non-OPEC producers emerged as significant actors in the international oil market. The non-OPEC oil producers, by setting the prices marginally below that of OPEC, have managed to maximize output. In a shrinking market the non-OPEC producers have succeeded in maintaining or increasing their output through this strategy.

OPEC is now relegated to a market role akin to that of a dominant oligopolist firm and its supply is viewed as the residual between total demand and non-OPEC supply. Pressure has been exerted on OPEC because oil exports have fallen below the required output as a result of cuts in production to maintain the tight oil market.⁵⁹ Since 1982 OPEC could not manage its role as the marginal or balancing supplier in the world oil market and due to the prospects of further price and production erosion anticipated by oil consumers and the non-cooperative attitude of most non-OPEC countries. OPEC had to resort to imposing production ceilings on its members as the only way to curb direct open competition among its members and prevent a total collapse of the price structure which they had spent the past twenty-five years building. The pressure generated by declining demand for

Figure 3:1

World Oil Production, 1973-85

Source: World Watch Paper 66, July 1988, p.16

Table 3:2

Total World Demand of Oil and the Supply by OPEC
and Non-OPEC Countries Between 1973-85
(Millions Barrels/Day)

Year Supply	Total World Demand	OPEC Supply	Non-OPEC Supply
1973	41	31	10
1974	46.5	30	16.6
1975	43	28	15
1976	44	30	14
1977	50	33	17+
1978	48.5	29.5	19+
1979	51	30.5	20+
1980	46	27.5	21.5+
1981	46	23.5	22.5+
1982	41	18	23+
1983	39	14	22.5-
1984	38	16.0	22.0-
1985	38.5	15.5	23.0+

Source: "OPEC, oil prices, revenues, and their spillover effect," OPEC Bulletin, March 1984, 17-21. Data for 1984-85 are quoted from OPEC Annual Report, 1985.

OPEC's oil has caused dissension in its ranks, with those who have pressing needs for large revenues (like Nigeria) having constantly violated OPEC's official prices and production quotas through various mechanisms of discounting.

Basically the OPEC countries can be grouped according to their revenue needs -- price doves and price hawks. In general the large petroleum reserve states of OPEC with either high per capita income or low capital absorption or both will favor moderate prices and market stability, while those states with the opposite characteristics will favor rapid price increases or decreases depending on the circumstances. The former states fear that high energy costs will encourage future energy substitution and development of alternative energy resources such as coal liquefaction or possibly fusion that may drive down the future price of energy. Saudi Arabia and Nigeria typically represent the two dominant contrasting groups within OPEC, the low absorber and the high absorber, respectively. Saudi Arabia with large reserves (estimated proven reserves of 166 billion barrels as of the end of 1979)⁶⁰ must worry about future markets for petroleum while those with smaller reserves but substantial present capital needs like Nigeria (with estimated proven reserves of 20-30 billion barrels at the end of 1979) can afford to ignore the market and to maximize current prices.⁶¹ Here lies the conflict of interest among member countries and these interests cannot easily be reconciled.

The absorptive capacity of the Nigerian economy has been generally acclaimed to be among the highest within OPEC because of their large population size, which demands considerable capital investment in the most basic infrastructures. It was reasonable to expect that Nigeria, with a relatively high capacity to absorb oil revenue, would suffer a smaller reduction in output than the OPEC nations classified as "low absorbers." OPEC's reluctance to increase Nigeria's quota was its determination to check the glut in the world oil market. But the diversity in individual member's political, cultural, and economic systems makes it almost impossible to work satisfactory formulae that could regulate or proration production among OPEC members. The thirteen member countries are widely different in terms of population, reserves, wealth and the ability of their economies to absorb additional revenues.

Some of the other OPEC countries have even less maneuvering room against the oil companies and the consuming industrial nations. Mounting debts and economic austerity programs became a common phenomenon in most oil exporting countries, like the rest of the developing countries. Deteriorating economies and internal stress make strict adherence to OPEC quotas virtual political suicide to many countries. OPEC members' revenues climbed sensationally in the 1970's but their expenditures also rose more swiftly. By 1983 OPEC suppliers found themselves falling into a growing

balance of payment deficit (see Table 3:3). The poorest nations with big populations in the cartel amassed formidable foreign debt. Since then countries like Nigeria and Venezuela have faced a rising tide of economic trouble as their oil production fell. Nigeria's foreign reserves were reduced to 4.8 billion.⁶² Even the wealthy Gulf producers like Saudi Arabia were in financial problems. Saudi Arabia's annual oil revenues have fallen 113 billion in 1981 to about 31 billion in 1985. Its foreign exchange holding has fallen from 150 billion to less than 100 billion dollars, and industrial programs were being trimmed.⁶³ These financial pressures have reduced OPEC's capacity to administer oil prices in a weak market. The impact of these developments on the internal economic situation pushed some OPEC countries to offer more oil than the market can absorb and thus contributed to weakening the price structure.

Nigeria has concentrated too much on the development and export of crude oil to the neglect of the export of refined products, petrochemicals and gas. There is not a single export refinery in Nigeria.⁶⁴ The three refineries at Port Harcourt, Warri, and Kaduna with a total capacity of 260,000 barrels per day are completely devoted to internal requirements. Since Kaduna was running at half capacity at that time, Nigeria had to meet her internal market by resorting to about 80,000 barrels per day offshore processing arrangement. This is an arrangement whereby Nigeria supplies

Table 3:3

OPEC Oil Production and Revenues
1973, 1980 and 1984

	1973	1980	1984	1973	1980	1984
	(Million Barrels Per Day)			(Billion Dollars Per Year)		
Saudi Arabia	7.4	10.0	4.7	4.3	102.2	44.6
Kuwait	3.0	1.4	1.0	1.8	17.9	10.3
Iraq	2.0	2.6	1.2	1.8	26.1	9.4
Iran	5.9	1.5	2.2	4.4	13.5	19.1
Libya	2.2	1.8	1.1	2.2	22.6	10.9
United Arab Emirates	1.5	1.7	1.2	0.9	19.5	10.8
Algeria	1.1	1.1	1.0	1.0	12.5	5.6
Nigeria	2.0	2.1	1.4	2.1	23.4	10.8
Indonesia	1.3	1.6	1.4	2.1	23.4	10.8
Venezuela	3.5	2.2	1.9	3.0	16.3	13.3
Ecuador, Gabon, and Qatar	0.9	0.8	0.8	0.6	8.0	5.7
OPEC Total*	30.8	26.9	17.9	22.5	274.9	150.2
Mexico**	0.6	2.2	3.0	-	-	-

*Numbers may not add exactly due to rounding

**Mexico is an ex-officio member

Sources: Worldwatch Paper, 66 July 1985, p. 17.

an overseas refinery with 80,000 barrels per day of crude oil for an equivalent exchange of products for the domestic market.⁶⁵

Most of the OPEC countries who were confronting comparative situations such as Venezuela, Iran, Algeria and Kuwait, are those who have invested heavily in the downstream sector of the oil industry. Venezuela, Algeria and Iran possess export refineries and were able to move additional oil in the form of refined products. Although the realized value

from the products was below the composite barrel of crude oil, they were able to use their export refinery capacities to refine products which they could sell directly in the market and by doing so earn additional revenue. Algeria, for instance, relied on her gas and petrochemical sales to cushion the loss in revenue from crude oil as a result of the oil glut.⁶⁶ Kuwait, Libya and Venezuela, who did not have adequate export refineries engaged in buying surplus refinery capacities in Europe together with their outlet, as a way of securing additional markets for their crude oil. A good many of the oil producers engaged in a processing deal whereby they supplied crude oil to overseas refineries to refine and sell abroad.⁶⁷

As oil consumption declined and production in non-OPEC countries increased, far-reaching changes have been made on the way oil is bought and sold in the world markets. The spot market in Rotterdam is notoriously volatile and exerts a great influence on the overall pricing scene. The volatility of the market is partly a function of an exceptionally flexible buying policy by customers in the area, who are accustomed to a constantly varying supply balance. The importance of this spot market is a direct result of the significant increase in the number of buyers and sellers in search of transactions outside the traditional integrated channels of the major oil companies and outside the larger-size transactions associated with government contracts. The

traditional role of the spot market was usually as a place where a broker produced a cargo of oil for a buyer on the basis of a negotiated price and was limited to not more than 5 percent of total oil traded between 1975 and 1980.⁶⁸ The oil producing governments in the past avoided committing their crude oil to the spot in order to ensure predictability and a steady share of the oil market.

Whereas in the seventies 95 percent of oil traded internationally was under long-term contract, today 40-50 percent of the oil is sold on spot markets at prevailing prices.⁶⁹ The spot price has become a good barometer of world price movements. In the last few years, the spot market has handled an increasing volume of crude oil being sold by OPEC and non-OPEC producers. In terms of the oil market, it's producing a new perception of the energy situation and indeed a different character for the world market. Accompanying the growth of spot trading was the advent of price discounting. The result of these developments was that crude oil of the same quality, indeed the same crude oil, began to command varied prices in the oil market. With this background of the world oil market, it is now possible to examine the Nigerian decision-makers' perceptions of the problems of the glut in the oil market.

The Problem of Glut in the Global Oil Market

Since 1981, new market developments indicate a downward curve for OPEC's crude oil production and prices and this problem constitutes a strong factor in the global oil market. This new market situation, which was reflected in a crisis of OPEC production and pricing policy, has been attributed to the "oil glut" in the world market. This means the world oil production capability greatly exceeded demand and in this buyers' market oil prices continued to slide.⁷⁰ But the Nigerian policy-makers, like their colleagues in other OPEC countries, seem to perceive the oil glut as a short-term aberration rather than a profound and extended change in the oil market. The apparent decline in production and price of OPEC's oil was definitely linked with the depressed economic conditions in OECD countries, which provide the major outlet for Nigerian crude oil. Therefore the perception was predicated on the fact that the world economy would continue to need an ever-increasing volume of OPEC oil and that a resurgence of the Western economies may result in a return to pre-recession oil consumption levels.

If again economic recovery sets in as rapidly as before, and if industrialized countries have to build up new stocks, we may begin to see the turning in oil demand. Whether or not we have stability will depend on the type of supply scenario that we can have."⁷¹

The Nigerian government adopted ad-hoc measures for waiting out the oil glut either by drawing on foreign currency

reserves or accumulating debts as they waited for the assumed turnaround of the world oil market.

One of the problems perceived by Nigerian decision-makers was the question of price differentials, which have affected the marketing of Nigerian crudes. The quality of Nigerian crude played a significant role, not only in terms of relevant foreign exchange generation for the country but also in terms of decision-making within OPEC as regards to correcting oil-pricing policy. Since the current oil glut, the Nigerian crude was facing competition not only from similar crudes from the North Sea, but also from the heavy crudes. There was increasing improvement in the refining technology for processing heavy crudes in the industrial countries. This was largely due to the awareness that the future availability of oil lies with heavy crudes. Most of the light low-sulphur crudes have limited reserves. Although this improved technology does not limit the relative demand for heavy crudes, it is certainly reducing the premium the light crudes enjoy in the world oil market.

The implication of this, as perceived by Nigerian decision-makers, was that it introduced a new pattern and condition governing the relative values of different crudes in the oil market. Since the factors conditioning the changes in low-sulphur premium are working in favor of heavy crudes, it stands to reason that the relative advantages of Nigerian-type crudes are undermined in the world oil market. Nigeria

has been exposed to the light crude market in which prices have become increasingly spot-rated. While it was the strength of the light crude market which was behind the high production rates in the 1970's, it is its weakness now which is responsible for Nigeria's specific difficulties; since 1981 North Sea production has doubled to around 3.5 million barrels per day while over the same period refiners have found it cheaper to make fuel oil into gasoline than to distill it from light crudes. In view of the volume of costly catalytic-cracking capacity now installed at Western European and U.S. refineries, it was difficult for Nigerian decision-makers to see how this declining trend could readily be reversed without adjusting the price differentials.

In the third meeting of OPEC in October 1981, Nigeria was said to have stated that the problem of the lack of competitiveness of Nigerian crude was a result of the glut in the oil market. Nigeria therefore refused to budge from its \$36.50 per barrel prices, which rested on the differential of \$2.50 per barrel above Arabian light, despite the insistence of Saudi Arabia, Algeria and Libya, who wanted an increase in the premium they add to the market price.⁷² They were left with the option of either coming down to meet Nigeria at \$36.50 per barrel to restore the competitive balance of the crudes or sticking to their guns by matching the level of differential which they claimed was justified by economic calculations. This problem of differentials in the face of

glut continued among OPEC members throughout 1982. At the March 1982 conference, differentials were reduced to the historical price from levels of \$2.50 to \$1.50 a barrel above the \$34 per barrel market price. The result of this for the African exporters was tremendous: their exports increased considerably but at the expense of the Gulf exporters whose export volumes dropped.⁷³ At the July meeting the African producers, including Nigeria, anxious to boost exports to ease their financial plight, resisted Saudi demands to increase their differential. Then Britain, Nigeria's main competitor, was already charging \$2 a barrel less for its similar-quality crude.

Two possible options were later suggested for restructuring the formula OPEC uses to price its many grades of oil: either by adjusting prices between price differentials for heavy, medium and light crudes or by eliminating them completely. A special committee on differentials was later set up by OPEC to look into the problem; it included Saudi Arabia, Algeria, Kuwait, Libya, Nigeria, Qatar and U.A.E. The special committee, under the leadership of Zaki Yamani, the Saudi oil minister, recommended adjusting the price differentials by adding 50 cents to the price of heavier crudes while lowering by 25 cents the price of the extra-light varieties. However some member countries of the OPEC committee, like Nigeria, Libya and Iran, disassociated themselves from that recommendation, insisting

that the price differentials between light and heavy crudes should not be more than \$2.⁷⁴ The Nigerian oil minister considered the price differentials not relevant anymore, especially in light of the new development in the market where some members of OPEC were selling mixed crudes and upgrading refineries. He recommended that the organization should do away with the three-tier pricing system that set different prices for heavy, medium and light crudes.⁷⁵

The Nigerian decision-makers perceived that Nigeria's production quota was not large enough to earn the necessary foreign exchange to finance national development projects and other economic needs. The changing patterns of production quotas, especially the substantial reductions, since 1981, required Nigeria to regulate output levels to support the price of OPEC crude oil. The emergence and continuous growth of non-OPEC producers such as Britain, Norway and Mexico compounded OPEC's problems and made it difficult for the organization to exercise absolute control over the quantity and price of crude oil in the world market. The only way OPEC has been able to keep its prices high has been to continually cut production to keep supplies tight. The glut in the world oil market has been responsible for the drop of OPEC oil from 31 million barrels per day in 1980 to about 18 million barrels per day in 1982. In the case of Nigeria, crude oil production has fallen from a planned 2 million barrels per day to less than 1 million per day, which was considered inadequate to

generate sufficient revenues to put Nigeria's ailing economy on a sound footing.

The implication for the oil exporters, as perceived by Nigerian decision-makers, is that they cannot immediately reduce their import commitment in line with the fall in their revenues (because they have so many development projects in train, which means that a budget deficit was anticipated. The phenomenal growth in oil revenues in the seventies has enabled Nigeria to embark on a series of ambitious development plans which generated substantial growth and restructuring of the economy. For Nigeria, like many other OPEC members who depend almost entirely on exports of oil for development, the glut in the oil market had damaging effects. The severity of the oversupply culminated in an erosion of crude oil prices on the spot market. This in turn threatened to destroy the whole structure of the official crude oil prices for OPEC and non-OPEC producers alike. Midway through the first quarter of 1982, Bonny Light was traded on the spot market for \$32.50 a barrel, although the official price was \$36.50; Arab Light was traded at \$30.50, but the official price was \$34 per barrel.⁷⁶

Since the early 1970's Saudi Arabia has played a key role as OPEC swing producer, raising and lowering production in accordance with world oil market trends and thereby bringing some stability to the oil market. During the 1979-1980 oil shortage when Saudi Arabia was trying to force oil

prices down its production went up to 10.3 million but when the oil glut threatened OPEC price levels, it cut its production to almost 2.5 million barrels per day in 1985. At the OPEC meeting held in 1982 at Vienna and Geneva, member nations of OPEC were uncertain as to the proper policy to pursue. Even though they finally agreed to production quotas with Saudi Arabia as swing producer, the increasing role of non-OPEC producing countries in the world oil market was such that the Saudi Arabian and other OPEC members could not stick together to maintain oil price leadership.

Nigerian policy-makers accepted the decisions arrived at at the OPEC conference meeting in Vienna of March 1982, when OPEC resorted to production restraint as a means of supporting the price structure.⁷⁷ This acceptance was, however, based on the understanding that OPEC would successfully put together a credible and decisive package of production measures to help stabilize the market and to preserve the OPEC price structure, based on \$34 a barrel market crude. The Vienna meeting was the first time in the history of OPEC that a formal agreement on production programming was reached.⁷⁸ Until then the organization relied on the individual member countries to exercise restraint and reduce production when surplus occurred in the oil market. OPEC members decided to adopt a ceiling of 18 million barrels per day for total OPEC production. This ceiling was to be reviewed at the next ordinary meeting of the organization in

light of market developments. The \$34 a barrel OPEC marker was reaffirmed and the differential for the top African crudes was reduced from \$2.50 to \$1.50. The conference also established a ministerial watchdog group composed of the oil ministers of Venezuela, Algeria, Indonesia and the United Arab Emirates to monitor the market situation and to follow up on the implementation of the Vienna decision on production prices.⁷⁹

The production-sharing agreements established among OPEC members, as perceived later by Nigerian decision-makers, only succeeded in making the price structure more fragile. Moreover, the levels of production allocated to individual members of OPEC were thought inadequate in terms of the financial needs of member countries. A few days after the Vienna meeting Nigerian oil production fell by half from 1.3 million barrels per day to 630,000 barrels per day. This fall in the Nigeria production quota, according to Nigeria's assessment of the market situation, was a direct result of a boycott of its crude equity liftings imposed by oil companies who had expected Nigeria to discount the price of its crude in line with the North Sea crudes; instead, Nigeria had adjusted prices in line with the Vienna agreement effective from March 20, 1982.⁸⁰ The leading price pressure point was North Sea oil where some 120,000 barrels per day of crude could not be marketed.⁸¹ The Saudi/Gulf/OPEC reaction in support of Nigeria was to immediately blacklist any company

which reduced its liftings of Nigerian crudes, especially the five producing companies in Nigeria headed by Royal Dutch Shell, which accounts for some 66 percent of Nigeria's output. As a further measure of support for Nigeria, Saudi Arabia lowered its production ceiling for April below the 7 million barrels per day agreed in Vienna.

By the middle of April 1982, the Nigerian problem had eased and Nigerian production had increased by 300,000 barrels per day from 630,000 barrels per day in early March.⁸² Halfway through the second quarter, around early May, oil market signals were in the general direction of a recovery; there were indications of a firming of the market and an eventual closing of the gap between spot prices and official prices later on in the year. Nigeria recovered most of its lost customers and there were signs of increased liftings among equity holders. OPEC production rose to 17 million barrels per day -- a rise of 1 million from April. An ordinary meeting of OPEC ministers was held in Quito on May 20-21, where it was decided that the total OPEC production ceiling should be maintained at the first quarter level of 17.5 million per barrels.⁸³

The other specific problem perceived by Nigerian decision-makers was OPEC's inability to defend its prices, which they attributed to lack of self-discipline among the OPEC members. OPEC members have always cheated on their export volume restrictions but this became more widespread as

the glut intensified and the oil producers were coming under increasing financial pressures. Alex Ekweme, the then vice president of Nigeria, was quoted to have said that other OPEC members are prone to use "all sorts of methods to circumvent" the official reference price.⁸⁴ There was increased reporting in the specialized press about many direct and indirect discounts offered in some OPEC member official selling prices. Some members announced their dissatisfaction with their allocated quotas. Indeed the OPEC problem again stems from members producing above their allotments under current quotas. The July 9, 1982 meeting convened in Vienna was controversial because of the lack of observance by some members of production quotas and official price levels. Iran was producing 2 million barrels per day against its quota of 1.2 million and was selling them at \$3 to \$4 a barrel below OPEC levels.⁸⁵ Similarly Libya was overproducing and giving discounts of up to \$2 a barrel. Nigerian had also exceeded its quota. Theoretically the OPEC ceiling on collective output of 17.5 million barrels per day was still in force, but the actual rate was estimated at approximately 20 million per day despite the fact that Iraq was producing well below its quota. Output from non-OPEC producers was also on the increase. All these gave the impression that OPEC members would not adhere to the organization's decision and further created an atmosphere of uncertainty in the global oil market. More significantly, the successive failure of OPEC in reaching

an agreement on reallocating quotas and taking measures to defend the price noticeably eroded OPEC market leadership.

Once again Nigeria was under pressure from its customers to reduce its oil prices. Its largest producing company, the Shell group, indicated a phase-out clause in its contract. This clause provides a buyer with the option to halt purchases after 90 days. Agrip and Gulf also initiated similar clauses. The Geneva meeting of January 19-20, 1982, which Nigerian policy-makers thought would help redeem the oil market situation, was a complete failure. The oil ministers tried to set a new production ceiling of 18.5 million barrels a day for OPEC but they failed to agree on how to share it out. The Geneva meeting failed because even before it took off it was soon evident

that there was little chance of any agreement on quotas. For one thing, the basic lack of trust between members had brought about a climate in which any paper accord on production programme would be unlikely to be believed in let alone acted upon.⁸⁶

In the press statement after the meeting in Geneva, the Nigerian chief delegate, who also presided over the conference, was still of the conviction that the problem of the oil market was overproduction:

The African producers have studied the present market situation and regard the problem as essentially one of over production. The solution lies in setting for OPEC production programme, an agreement to set quotas for each member state. Such quotas must be equitable and credible.⁸⁷

The oil market was in disarray.⁸⁸ Nigerian decision-makers perceived that gap between national interests within

OPEC had widened and some members had chosen a short-term self-interest policy in preference to OPEC's and their own long-term interests. A series of meetings with the producing firms and customers apparently convinced Nigerian officials that price cuts were unavoidable, even though they would do little to boost oil in the short-term. In this atmosphere of oil price speculation, Nigerian equity liftings fell to between 800,000 and 900,000 barrels per day.⁸⁹ The main complaints from customers were uniform -- that Nigeria's prices were at least \$5 per barrel too high and that something must be done if the Nigerian government hoped to boost production (sales) from the dismal rate of less than 1 million barrels per day.⁹⁰ Then on February 18, 1983 Britain (BNOC) announced a \$3 per barrel price cut and this was followed by Norway with a price reduction of \$3.00 to \$3.50 per barrel. The Nigerian decision-makers were gradually coming to the realization that the OPEC strategy were merely postponing the inevitable day when it would have to face the market realities and that internal cohesion of OPEC could not be built for an indefinite period on the self-denying policies of one country, whether Saudi Arabia or Nigeria.

The perception of the glut in the world oil market precipitated a problem for the Nigerian decision-makers which created an occasion for decision. But the decision-makers' perceptions that there is a problem in the environment is not sufficient to predict the nation's foreign policy process or

response.⁹¹ When faced with a problem the decision-makers define the nature of that problem. It would seem, therefore, that any action-oriented study of foreign policy must begin with the understanding of the actor's definition of his environment and hence the perception assessment which he brings to bear upon governmental policy.⁹² In the next chapter I shall examine the Nigerian decision-makers' definition of "the oil situation".

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CHAPTER IV
NIGERIAN DECISION-MAKERS' INTERPRETATION
OF THE "OIL SITUATION"

Toward A Theoretical Clarification of National Interest

The notion of national interest has featured prominently in the recent discourse of Nigerian decision-makers as a way of explaining their behavior toward OPEC and the global oil market. Muhammad Buhari, the Nigerian head of state, was quoted in an interview with the International Daily Oil Gas Report of February 21, 1984, as saying that Nigeria would "act in its best interests if OPEC doesn't allow it to increase its oil production quota."¹ Professor Tam David-West, the former Nigerian oil minister, was quoted in an interview with the International Herald Tribune on November 9, 1984, as saying that Nigeria will remain in the organization "as long as OPEC policies do not interfere or conflict with our national interest." A similar attitude was evinced by Nigeria's Presidential Adviser on Petroleum and Energy Affairs, Mr. Yahaya Dikko, who, while insisting that all the OPEC members had been given prior notification of the price cut, said that the OPEC decision was taken "in the light of national interest."²

The notion of "national interest" plays a crucial role in the political discourse in which the behaviors of states and statesmen can be understood in international politics.³ Statesmen, in fact, believe that their national interest must be served in their various relationships with the international environment and therefore constitute the prime consideration in the formulation and implementation of their foreign policies. These interests may be the economic well-being of the state, defense or the promotion of basic values. Rosenau underscored the importance of national interest as a key and organizing concept in foreign policy:

As an analytic tool, it is employed to describe, explain or evaluate the sources or the adequacy of a nation's foreign policy. As an instrument of political action, it serves as a means of justifying, denouncing or proposing policies. Both usages, in other words, refer to what is best for a national society. They also share a tendency to confine the intended meaning to what is best for the national society. Beyond these general considerations, however, the two uses of the concept have little in common.⁴

In spite of the frequent employment of the concept and conflicting claims made in the name of national interest by statesmen, the meaning of the concept has remained analytically fuzzy. Most prominent critics of the concept assert that it is simply too broad, too general, too vague, too all-inclusive to perform useful analytic functions or to serve as a guideline for policy-makers. George and Keohane expressed this same concern when they admitted that "in practice...national interest has become so elastic and

ambiguous a concept that its role as guide to foreign policy is problematic and controversial."⁵

The other problem often posed by critics is how to address the issues raised by the concept of national interest. Whose interest? How is it determined? By whom? A modern society by definition contains a multitude of interests -- personal, ethnic, religious, racial, economic, regional, occupational and professional to name a few. Sonderman raised similar pertinent questions:

Is the national interest merely the aggregation of specific interest? Or assuming that there is such a thing as a national interest could it be larger than, perhaps even different from, such an aggregation?⁶

However one responds to these questions, they are of vital importance to both the ultimate meaning and usage of the concept of national interest.

Ofuatey-Kodjoe correctly asserted that the difficulty in developing a substantive and operational definition of national interest has been due not to any inherent attribute of the concept itself but rather to erroneous attempts to define it in terms of objective criteria (Morgenthau 1951:51) or in terms of normative and ideological preferences.⁷ (For an analysis of the objectivist and subjectivist views of the national interest, see Rosenau 1971:242 ff.) He went further to attribute "the failing of early attempts at definition to the fact that they neglected to place the concept of "national interest" where it properly belongs: within the cognitive field of those who are in fact acting on behalf of the state.

The only view of national interest that is relevant with regard to explaining the foreign policy that is actually operating at a given moment is the view of it held by the national decision-makers.⁸

The term national interest is increasingly being defined and interpreted merely as an indication of the policy preference of decision-makers. "The national interest is what the nation, i.e., the decision-makers, decides it is."⁹

Rather than identifying the national interest with the decision of the authorized agents (decision-makers), we should endeavor to distinguish decisions and interest (which coincide ideally but not necessarily). We must be forced to go beyond the idiosyncratic preferences of the decision-makers and argue on the basis of long-term objectives of the state that can be adduced to back a claim of national interest. The problem with defining the national interest purely by reference to the preferences of the state actors is that it violates common usages that associate this concept with enduring general goals of the society.

The notion of national interest can be defined as the decision-makers' perception of what they need to do in order to achieve foreign policy objectives in the international system.¹⁰ This definition appears to preserve a close conceptual connection between interest and policy choice and it also appears to accommodate the possibility of making mistakes -- mistakes which result from a lack of experience

or misperception.¹¹ The leaders of nation-states are guided in their decisions about international relations by certain basic values that they and their people hold to be important to their well-being -- these values and aspirations are subsumed under the term national interests.¹²

The other advantage of this definition is that it includes the notion of needs as perceived by the decision-makers, i.e., what decision-makers need to do outside their borders in the way of cooperation or security to achieve foreign policy objectives. These needs are instrumental, in the sense that they are actions that governments need to carry out. Therefore they must involve any of a whole range of activities designed to influence the external setting of the state. This makes it possible not only to determine the significance of a given external event or crisis to the country's well-being but also to determine empirically the sources of the decision-makers perceptions of the national interest. If the foreign policy of a state is based on the decision-makers' perceptions of national interest, it follows that we must identify the substantive content of the perceptions. The perceptions of the national interest depend on three prior perceptions: the nature of the foreign policy objectives that have to be achieved; the opportunities and constraints that confronted them in the international arena; and the means or capabilities they have at their disposal. Thus, the national interest provides a conceptual link in the

minds of the decision-makers between the foreign policy of the country on the one hand and perceptions of national foreign policy objectives, international opportunities and constraints, and national capabilities on the other.¹³

The contemporary reality of national interest, as Joseph Frankel notes, is that an in-depth measurement reveals at least two levels, namely aspirational interests and operational interests.¹⁴ These distinctions are only analytical and do not fully occur in real life. Frankel's classification advances our understanding somewhat in that it shifts our attention to a more detailed and empirical goal of foreign policy. In other words the logic of this distinction is also to give new insight into the fact that the national interest not only has to define a vision of the ideal goals of a good life but also to compare aspirations with actual policy options. The decision-makers must have a notion of the capabilities available to them for achieving the objectives and their potential effectiveness in the context of the setting within which they have to operate. A state can claim to operationalize its national interest only when it possesses the capability to achieve the stated objectives of its national interest.

Although the external environment of the state has an independent existence, it is the way this environment is perceived that is important in the analysis of foreign policy behavior. Of course, a country's foreign policy may fail to

achieve its objectives if the leadership persists in a perception of the international setting which is inconsistent with reality. However, the explanation of the policy cannot but be based on the perception of the decision-makers.

Nigerian Decision-makers' Perception
of the National Interest

The perception of Nigeria's national interest is as problematic as the definition of the concept of national interest. One may suggest that perception is most relevant to national interest because cognition and evaluation are combined, i.e., not only is the environment perceived in a specific way but it is "simultaneously" assessed normatively. The relevant factor within the psychological environment which produces foreign policy is the decision-makers' perception of the national interest defined in terms of the perceived external (cooperative and security) needs of the state.¹⁵

The national interest of Nigeria derives from a common historical experience which has been reinforced by the need to promote the unity, stability and development of all Nigerians in a climate of peace in Africa in particular and the world in general. It was not until June 19, 1976, that the Nigerian government clearly spelled out what the country's national objectives ought to be in the international arena. General Obasanjo's regime elaborated on the elements of Nigeria's national interest. That elaboration is often

referred to as the Dodan Declaration,¹⁶ the main points of which are:

- a) The defense of our sovereignty, independence and territorial integrity.
- b) The creation of the necessary political and economic conditions in Africa and the rest of the world which will facilitate the defense of independence and territorial integrity of all African countries while at the same time fostering national self-reliance in Africa and the rest of the developing world.
- c) The promotion of equality and self-reliance in Africa and the rest of the developing world.
- d) The promotion and defense of justice and respect for human dignity, especially the dignity of the black man.
- e) The defense and promotion of world peace.

The four-year development plan for 1970-1974 under General Obasanjo's government also contained basically similar objectives. Despite the change to a civilian regime, the Shagari government seemed to continue the same basic principles underlying the foreign policy objectives. Wright concluded in his own review of Nigeria's debates and choices that

...no real distinction has been made between the Obasanjo and Shagari administrations in the field of foreign policy because in broad terms, none exists. If anything the problems facing the Shagari government are greater

because of the increasingly unfavorable external environment as well as the domestic pressure from the competitive and volatile party system. Given these increased constraints it is even more imperative to define and reorient Nigerian foreign policy in order to attempt to match rhetoric with action.¹⁷

Although reformulated in different ways, there is ample evidence that the various successive governments in Nigeria - both civilian and military regimes -- have maintained a resolute continuity in foreign policy posture. In its policy blueprint, the Buhari government declares the following to be Nigeria's policy objectives in external affairs: to safeguard Nigeria's national interest, promote the economic and social well-being of its citizens, enhance its image and status in the world at large (especially in Africa), defend the independence and territorial integrity of African states and contribute to the promotion of world peace and security.¹⁸

The problem with this line of approach to the study of the country's national interest is that we have no other options but to passively accept the official definition of the national interest and national objectives as provided by the nation's policy-makers. But these elements of Nigeria's national interest are not only too vague and diffuse, they are irrelevant to the internal and external environments that would enable the stated objectives to be achieved. Professor Aluko correctly observed that most of these grand objectives are not realizable and therefore cannot provide a rational and realistic basis for the country's external behavior.¹⁹ He attributed the setbacks in Nigeria's foreign policy to

economic and psychological miscalculation or misperception of Nigeria's role in world affairs. He lamented the deficiencies in Nigeria's foreign policy and advocated a more nationalist and isolationist policy, i.e., seeking the well-being of the Nigerian state and its people rather than regional/continental affairs. He states:

The catalogue of errors in our foreign policy is long...the failure of our leaders especially the post-1975 ones to appreciate severe external and internal constraints on their freedom of choice and therefore strike a foreign policy that will be Nigeria-centered: that is, it will be self-seeking in the sense that its primary preoccupation should be the promotion of the country's security and well-being of the people.²⁰

The weakness of his position is that he failed to show how to pursue these realistic goals of Nigerian foreign policy objectives. Does it mean that the Nigerian government cannot have a realistic and attainable foreign policy objective? Wright also criticized Nigerian foreign policy in terms of the scope of the national interest.

In the Nigerian context there has been some contention about whether the focus should be ego-centric, that is to say purely Nigerian, whether it should serve the Western African region, Africa as a whole at its broadest, the interest of the black people throughout the world.²¹

The confusion and ambiguities surrounding these stated objectives arise from the confusion regarding proper categorization of the Nigerian national interest. Nigeria's national interest must be considered not only from the narrow framework of the declared pious objectives of the decision-makers, but must also capture the essence of the country's

contradictory position in the emerging international division of labor, i.e., to take account of the external aspects of changes in relations and pattern of production, distribution and accumulation. We must go beyond these tired formulations of the political leaders to examine how the peculiar socioeconomic and political configuration of Nigerian society provides the context, the limitations and the opportunities within which decision-makers operate to produce policy decisions. Timothy M. Shaw and many prominent Third World analysts are beginning to recommend this approach to the study of national interest in the periphery.

...Particularly for dependent and vulnerable states there is a new recognition that economic relations are central and that indigenous social forces are integral to both external interest and foreign policy: that reconsideration and reconceptualization of 'national interest.' In short foreign policy and development policy have been redefined to take into account social forces in peripheral formations: a veritable African intellectual revolution.²²

In other words, the perception of Nigeria's national interest must reflect the sociohistorical and economic forces at work in and on Nigeria. Therefore our analysis of Nigeria's national interest must stress the complex, peripheral social formations and the manner in which they reinforce the impact of the dominant elites on public policy at the national and international levels. The notion that the foreign policy of a country reflects the attitudes of its elites is almost part of the conventional wisdom of foreign

policy analysis. Therefore the focus of the analysis must be grounded on how national interest is determined and by whom.

To focus our analysis on the development and interaction of social classes does not mean abandoning the national interest which is our central concern. The question of national objectives cannot be divorced from the concrete class content of the strategies by which they are pursued. Beckman, for example, is critical of the tendency for dependency analysis, in the Nigerian context, to "reduce contradictions in neo-colonial society to the national dimension, paying little attention to the dynamic of class formation."²³

The material and ideological interests of the Nigerian ruling elites are primarily concerned with the preservation and advancement of their material benefits, even if they couched them in idealistic terms. Gavin Williams eloquently expressed the ambivalent position of the bourgeoisie within the context of Nigeria's neocolonial political economy:

In fact the Nigerian bourgeoisie do have an ideology in the sense of a theoretical legitimation of the status quo. It is expressed in a concept of "development" which is that which we are all in favor of and given the statistical respectability in figures measuring the growth of commodity production, particularly production of capitalist mining and manufacturing industries. The demand for Nigerianization gives it a nationalist coloring. But this demand falls short of the demand for expropriation of foreign capitalists on whom the Nigerian bourgeoisie remains dependent. In this way, the ideology of national development presents the bourgeois image of itself as providing national leadership in the public interest, with contradictions abolished and its immediate material interest preserved. What the bourgeoisie lacks, to use Manheim's terminology, is a Utopia, a set of ideas

to inspire the transformation of the existing order and liberation of human capacities.²⁴

It is important to point out that decision-makers do matter but what they adopt as national objectives are neither an objective reality or national in the sense that they represent the interest of all the people. Rather they are "the outcome of competing, sometimes coalescing and sometimes conflicting interests of different groups especially elite groups within the society".²⁵ Thus, in reality the national objectives are defined by decision-makers in such a way that their private interests have been transformed into "national objectives" through the process of governmental decision-making. It is therefore clear that the term "national" as used in the national interest really represents only the effective constituency of the decision-makers, that is, the groups to which the foreign policy process is most responsive. Therefore in order to determine the sources of decision-makers' perceptions of the national interest, it would be necessary to identify these influential groups and ascertain the nature of their interests. According to Daniel Bell,

...the nature of interests implies a selection of values by a group or part of a group over and against others. And this leads to a definition of particular privileges and so on....Certainly, one cannot have a power elite or ruling class without community of interest.²⁶

The Nigerian Foreign Policy Elites:
Ideological and Material Interests

The source of decision-makers' perceptions of the internal needs of the society are the foreign policy elites. These elites' interests are discernible through their conception of their national identity, their political and social attitudes and their international commitment; they are the most critical sources of the foreign policy behavior of the state. The implication for foreign policy behavior is that the Nigerian ruling class has an ideology, i.e., a set of myths, values, principles and attitudes which it uses to justify, explain and reinforce its rule.

The purpose of engaging in foreign policy behavior is to meet the material and ideological needs of the particular society, i.e., decision-makers' perception of the material resources and mode of social organization that the society needs to be able to maintain itself or develop into the kind of society they think it ought to be. Material interests represent the interest of the elites in the resources and skills which they believe to be needed for production of goods and services at acceptable levels and for the achievement and maintenance of a desired lifestyle.²⁷ Ideological interests represent the interests of the elites in a desirable social order involving consideration of appropriate modes of social stratification and political-economic organization.²⁸ In other words, the material and ideological interests of the

foreign policy elites are reflected in the elites' normative attitudes toward the following issues:

- a) who should properly be the beneficiaries of public (especially foreign) policy;
- b) what should be the nature of the political and socio-economic organization of the society;
- c) what are the motivations and capabilities of other actors within the international system; and,
- d) how much of the natural resources should they commit to foreign policy.

Nigerian foreign policy elites include the top political leaders and bureaucrats, professional cadres, business executives with capitalist enterprises in the private sector and top members of the military and police forces. This small privileged ruling coalition, whose strategic location at the apex of the Nigerian society enables it to have considerable impact on the decision-making process of the state and reap the fruits of economic growth. While the ruling coalition is often obscured and weakened by fractional and distributive conflicts, these class elements have nevertheless exercised a general influence on the character of state policy. The relative strength of the various groups that comprise the bourgeoisie and the cohesion of the class as a whole may change through time. For instance under the military the federal bureaucrats exerted a more powerful

influence on state policy than they had during the political party period. Although it is distinct in its composition, they share a common interest in bureaucratic developmental ideology -- which involves state participation in the economy and its industrial projects.

The process of accumulation in most oil producing states depends on oil revenue from the sector over which it has limited control and which is not integrated with other sectors in the economy. Since political independence, the Nigerian state has become the chief arena for the accumulation of wealth and the acquisition of resources and it has become decisively more so as a result of the oil boom. According to the Economist,

The slump is not Nigeria's fault but then the boom is not its achievement either. Western companies bored the wells and managed the marketing, the Arabs of OPEC pushed the price through the ceiling. The Nigerians were offered an immense windfall which they had no idea how to catch so that what happened during the oil boom was that large revenues were pumped into the economy by the rest of the international capitalist system.²⁹

With the boom of the 1970's, the Nigerian state became dependent on oil companies as petroleum replaced the peasant export crops as the main sources of foreign exchange earnings. While the centralized federal state promoted dependent capitalist development, the political culture has been intensely materialistic and has intensified the Westernization and crystallization of the Nigerian political economy.

The beneficiaries of the oil-led development are reflective of the dominant social forces within the Nigerian

state structure. Since the Nigerian "rentier state" has been the focus of capital accumulation, the struggle within the dominant social class is to control the state apparatus in order to dispense the huge oil revenues for their class's interest.³⁰ With political and economic power inextricably intertwined, the state power is not sought for its own sake but for the material advantage it promises. Therefore government has been perceived more as a mechanism of distributing bounties to the faithful than as an agent of economic development. Terisa Turner observed that

Since control of the state office confers access to funds as well as power and patronage competition escalated into conflict and the rules of the political processes were overridden.³¹

Ake argues

The salient feature of the state of the nation and the crux of the problem in Nigeria today is the over politicization of social life. The Nigerian state appears to intervene everywhere and to own virtually everything including access to status and wealth....(Hence), a desperate struggle to win control of state power ensues since this control means for all practical purposes being all powerful and owning everything. Politics becomes warfare, a matter of life and death."³²

In a commercial political economy like Nigeria in which the indigenous bourgeoisie is not able to lay a solid foundation for productive capitalism, they prefer to concentrate on commerce and import-export trade where they mediate between other social classes and foreign firms. They accumulate wealth through trade, finance, state contracts, construction and limited industrial production. This is why

Terisa Turner asserted that a strong local trading class controls the Nigerian state and promotes commerce in such a way as to retard the growth of capitalist production³³ The indigenous bourgeoisie's possession of special abilities such as a comparative advantage in providing access to distributive contact networks and knowledge of local market conditions allows them to play an important integrative role in the emerging triple alliance. Many heads of service and senior bureaucrats retire from the public service at a relatively young age to take executive positions in the private sector. The intellectuals and communal leaders are being gradually coopted either by being paid off or silenced by repression.

The leadership position of these ruling elites in the society, their social status, high income and economic interests are logically linked up to the success of foreign economic interests in the country. The launching of the Nigerian Enterprises Promotion decree in 1973 marked the beginning of a conscious attempt to increase the participatory role of the state and indigenous capital in the commanding heights of the Nigerian economy. The aim of the indigenization program was to make greater and more effective participation by Nigerians in the economic life of the country.³⁴ But this attempt succeeded in creating partnership between the state, indigenous bourgeoisie and foreign capital through equity participation. The resultant partnership meant

that the foreign companies not only have greater security of tenure but also have access to local capital.

The significant impact of oil revenues on development has been to powerfully underline this symbiotic relationship between the Nigerian government and foreign enterprise companies.³⁵ But the state is still a captive of the international oil companies who control the technology, production and marketing of petroleum products and therefore can manipulate the fiscal policies to the detriment of the "rentier state." This is significant because of the dominant role of the "international majors" in influencing crude market outlet. Should this market outlet control be exercised by the oil companies, both the level of production and revenue from oil will be adversely affected. The repercussions could be detrimental to the oil industry and the Nigerian economy. Furthermore the magnitude of developmental funds and the system of payment of revenue in the Nigerian government are strongly influenced by the position of foreign oil companies operating in the country.

As the Nigerian state became more dependent on oil revenues from the oil companies to meet its developmental needs, the fortunes of the ruling elites have become closely linked to foreign economic interests. The fact that the metropolitan power continues to be a major actor in the process of accumulation indicates the influence of this group on the country's policy-makers. Indeed there is a coincidence

of interests between the transnational interests, the indigenous bourgeoisie and the state bureaucrats. This structure of interest, according to Terisa Turner, "is detrimental to the growth of self-reliance. Rather than enhancing political and economic independence, the state increased its dependence on foreign capital in the form of oil companies."³⁶ With this kind of dependence, it is easy for foreign economic interests to dictate the direction, pace and overall performance of Nigerian economic developmental strategies:

While this dependence is in keeping with the developmental strategy of the elites, it also serves class, fractional and personal interests. Given the ideological identity between Nigerian and external elites, euphemisms like "international interdependence" and "partners in progress" are used to mask the underlying structure of dependence. While this serves class interests, fractional interests are also served simultaneously as the bureaucratic bourgeoisie (which controls the state) also uses ideology to maintain its hegemony not only against other classes but also against its budding commercial counterparts.³⁷

The ideological sympathy of the Nigerian ruling class is to develop their economy along the dependent capitalist path which is essentially derived from the country's colonial heritage.³⁸ Nigerian elites are socialized in the tradition of the European bourgeoisie. For the object of Western education was to train Western-oriented political elites committed to the attitudes and ideology of capitalism and bourgeois society. Many of them feel close "kinship" with the ex-metropole and aspire to continue this relationship.

Therefore it is not surprising "that with regard to foreign policy relevant attitudes of the majority of the Nigerian elites have a strong commitment to conservative ideologies, characterized by a preference for 'laissez faire' economic policy, capitalist development, elitist political orientation and modernizing ethics based on the emulation of the Western way of life."³⁹

These bureaucratic elites (bureaucrats and technocrats) who control the ministries and the state parastatals from their senior positions share a similar social background and have the benefits of higher education, either from Nigerian or Western institutions. In terms of family backgrounds, they come from prosperous farmers, school teachers, clergy, merchant and traditional rulers, who could afford to pay school fees during the colonial era.⁴⁰ While the bureaucrats are normally educated in liberal arts or humanities, the technocrats tend to be younger and have received technical or science based education.⁴¹ But they both tend to share the same bourgeois aspirations for the new opportunities and new patterns of social mobility introduced by the Western educational system. Segun Osoba explains the internal contradiction of the Nigerian bourgeoisie within the context of the political economy:

The contradiction between the national bourgeoisie and the masses in Nigeria hinges on the operation of international finance capitalism of the national bourgeoisie. But the national bourgeoisie is not able to resolve the contradiction in favor of the masses of its people and against its foreign imperialist

principals. It is also not able to come out openly and tell the Nigerian people that its true commitment is to domestic and foreign capitalist exploitation of the human and material resources of the nation.⁴²

We have already pointed out that foreign policy may represent the interest of an elite or it may represent the outcome of bargaining between different elites; and, furthermore, the outcome of such bargaining may depend on the relative autonomy of the state which refers to the extent to which the state apparatus is independent of or insulated from direct influence by the dominant class. While the contemporary Nigerian state may occasionally exercise partial autonomy from domestic and foreign interests, it is important to recognize this partial autonomy is counteracted by informal connections among national elites, social forces, ethnic ties and local leaders.⁴³

The ideology is reflective of the political preferences of the ruling class rather than actual economic policy. But if perception rather than objective interest determines behavior, then surely ideology is a key contributor to perception. The foreign policy of Nigeria is entirely consistent with the perceptions and attitudes of the majority of the elites. The primary role of the Nigerian state, in addition to advancing its own interests, is that it has used the growing control of fiscal policies to create conditions favorable for the expansion of capital accumulation in general and to the evolution of the business class in particular.⁴⁴ The dominant influence on the decision-makers's perception

will be their class interests and their conceptions of for who they think their society should be developed and organized. The way they perceive and evaluate the international environment is consistent with their socialization. However, the approaches the decision-makers use to solve their problems have implications for the foreign policy they choose.

Internal Needs: The Impact Of Oil On Nigeria's Development

Our ability to explain the "oil situation" within the context of Nigerian national interests will require an analysis of the role of this commodity in Nigerian political economy and its developmental strategy. For the national objectives exist in the minds of the decision-makers as projected future states to which they intend to commit some national resources. These projected future states may represent the maintenance of a situation or the establishment of an entirely new situation. Whether these national objectives are traditional status quo or futuristically oriented, they typically involve the acquisition and maintenance of values in the interest of the political, economic, social and cultural organization of the society.⁴⁵

Nigeria emerged as a significant producer and exporter of crude oil when the global oil market was beginning to undergo fundamental changes in the early 1970's. During the oil boom, because of the consequent strong financial position of the country, oil became an important instrument in

Nigeria's domestic and foreign policies. This is evident in the various annual budget speeches and the four national development plans which have dominated the country's post-independence economy.⁴⁶ Nigerian crude oil occupied a prominent position in the world oil market not only because of Nigeria's production capacity and proximity to major markets in North America and Europe during the closing of the Suez Canal, but also because of its excellent quality (light gravity and very low sulphur content) which is similar to crude oil produced in Algeria, Libya and the North Sea.

Since the mid-1970's oil production and export has replaced agriculture as the "engine of growth" of the Nigerian economy and thus provided the lion's share of the country's foreign income and wealth. Between 1960 and 1968 non-oil exports contributed more to Nigeria's foreign exchange receipts but between 1970 and 1980 oil came to dominate Nigeria's export statistics as the main foreign exchange earner of the country. There has been a rapid decline in the size of the agricultural sector; its contribution to GDP has fallen from around 60 percent in 1960 to about 21 percent in 1977.⁴⁷

In fact oil has changed Nigeria from a country exporting primary commodities into what is sometimes called a monocultural economy, with over 90 percent of export earnings contributed by this one commodity. Nigeria's proven recoverable reserves are estimated at 20 billion barrels, and

at its peak in 1980, Nigerian oil output was around 2.2 million barrels a day, which generated revenue for the government of about \$23.4 billion dollars.⁴⁸

The resultant favorable financial conditions led to a quantum jump in government expenditures. The oil revenue provided the necessary flexibility in budgeting with respect to the country's development plans which generated substantial growth and restructuring of the economy (see Table 4:1). The size and implementation efficiency of the various plans have been greatly influenced by government revenue and foreign exchange earnings derivable from oil. For example, the third National Development Plan (1975-1980) was estimated to cost \$45 billion and it was estimated by the Nigerian policy-makers that about 90 percent of the financing of the projects would come from oil revenues; this compares with the situation under the first National Development Plan (1962-1968) which was estimated to cost about \$2 billion, with 40 percent of the projects to be financed from domestic sources leaving about 60 percent to be covered by foreign aid and other sources.⁴⁹ David-West underscored the significance of oil in the Nigerian economy:

Table 4:1
Oil Revenue Contribution to Government
Revenue and Expenditure

Year	Total Revenues (Current) Mill. Naira	Oil Revenues Mill. Naira	Oil Revenue/ Total Revenue %	Total Government Expenditure (Current Capital) In Mill. Naira	Oil Revenue/ Government Expenditure %
1958/59	154.6	.12	.08	135.3	.09
1959/60	177.6	1.8	1.01	150.3	1.19
1960/61	223.6	2.5	1.10	163.0	1.53
1961/62	229.7	17.1	7.46	169.9	10.43
1962/63	231.6	16.9	7.30	167.5	10.09
1963/64	249.2	10.1	4.05	183.5	5.50
1964/65	299.1	16.1	5.38	218.2	7.38
1965/66	321.9	29.2	9.07	236.4	12.35
1966/67	339.2	45.0	13.27	255.1	17.64
1967/68	300.2	41.9	13.96	258.0	16.24
1968/69	300.0	40.6	13.53	349.9	11.60
1969/70	435.9	75.4	17.30	556.2	13.56
1970/71	755.6	219.1	29.0	1,130.0	10.30
1971/72	1,410.9	623.0	44.16	928.4	67.10
1972/73	2,240.0	1,410.7	53.48	1,863.7	75.68
1973/74	2,171.4	1,582.9	72.89	1,778.8	75.68
1974/75	5,177.1	4,181.1	80.82	4,260.3	98.20
1975/76	5,252.3	5,202.6	99.05	6,111.0**	85.14
1976/77	7,222.6	6,300.0	87.23	7,411.0**	85.01
1977/78	7,652.5	5,333.3	69.69	8,346.0**	63.90
1978/79	7,246.2	4,383.3	60.49	7,299.0**	60.05
1979/80	13,809.1**	8,833.3	63.97	11,108.0**	79.52
1980*April-Dec.	11,859.8	10,366.2	87.41	n/a	n/a

Source: Central Bank of Nigeria reports

* Estimate

**Source: Recurrent and Capital Estimates of the Government
of the Federal Republic of Nigeria 1980

...Nigeria exhibited a classic and unique case of an oil-dominated economy. In 1983 for instance, oil contributed 96.4 percent of total government revenue. Oil is the largest single contributor to the country's Gross Domestic Product and has enabled us (if not even lured us) to pursue ambitious development programmes in the past. Thus when viewed within the context of the development goals and aspirations of about 90 million Nigerians, oil has provided a vital leverage to the Nigerian economy through an unprecedented inflow of foreign exchange and a prolonged period of budgetary ease.⁵⁰

The oil revenues therefore provided the means not only for maintaining the viability of the political system but also for ensuring the accumulation of capital. When we move from the largely monetary contribution to the real economic impact -- a completely different picture emerges which shows that notwithstanding the massive increase in oil wealth, the oil industry made a limited impact on the economic development of the country. Nigeria's expectation from the oil industry has turned out mainly to generate foreign exchange and revenues for the government coffers without adequate concern for the industrial transformation of the economy. The government expenditures and commitments witnessed a large scale of waste and misallocation of resources due to effective management, the very high rates of spending were justified in part on the grounds of great developmental needs and large population base without due regard to the ordering of priorities. But the Nigerian situation clearly underlines the significant fact that there can be growth -- as measured by increase in gross national product -- without effective economic development,

as was the case in many other oil producing countries. In fact the economy has continued to be largely underdeveloped and heavily dependent on oil exports.⁵¹ The changes and contradictions of the oil boom have introduced far-reaching social transformation and social dislocation which have contributed to vast inequities in wealth and power.

The country's fourth National Development Plan (1981-1985) provided a general guide to Nigeria's economic priorities during the period under discussion. The basic goals of the plan were to develop Nigeria's physical and social infrastructure and agricultural and industrial bases so that the country would be less dependent upon the fluctuations of the world oil market. Over 7,900 projects were listed in the plan, with estimated investments totalling \$125 billion to \$150 billion.⁵² Priority sectors included agriculture, industry, housing and construction of the new federal capital at Abuja.

The development of petrochemicals and liquified natural gas (LNG) was a major area of priority to the government.⁵³ The plan envisaged the development of the petrochemical industry in three stages. Phase I and Phase II were estimated to cost \$112 million and \$900 million respectively and were to be completed during the plan period. The first phase, in which construction began as adjuncts to the refineries at Warri and Kaduna, consisted of plants for polypropylene, carbon black, detergents, benzene and solvents. The second

phase was to be an ethylene complex located near Port Harcourt. A third phase was to produce material-based aromatic and plastic fibers. Another key project was the development of a nitrogenous fertilizer plant. The plant was expected to produce 1,000 metric tons of ammonia, 1,500 metric tons of urea and 1,000 metric tons of NPK per year. Nigeria's primary hope for exploiting its gas reserves, estimated at 75 trillion cubic feet, has been the Bonny Liquified Natural Gas (LNG) project which would have exported close to 2 billion cubic feet per day in liquid form.⁵⁴

It has also been contended by Nigerian policy-makers that the Nigerian oil industry will provide increased labor employment to qualified Nigerians, especially in the development of its downstream activities. They closely associate this aspect of the oil industry with manpower development and technology transfer that could eventually transform the Nigerian economy. Apart from the technological and commercial dependence on foreign capital, the oil industry has remained an enclave industry. The Nigerian oil industry has limited forward and backward linkage effects on the economy. The oil industry has an insignificant effect on the labor force since growth in that sector takes place in typical enclave fashion -- using foreign capital-intensive technologies. The very high capital-labor ratio in the oil industry means that growth in oil operations is generally reflected not in the expansion of employment, but in the

expansion of capital investment. Even development of downstream activities -- of refineries, petrochemical plants and liquefaction of natural gas -- will do little to alleviate the level of employment, since such production will merely enlarge the enclave rather than transform it into a leading sector in the Nigerian economy.⁵⁵

The attitude of the Nigerian policy-makers toward agriculture, as reflected in their budget speeches and development plans, has been to emphasize agro-allied projects and integrated rural development. The federal government is committed to agricultural development, which was made the first priority of the fourth National Development Plan. Over 1,200 projects and the original budget of \$13 billion are identified in the agriculture section of the plan. The plan incorporates the strategies of the green revolution program announced in 1980 which sets forth a strategic plan for achieving agricultural self-sufficiency in the 1980's.

But there is little evidence that Nigeria's big expenditures to stimulate agriculture have made much impact on the conditions of the majority of the population. Apart from the decline in agricultural export crops, the country has also experienced reduced outputs of most of its major food commodities produced for domestic consumption. Nigeria has become a net importer of food and there has been a substantial decline in the export of palm produce, groundnuts, cocoa, rubber, etc. The agricultural sector's share of GDP fell

rapidly from around 40 percent in the early 1970's to 20 percent in 1980.⁵⁶

The competitiveness of the agricultural sector -- the major source of GDP and of export earnings before the oil boom -- was eroded by the effects of the appreciating naira and inadequate pricing policies by the government. Although the significance of agriculture has been emphasized in various national development plans of the different regimes (Operations Feed the Nation 1975-1979; Land Use Decree, Green Revolution 1979-1983) not much has been done in practical terms to ensure its growth, diversification and increased productivity. This has caused rural-urban migration of the present cultivators into the labor market as unskilled workers. As they diverted more of the labor resources into non-agricultural sectors and to urban activities, their commitment to agriculture has also declined.

The industrial strategy of the Nigerian government is based on import substitution. The decision-makers perceived manufacturing as offering the greatest prospects for rapid development and transformation of the economy and therefore placed high priority on developing this sector of the economy. During the plan the manufacturing sector was expected to grow at 15 percent a year. A total of \$15.2 billion was originally allocated to the public sector program in this area. Approximately \$9.7 billion was expected to support the federal government's participation in already identified areas such

as the iron and steel industry and the nitrogen fertilizer industry. Approximately \$1.2 billion was for the Nigerian Bank for Commerce and Industry to help to make more financing available to private sector enterprise.⁵⁷ The remaining funds were to be allocated to the state and local governments, some of which have substantial industrial programs. Although the government continued to guide the manufacturing sector, it encouraged private investors to take an active role in developing this sector. Encouragement was offered to both large and small manufacturers through increased availability of finance, additional investment incentives and development of industrial estates. Industries that the government placed high priority on developing included agro-based and food processing, building materials, automobile assembly, petrochemicals and metallurgy. Particular emphasis was placed on increasing local content requirements.

The development of an iron and steel industry to be constructed with aid from the U.S.S.R. was given top priority by the government. Under the auspices of the Ministry of Steel Development, Nigeria is attempting to meet demand for about 3.5 million metric tons of steel per year through the construction of a blast furnace complex at Ajaokuta (Ajaokuta Steel Company). The ultimate production goal of 5.2 million tons of steel per year was envisaged for 1995. The Warri Mill, which started operations in 1982, will eventually have a yearly capacity of a million tons of crude steel. In

addition, rolling mills designed to produce rods and bars from billet to be supplied from Warri⁵⁸ were to be built at Oshogbo, Jos and Katsina with an initial capacity of 210,000 tons of rolled products per year.

Another highlight of the plan was the construction industry. The construction of a new federal capital at Abuja, the largest public works project in Africa, is estimated to cost about \$17 billion.⁵⁹ The government originally expected that by 1985 the population of the new city would reach 150,000 and by the year 2000 it would reach 1.5 million. While the government intended to continue the development of basic infrastructure like road building, it placed increasing importance on building construction. With a rapidly growing population that was becoming increasingly urbanized, providing adequate housing was a major consideration for the Nigerian government. To tackle this problem the Ministry of Housing and Environment was to construct 2,000 houses annually in each of the 19 states at the cost of \$1.5 billion. The plan also budgeted \$2.4 billion in joint federal and state urban development projects.⁶⁰ The Ministry of Industries predicts that Nigeria will need to build 750,000 housing units a year over the next 50 years to meet its needs. The plan also allocated \$3 billion to construct buildings for the secondary and college-level education system. This did not include expenditures for primary education, for which preliminary estimates are 15,800 classrooms.⁶¹

Since 1981, the worldwide economic recession and slump in demand for oil have had an unwelcome effect on Nigeria's oil industry and the development aspirations of the Nigerian economy. Before the oil glut, the Nigerian government had been exporting close to an average of 2 million barrels a day, but with production cutting by OPEC members Nigeria saw its volume of exports drop to 500,000 barrels a day, a decline of fully 75 percent in 1982. The dramatic reduction in domestic crude oil production and the even more dramatic fall in the world oil prices led to a sharp deterioration in government finances and in export revenues. Government revenues from oil exports fell from \$23.4 billion in 1980 to less than \$10 billion in 1983. President Shehu Shagari correctly summarized the situation in Nigeria in his 1983 inauguration speech to the nation:

Our oil export earnings which reached a peak of 23.4 billion in 1980 declined to an estimated 9.6 billion in 1983....With the fall in oil revenues the country is now faced with a growing shortage of foreign exchange. At the same time, our manufacturing sector which is unhappily import-oriented continues to weaken....To revive and stabilize the economy on a long-term basis, it is imperative that the country now begins the structural adjustment process required for renewed economic buoyancy.⁶²

As might be expected, Nigeria's steady decline in oil production and export is having a negative impact on the country's economy. In a country where oil revenues provide more than 96 percent of foreign exchange and 81 percent of government revenue, this would be inevitable. The original development plan 1981-1985 was based on a projected growth

rate of GDP of 7.2 percent a year, with expansion being fastest in manufacturing, the utilities sector and communications. The objective of the plan was to make Nigeria a modern nation with a moderate degree of industrialization. While the economic rationale behind certain projects may be disputed, the overall plan was a worthy and necessary aspiration. The manufacturing sector (10 percent of GDP) suffered a 6.4 percent decline.⁶³ Manufacturers who were unable to obtain raw materials because of difficulties in getting import licenses and paying foreign suppliers are now operating at a fraction of their capacity. Shortages of consumer goods developed, occasioning price rises reported to be up to 300 percent for some items. Imports of raw materials, spare parts and essential commodities were severely affected by low oil prices and the country's international debt crisis was greatly increased.

The contraction in oil production and revenues has finally exposed the structural problems and weaknesses of the Nigerian economy. The country's ambitious five-year development plan (1981-1985) was subjected to constant downward revision almost from the day it was launched in 1981. The reduction in public expenditures meant further delays in completing viable projects, thus escalating their costs and depriving the economy of their expected benefits. Michael Olorunfemi commented on how the goals and the objectives of

the fourth National Development Plan were either revised or postponed:

Projects were either cancelled or suspended. Oil-related projects, particularly the Bonny LNG which was to cost \$17 billion, were major victims in the 1981-85 plan period. Although phase I and phase II of the petrochemical projects were commenced, lack of funds has slowed down their completion on schedule. The export-oriented refinery which was to be studied in the fourth plan period has been indefinitely postponed. The gas pipeline projects which were designed to provide a network of gas pipelines and therefore open up domestic markets for natural gas would not be prosecuted vigorously.⁶⁴

It has further exacerbated the contradictions within the political economy, creating political instability, unemployment, inflation and restlessness among the popular classes. Nigeria has an estimated population of 105 million and a labor force of 35 to 40 million. Both private and public sectors have retrenched a sizeable number of workers while the wages of all civil servants have been frozen since 1984. Available labor statistics indicate that unemployment rose from around 10.5 percent to 18.8 percent between 1982 and 1984 and is almost certainly higher still today.⁶⁵ The response of organized labor (NLC) and the other sections of the population has generally been hostile. The inability of the Nigerian government to cope with the worsening conditions of social and economic stagnation has exacerbated the already fluid class and ethnic conflicts and intra-elite antagonisms.

The economic crisis, according to the government assessment, could be effectively brought under control by short adjustment policies. Hence, the government Economic

Stabilization Act of 1982, its extension of 1984, the National Economic Emergency Programme Measure of 1985, followed by the Structural Adjustment Measures of 1986. Under President Shagari, the government took a major step by imposing an economic package of austerity measures (the Economic Stabilization Act of 1982) aimed at dramatically reducing imports. The package placed import restrictions on about 100 categories of goods, and payment of advance deposits to the central banks became compulsory for most items from abroad. This policy package led to some improvement in the balance-of-payment situation but in the process created other problems such as an increased rate of unemployment, a reduction in industrial production due to restrictions of imported inputs and a higher rate of inflation. Critics of the government's policies have pointed out that government analysis of the economic situation was faulty and the solution inadequate. They argued that the economy required basic structural changes rather than a mere cosmetic adjustment program.⁶⁶

External Needs: The Role of Oil in Nigerian
Foreign Policy Objectives

The notion of foreign policy objectives refers to the acquisition and maintenance of the ability of the state to be influential among the other participants in the international political process. Foreign policy objectives may be classified under three overlapping categories: economic, political and security objectives.⁶⁷

- a) Economic objectives of foreign policy refers to the acquisition of resources (human, financial and material) from outside the country needed for the maintenance or development of a desired lifestyle.
- b) Political objectives of foreign policy have to do with the acquisition and maintenance of influence capability in relation to the other participants in the international political system.
- c) Security objectives of foreign policy have to do with safeguarding the import "core values" against potential outside threat.

In spite of the special emphasis of the political and security objectives and contrary to the realistic view that the sole objective of foreign policy is the acquisition of power, the economic objectives of foreign policy are the most fundamental. Political and security objectives are instrumental and thus their importance depends on the economic objectives -- the acquisition of which are most basically

related to a historical lifestyle considered desirable by the decision-makers.

Oil and Nigerian Foreign Economic Objectives

There was general consensus among the Nigerian policy-makers that the country needed the scarce petro-dollar to finance its development programs, and to pay its loans and the mounting interest accruing from them. Most construction machinery, building materials and supplies need to be imported, although the government has made some progress in increasing local production of certain materials, in particular bricks and cement. Nigeria is still heavily dependent upon imports to meet some 90 percent of its agricultural equipment needs. For example, imports of tractors and other agricultural machinery totalled about \$69 million in 1980 and about \$90 million in 1981. This trend was likely to continue during the plan period.

The fourth national plan for 1981-1985 envisaged an average production of 2.25 million barrels per day with the price reaching about \$55 a barrel by 1985. Since the oil glut in the world oil market the Nigerian OPEC production quota has averaged 1.3 million barrels per day with a reduced price per barrel. This implies a very sharp reduction in government revenues needed to finance the high level of imports that would be necessary to fulfill the investment program. Nigeria exports over 86 percent of the total crude oil it produces

because its local consumption is comparatively small. As a consequence of this, oil constitutes a significant part of its foreign-exchange earnings -- 90 percent of the total value of Nigeria's export trade. Oil export has redeemed Nigeria's balance of payment accounts for what otherwise would have been a situation of persistent deficit had Nigeria depended on non-oil exports. Until the oil glut in early 1981, Nigeria had a substantial foreign reserve and was in the healthy position of being able to finance the exchange costs of its development programs (see table 4:2).

Nigeria's critical oil export position was exacerbated by the decision of the British National Oil Company (BNOC) to reduce the price of British Brent Crude to \$31 per barrel, about five dollars below the Nigerian price for the same grade of oil. The major oil companies threatened to abandon Nigerian crude oil for the North Sea oil unless Nigeria reduced its price from the OPEC level of \$35.50 to the BNOC price of \$31 per barrel. Considering the country's needs in terms of foreign-exchange earnings from oil sales to pay the huge import bill due to its huge population and its ambitious development program, the Nigerian government was put on the verge of economic crisis.

Nigeria's imports dropped sharply since 1981 as a result of new import control measures introduced by various Nigerian governments. The need to compress imports was reinforced by the increasing demand for debt service payments

as amortization on earlier borrowing fell due. The basic strategy underpinning the government's regulations was to reduce both imports and the demand for foreign exchange. For example the motive behind Decree No. 7 under Buhari's regime was intended to guarantee that no international transaction involving foreign exchange could take place outside official agencies and without official approval. That way, not only would governmental control over the acquisition and use of foreign exchange be assured but its access to more invisible sources of foreign exchange would be enhanced.⁶⁸ The few regulations together with the changed procedures whereby all imported goods came under specific licenses, further reduced imports.

During the first year of the new regulations introduced by Buhari's regime (in spite of some carryover 1983 licenses) the import bills went down \$11.7 billion, a decline of 10 percent from 1983. The new ceiling, a 70 percent reduction from 1984, led to shortages of products for industries and private consumption.⁶⁹ Britain is Nigeria's largest source of imports -- it provides about 40 percent of inward foreign investment, a relationship which has evolved over many years from the days when Nigeria was a British colony. Britain's exports to Nigeria have fallen by around 30 percent since April of 1982; import controls imposed later have further dampened the effect on trade, not only with Britain but with

Table 4:2

Expectations and Actualizations of the Oil
Sector in the Fourth Plan Period

Year	Production Million Barrels Per Day		Crude Oil Price \$/BBL		Oil Revenue Million Naira	
	Expectation	Actualization	Expectation	Actualization	Expectation	Actualization
1981	2.19	1.44	38	38.5	14.948	10.817
1982	2.24	1.29	41	35.3	15.904	8.398
1983	2.28	1.238	43	29.9	15.966	7.508
1984	2.34	1.389	46	29.1	16.567	8.231
1985		1.300*	49	27.70*	17.654	7.446*
TOTAL					81.039	42.400

*Shortfall in Revenue = 38.638 million naira

$$\frac{\text{Shortfall in Revenue}}{\text{Expected Oil Rev, in the Period}} \times \frac{100}{1} = 47.7\%$$

Source: Management of Petroleum Resource in the Fifth National Plan (NNPC), May 1985, p. 23.

Note: Expected figures in the government budget for 1985 regarded as actualization.

other countries like West Germany, France, the United States and Japan, who are its main competitors for Nigerian business.

The monetary and credit policy measures of the government since 1982 have been designed to improve Nigeria's balance of payments, restrain inflation and mobilize domestic savings. The efforts by the government to mitigate the deterioration of the balance-of-payments situation have been rendered unsuccessful largely by the continued fall in oil production. At the end of November 1982, according to the reported figures from the Central Bank of Nigeria, they stood at 885, 463, 734, naira nearly 50 million of which were made up by gold and Special Drawing Rights with the IMF, thus leaving somewhat under 837 million naira (\$1,254 million) in convertible foreign assets. There was no real reason to believe that the situation would improve in the near future despite the fact that the government attempted to restrict imports drastically. It was more than likely that the foreign reserves were less than sufficient to cover restricted imports.⁷⁰

Nigeria's international debt at the time of the military takeover in 1983 had reached an estimated \$17 billion with a trade deficit around \$5 billion (see table 4:3). In other words, the country's foreign debt at the beginning of 1984 included approximately \$11 billion in medium and long-term credit (plus interest) for the goods and services already supplied.⁷¹ Unlike the period 1980-1983 when the external debt

increased from \$4.6 billion in 1980 to around \$11 billion at the end of 1983, the military governments had been very cautious and prudent in their external borrowing because of the oil crisis.⁷² The real problem facing Nigeria's government at the time was trade debts, that is, money owed to foreigners (mainly O.E.C.D. countries and their creditor firms) for goods and services supplied to Nigeria and not paid for, plus interest rates on loans.

Apart from relying on the existing import restrictions the Nigerian government was required to take substantial loans from the international capital markets, especially the Eurodollar market and private banks. In order to secure its credits and debt rescheduling, the Nigerian government under Shagari, Buhari and Babangida had a series of negotiations on the country's economic problems and the possibility of borrowing between \$2.5 and \$3 billion. In the midst of the world oil glut and continued deterioration of foreign exchange earnings the participants in the nationwide debate initiated by Babangida's regime overwhelmingly rejected both the loans and the IMF conditions with their implied control over the country's economic policy.⁷³

The combination of the downward trend in the oil market, the policy inadequacies of the past and the debt servicing obligations have produced a difficult economic situation in the country. It is true that all OPEC member countries have suffered financial difficulties, but none, it

would appear, has suffered to the extent Nigeria has, with total official external debts having risen by more than 200 percent in four years and a backlog of trade arrears estimated at \$5 billion, or almost 40 percent of the country's estimated total foreign exchange earnings in 1984.⁷⁴ The ability of Nigeria to settle its debt obligations and the interest rates charged on these loans and debt services depends largely on the foreign exchange receipts earned through oil exports. But the slump in the oil market has made this situation difficult. The domestic economic difficulties arising from these developments inevitably generated intense pressure on the government to pull out of OPEC in order to produce as much oil as it wanted rather than face the prospect of going through an IMF economic program.

Oil and Nigerian Foreign Political Interests

The Nigerian policy-makers shared the view that membership in OPEC has furthered Nigeria's foreign policy objectives insofar as it has kept the price of oil at a high level and therefore enabled the country to attain the level of economic power which provided a strong foundation for its foreign policy operations. The decision of the government to join OPEC was largely motivated by two considerations:⁷⁵

- 1) It was to take advantage of OPEC's collective bargaining vis-a-vis the multinational oil companies in the equity participation in the existing oil

Table 4:3

Medium And Long-Term Debt of the Federal
Republic and States of Nigeria as of
December 31, 1985
(US \$ Millions)

Medium and Long-term debt	Direct Debt	Guaranteed Debt*	Other	Total Foreign Debt
International Organizations.....	1,344	---	---	1,344
Bilateral Credits.....				
Government Credits.....	(400)	(--)	---	(400)
Export Credits and Guarantees.....	(3,073)	(1,237)		(4,310)
Total Bilateral Credits.....	3,473	1,237	---	4,710
Uninsured Bank Debt Credits.....	2,680	1,382	---	4,062
Uninsured Supplier Credits.....	900	60	---	960
Foreign Exchange Approvals (State Non-Guaranteed Debt)...	---	---	480	480
Uninsured Promissory Notes ²	1,309	---	---	1,309
TOTAL FOREIGN PUBLIC SECTOR DEBT	<u>9,706</u>	<u>2,679</u>	<u>480</u>	<u>12,865</u>

*Debt guaranteed by the Federal Republic of Nigeria
(2) Approved claims at December 31, 1985

Total External Debt of the Federal Republic of
Nigeria as of December 1985
(US \$ Millions)

	N
Medium and Long-term Public Debt (from Annex III)....	12,865
Private (non-guaranteed).....	420
Short-term trade arrears.....	4,410
Uninsured.....	(2,640)
Insured.....	(1,770)
TOTAL EXTERNAL DEBT.....	<u>17,695</u>

Note: These are tentative estimates subject to reconciliation and verification. These estimates include \$920 million of interest arrears. The MLT total of \$12,865 million includes a total of \$1,309 million in promissory notes issued on the uninsured trade arrears as of December 31, 1985.

Source: Federal Republic of Nigeria: Structural Adjustment Programme for Nigeria. July 1986-June 1988, p. 30.

concessions, increases in royalties and petroleum tax rates and the use of production and service contracts for operating the oil industry, instead of the traditional concessionary system. It was in the mutual interest of both Nigeria and other oil exporting countries that Nigeria should become a member of OPEC in order to add force to the crusade for wresting control from the oil majors and earning a fair price on their depletable resources.

- 2) For Nigeria, being a relatively new entrant in the oil industry, OPEC membership was perceived as a forum through which managerial experience and expertise in the oil industry could be obtained. Nigeria's membership in OPEC afforded it the opportunity to mix and exchange notes with older and more experience oil-producing countries like Saudi Arabia, Venezuela, Iraq and Iran. It was able to learn and share information on the proper management of the oil industry as well as discussing common problems in relation to working out an acceptable strategy on pricing and production.

Despite the declining role of OPEC in the world oil market, the attitude of the majority of Nigerian policy-makers remains firmly committed to OPEC membership. In an interview with the head of state in February 1984, General Muhammedu Buhari stated that "we definitely have no intention of leaving OPEC."⁷⁶ Tam David-West, the oil minister,

reiterated this position in a lecture delivered at a London conference in 1984:

The degree of leverage which Nigeria has in the execution of her oil policy would have to be viewed within the institutional framework of her membership in the Organization of Petroleum Exporting Countries (OPEC). Nigeria has reiterated her strong and unalloyed commitment to the OPEC and the corporate policy of the organization to foster stability in the international oil market; within the ambit of her national interest. In striving to achieve her lofty developmental goals through pursuit of appropriate oil policy, Nigeria shall, at all times, take OPEC into confidence....I did say in one of the OPEC meetings in Vienna, early this year, that even though the Nigerian economy is in a desperate state (owing to mismanagement especially by the last civilian administration), we will not be tempted to act in desperation. We still stand by this.⁷⁷

The former oil minister, in an interview with Petroleum Intelligence Weekly (June 10, 1985) expressed the ambivalent position of Nigerian decision-makers as regards the relationship with OPEC.

Q. What is more important: Nigeria's interest or the stability of OPEC?

A. The two are coterminous. We have shown that.

Q. But nobody can serve two masters. So what comes first?

A. Obviously Nigeria comes first. But it so happens that the interests of Nigeria and OPEC have never been so diametrically opposed that it comes to a choice: Nigeria or OPEC. That day has not come and maybe it will not come for a long time and maybe it will not forever. For example when we cut our oil prices by \$2 last year we were out of

step. But OPEC understood the context and they rallied around us. But the question does not arise. It is like that song, "If your mother and your wife are drowning who will you save? The two are not comparable."

But recently a number of critics have raised the question of whether it is in Nigeria's best interests to continue its membership in OPEC. They argue that Nigeria's membership in OPEC adversely affects its autonomous exercise of national sovereignty over decisions affecting petroleum pricing and production policy. At the 70th conference of OPEC oil ministers, held in Vienna in July 1984, Tam David-West, while pressing for higher quotas in view of Nigeria's special economic needs, clearly stated a similar position:

The principle enunciated and upheld by some members that the fixing of production rates is the exclusive sovereign right of a country is now being raised more frequently and ever more loudly in Nigeria that the government is now being challenged to show positive proof of its credibility....It is only a surviving Nigeria that can have a relevance for OPEC in general and to her people in particular. The assessment of my government therefore is that it cannot continue to survive on a production quota of less than 1.6 million barrels per day.⁷⁸

The Nigerian decision-makers aspire toward the creation of relevant political and economic conditions in Africa and the rest of the world which will not only facilitate the preservation of the territorial integrity and security of all African countries but also foster national self-reliance. Section 17 of the 1979 constitution enjoins on the Nigerian state the promotion of African unity as well as the political,

economic, social and cultural liberation of Africa and people of African birth or descent throughout the world. As we pointed out before, oil export has had a major impact on the relatively favorable balance-of-payments of the country and its external reserves, especially during the boom years. The Nigerian policy-makers perceived that the financial situation provided the country with an extra degree of freedom and an increased ability to maneuver in foreign policy matters especially in their objective of maintaining influence in the African continent and the rest of the world.

They contended that Nigeria, like other OPEC member countries, has given aid to less developed countries through generous donations to OPEC's fund and remains committed through both material and moral support to African liberation movements for the elimination of colonialism in the African continent. In 1975 it threw its weight behind the Popular Movement for the Liberation of Angola (MPLA) and spearheaded the fight for the independence of Angola. In August 1979 Nigeria nationalized Shell B.P. to pressure the British government on the question of granting independence to Zimbabwe.⁷⁹

At the same time, it nationalized the Barclays Bank, which was doing business in Nigeria but at the same time maintained links with racist South Africa.⁸⁰ Though geographically distant from South Africa, Nigeria is accorded the title of one of Africa's Frontline States in the fight against the

obnoxious apartheid regime in South Africa. Within the Western African subregion, Nigeria, in conjunction with Togo, spearheaded the creation of the Economic Community of West African States (ECOWAS). For example, the formation of ECOWAS was hastened by a gesture of goodwill (offering oil at lower prices to West African states). The declining trend in oil prices since 1981 has reversed oil's impact on the country's external reserves and, by implication, on the country's foreign commitments and influence. Marinho remarked on this point when he stated:

While it cannot be accepted that Nigeria should abandon its positive role in African political developments encompassing a firm support for the ideals of the Organization for African Unity and other Third World aspirations as well as the encouragement of economic maturation within the Economic Community of West African States (ECOWAS), she must see these roles in the context of this diminishing capacity to influence the course of events as a result not only of the transient decline in her oil revenues but moreso in the light of the inevitable depletion of that source of wealth.⁸¹

Oil and Nigerian Security Interests

In terms of security interests, the Nigerian decision-makers share the view that the country needs the establishment and maintenance of a credible defence and security system within the context of the multistate system.⁸² This objective presupposes not only a sound economy which is needed to underwrite an effective defense policy and the necessary prestige and good image for Nigeria, but also involves the improvement in the living standard and social well-being of

all Nigerian nationals. But the declining oil revenue has exacerbated the worsening conditions of economic and social stagnation in the country. This has limited the Nigerian government's ability to pursue a strong defense policy and maintain the necessary capabilities against the country's potential enemies, especially South Africa, or safeguard her vital interests in the African continent.

A boundary dispute with Cameroun was triggered by rival claims to offshore petroleum areas along the southern portion of their common border. The Camerounian government attempted on several occasions to seize part of the Nigerian territory because of the oil resources. The scattered skirmishes along the Nigerian-Cameroun border since 1981 are definitely linked with the economic potential of the oil fields located in that area of the country. Although the Nigerian government has exercised considerable constraint it may be forced to employ its military forces to defend its territorial integrity and prevent forcible annexation of part of that territory by the Camerounian government. The Nigerian government has preferred to use the necessary diplomatic channels to resolve the problem rather than to resort to the armed forces.⁸³ But if the Camerounian government persists in its actions, consideration for the strategic and economic importance of Nigerian oil fields and terminals along the Atlantic seaboard may necessitate a redeployment of Nigerian armed forces to safeguard the country's vital economic interests.

The Nigerian decision-makers' interpretation of the "oil situation" was based on the fact that the government's policies are shaped not only by the character of the issue but also be the constraints of domestic and external structures. The ruling coalition of social forces in each state influenced the definition of policy objectives since "the alternative perception of social reality have very concrete consequences for the ability of contending classes to further their interests."⁸⁴ The definition of the "oil situation" also influenced the policy response perceived as possible to address the glut in the oil market. For the pursuit of foreign policy objectives require the deployment of foreign policy instruments. In the next chapter I shall discuss the Nigerian government's consideration of the alternative policy options.

FOOTNOTES

1. See International Daily Oil/Gas Report, Vol. 62, No. 35, 21 February 1984, I.

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3. Friedrich Kratochwil, "On the Notion of 'Interest' in International Relations," in International Organization, 36, 1, 1982 Abstracts.

4. James Rosenau, "National Interest," in International Encyclopedia of Social Sciences (New York, New York: Free Press, 1968), 34.

5. Alexander L. George and Robert Keohane, "The Concept of National Interest: Uses and Limitations," in Commission on the Organization of Government for the Conduct of Foreign Policy Appendices, Vol. 2, 64. For other similar comments see Donald E. Nuchterlein, National Interest Priorities (Boulder, Colorado: Westview Press, 1978), 74; James Roseman, "Pre-Theories and Theories of Foreign Policy," in R. Barry Farrell, ed., Approaches to International and Comparative Politics (Evanston: Northwestern University Press, 1966), 243; and G. Modelski, A Theory of Foreign Policy (New York, N.Y.: Praeger, 1962), 70-72.

6. Fred Sondermann, "The Concept of National Interest," in Orbis, 21, 1 (1977), 129.

7. Ofuatey-Kodjoe, W. "A Theoretical Framework for Research and Analysis of Foreign Policy," unpublished manuscript, 14.

8. Ibid., 14.

9. Edgar Furniss and Richard Snyder, An Introduction to American Foreign Policy (New York, New York: Rinehart, 1955), 17.

10. See Ofuatey-Kodjoe, 14.

11. Grenville Wall, "The Concept of Interest," in Politics and Society, 1975, 498.
12. Joseph Frankel, International Relations in a Changing World (Oxford University Press, 1979), 85.
13. Ofuatey-Kodjoe, 18.
14. Joseph Frankel, National Interests (New York, New York: Praeger Publishers, 1970), 80.
15. Ofuatey-Kodjoe, 17.
16. Federal Ministry of Information News Release No. 780, 29 June 1976.
17. Stephen Wright, "Limits of Nigeria's Power Overseas," in West Africa, No. 3339, 27 July 1981, 1685-6.
18. Nigeria's Objectives, Policies and Programmes of the Federal Military Government (Lagos, Nigeria: Government Printer, 1984), 50.
19. Olajide Aluko's criticism of the Dodan Declaration as quoted in the text was fully elaborated at a lecture which he delivered at the Nigerian Institute of International Affairs in March 1979.
20. Aluko Olajide, "Necessity and Freedom in Nigerian Foreign Policy," Inaugural Lecture, University of Life, 17 March 1981, 12.
21. Wright, 1685.
22. Timothy M. Shaw, "Peripheral Social Formation in the New Division of Labor: Africa; States in the Mid-1980's," in Journal of Modern African Studies, 24, 3 (1986), 493.
23. Bjorn Beckman, "Neo-Colonialism, Capitalism and State in Nigeria," in Studies in Economy and State (Los Angeles, California: Beverly Hills Publications, 1985), 76.
24. Gavin Williams, "Nigeria: The Neo-Colonial Political Economy," in Political Economy of Africa Selected Readings, eds. Dennis L. Cohen and John Daniel (Longman Group Ltd., 1982), 49.
25. Bell Wendell and J. Williams Gibson, Jr., "Independent Jamaica Faces The Outside World," International Studies Quarterly, Vol. 22, No. 1, March 1978: 6; cf. Halperin et. al, 1974; and Modeliski 1962.

26. Daniel Bell, The End of Ideology (Cambridge, Massachusetts: Harvard University Press, 1988), 55.

27. Kodjoe, 24.

28. Ibid.

29. "A Survey of Nigeria," in Economist, No. 1299, No. 7444, 3 May 1986, 3.

30. Jibrin Ibrahim, "The Political Debate and the Struggle for Democracy in Nigeria," in Review of African Political Economy, No. 37, December 1986, 40.

31. Turner, 205.

32. Claude Ake, "Presidential Address to the 1981 conference of the Nigerian Political Science Association," West Africa, May 26, 1981, 1162-3.

33. Terisa E. Turner, "Oil Workers and the Oil Bust in Nigeria," in Africa Today, 4 August 1986, 6.

34. "Caring for the People," Answers on the 1974/75 Federal Budget (Lagos, Nigeria: Federal Ministry of Information).

35. James Mayall, "Oil and Nigerian Foreign Policy," in African Affairs, Vol. 95, No. 300, July 1976, 322.

36. Turner, "Oil Workers and the Oil Bust in Nigeria," 211.

37. Sonni Tyoden, "Nigeria's Development Strategy in Global Perspective," in Nigerian Foreign Policy, eds. Timothy M. Shaw and Olajide Alunko (London, Great Britain: MacMillan Press Ltd., 1983), 158-9.

38. E. Osagie, "Nigerian Economy: A Survey," a paper given at the National Conference on Economic Development and Foreign Policy in Nigeria, held at the Nigerian Institute of International Affairs, 6-7 August, 1987, 27.

39. Ogene F. Chidozie, "Economic Interest Groups and Foreign Policy," a paper presented at a two-day seminar on economic development and foreign policy in Nigeria, organized by the Nigerian Institute of International Affairs (NIIA) at NIIA, 6-7 August, 1989. Also see Kodjoe, 19.

40. Terisa Turner, "Imperialism, Oil Technology and the Comparador State," in Oil and Class Struggle, edited by Nore Peters and Terisa Turner.

41. Ibid.

42. See Osoba, "The Deepening Crisis of the Nigerian National Bourgeoisie," in Preview of African Political Economy, 13, 1978, 74-5.

43. Forrest B. Joshua, "The Quest for State 'Hardness' in Africa," in Comparative Politics, Vol. 20, No. 4, July 1988, 426. The conception of relative autonomy of the state is the focus of important and stimulating debate on the nature of the state that has emerged within the neo-Marxist School. Other useful recent arguments can be found in Theda Skocpol, States and Social Revolutions (London, Great Britain: Cambridge University Press, 1979); Nicos Poulantzas, Political Power and Social Classes, (London, Great Britain: New Left Books, 1973); and Otwin Marenin, "The Nigerian State as Process and Manager: A Conceptualization," in Comparative Politics, Vol. 20, No. 2, January 1980.

44. Bjorn Beckman, "A Dependent Neo-Colonial Society. The Oil Glut and the Crisis of the Nigerian State," 98-108. He discussed how the state took on the role of caretaker for the budding bourgeoisie.

45. Kodjoe, 118.

46. Federal Republic of Nigeria: National Development Plan 1962-68; Second National Development Plan, 1970-74; Third National Development Plan, 1975-80; Fourth National Development Plan, 1981-85.

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48. Petroleum Economist, March 1985, 82.

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53. Federal Republic of Nigeria: Fourth National Development Plan 1981-85.

54. Ibid.

55. E.R. Fapohunda, "Population, Labor Utilization and Manpower Development," in Structure of the Nigerian Economy, eds. E. A. Olakoku et. al. (Lagos, Nigeria: The MacMillan Press, 1979).

56. Federal Republic of Nigeria, Structural Adjustment Programme for Nigeria, July 1986-June 1988 (Lagos, Nigeria: Federal Government Printer, 1986), 3. Also see Godfrey Morrison, "Oil Prosperity Has Its Drawbacks," The Times, London, 3 February 1982.

57. Federal Republic of Nigeria: Fourth National Development Plan 1981-85.

58. Ibid.

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63. Federal Republic of Nigeria, Structural Adjustment Programme for Nigeria, July 1986 - June 1988, 3-4.

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65. Federal Republic of Nigeria, Structural Adjustment Programme for Nigeria, 3-4.

66. Ogene Chidozie, "Economic Interest Groups and Foreign Policy," a paper presented at a seminar, On Economic Development and Foreign Policy, at the Nigerian Institute of International Affairs, 6-7 August 1987, 2-3. For a detailed discussion of this viewpoint see Isaac N. Obasi, "The Domestic Dimensions of the Nigerian Economy 1960-85," a paper presented at the conference on Nigeria's International Economic Relations (Lagos, Nigeria: NIIA, 1987); Ashikwe Adione Ego, "The Politics of International Capital Movements," a paper presented at the conference on Nigeria's International Economic Relations, (Lagos, Nigeria: NIIA, 1987); and Bade Onimade, "Options for Nigerian Economic Reconstruction," a paper presented at the conference on Nigeria's International Economic Relations, (Lagos, Nigeria: NIIA, 1987).

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69. Exchange Control (Anti-Sabotage) Decree No. 7 of 1984, in Supplement to Official Gazette Extraordinary, No. 2, Vol. 71, 6 April 1984.

70. Olatunde Ojo and Peter Koehn, "Nigerian Foreign Exchange Controls: An Alternative to IMF Conditions and Dependency?", in Africa today, August 1986, 12.

71. West African Magazine, February 1983, 358.

72. Onaolapo Soley, cited in West Africa, 20 February 1984, 373; The Wall Street Journal, 21 February, 1984; and The New York Times, 30 January and 20 August 1984 report estimates to be Western sources placing Nigeria's overall debt at the end of 1982 between \$22 and \$25 billion and trade arrears between \$5 and \$6 billion.

73. Federal Republic of Nigeria, Structural Adjustment Programme for Nigeria July 1986-1988, 6.

74. West African, editorial comment, 27 February 1984, 423.

75. For a detailed discussion see a classified document that is available at the NNPC, Lagos, Nigeria. Also see G. O. Nwanko, Nigeria and OPEC: To Be or Not to Be?

76. West African Magazine, 27 February 1984, 425.

77. Tam David-West, "The Outlook for Nigeria's Oil Policy," a lecture delivered at a conference, Oil and Money Strategies for the Eighties, sponsored by the International Herald Tribune and The Oil Daily, in London, 18-19 October 1984, in Selected Speeches, 29.

78. Nigerian National Petroleum Corporation,
Library File No. Y/F.

79. Bolaji A. Akinyemi, "Mohammed/Obsanjo Foreign Policy," in Nigerian Government and Politics under the Military Rule 1966-1979, ed. Oyeleye Oyediran (London, Great Britain: MacMillan, 1971), 155-168.

80. Ibid.

81. Marinho, "Oil Politics and National Development, 4.

82. See General Obasanjo's broadcast to the nation on 29 June 1976 in Federal Military Government News Release No. 780; Shehu Shagari, "Nigeria's Foreign Policy," Nigeria Forum, December 1982, 871-83; Major General Buhari Muhammedu, "The Annual Foreign Policy Speech," delivered on the Occasion of The Annual Patron's Dinner of the Nigerian Institute of International Affairs, December 1984.

83. Osagie, "The Nigerian Economy: A Survey, 28.

84. Immanuel Wallerstein, "Class Formation in the Capitalist World Economy," paper presented at the 9th World Congress of Sociology, Toronto, Aug. 18-24, 474, 1.

CHAPTER V

NIGERIAN DECISION-MAKERS' CONSIDERATION OF ALTERNATIVE RESPONSES AND REACTIONS TO THE GLUT IN WORLD OIL MARKET

Alternative Actions Advocated As A Response To The Glut in the Oil Market

The Nigerian government was presented with three policy options which were reflected in the public debate as to the proper response for dealing with the "glut situation" in the world oil market. The policy positions could be classified as follows:

- 1) Withdrawal from OPEC;
- 2) National oil policy guided exclusively by the requirements of its membership in OPEC; and,
- 3) Innovative marketing strategies within the framework of OPEC.¹

Nigeria's membership in OPEC and its oil market strategy became a big political issue in the campaign leading to the presidential elections of 1983. The first policy option advocated by the Unity Party of Nigeria (UPN) was withdrawal from OPEC, which would ensure a freer disposition for Nigeria to continually reassess its price and production policy in accordance with changing market conditions and

necessitated by its peculiar economic and financial requirements. Chief Onabanjo, the Governor of Ogun State, stated Nigeria's membership in OPEC had denied the country flexibility to adjust its production and pricing policy in accordance with the changing market requirements to meet its North Sea competitors.² Professor Nwankwo succinctly and forcefully put the Nigerian problem:

As a member of OPEC, Nigeria had lost the freedom to unilaterally determine (or vary) the price of her crude oil in accordance with market forces. Also because of petroleum sharing and cutback agreements with OPEC Nigeria's membership has deprived her of the freedom to fix her oil production.³

Chief Awolowo, leader of the Unity Party of Nigeria (UPN), therefore advocated Nigeria's withdrawal from OPEC and raised the question whether Nigeria's continued membership was in the nation's best interest. Other prominent individuals within the UPN (Chief Onabanjo, the governor of Ogun State, Senator Jonathan Odebiyi, UPN leader in the Senate, Chukumarjie, the secretary of the UPN) argued that Nigeria's exit from OPEC would enable the federal government to be in a better position to adjust Nigeria's oil price in response to further changes in the price of North Sea oil as set by Britain and Norway.⁴ On the issue of quotas, these critics have questioned what rationale was behind the decision of OPEC to grant a country like Nigeria, with a population of about 100 million, the right to export only 1.3 million barrels per day. They pointed to Mexico, among other non-OPEC members, which operates outside OPEC rules and consequently is in a

position to manipulate their output while at the same time enjoying the best of OPEC's price structure.

They also contended that Nigeria's interest does not really coincide with those Arab producers who are mainly interested in using oil as a political weapon while Nigeria is more concerned with using oil for its economic survival. Dr. Olu Akinmoledun also identified the main issue involved as that of national interests:

should the survival or solidarity of an organization be allowed to gain priority over other things including national survival or progress? Or should the interest of a nation under severe economy stress as different from normal times not be above that of an organization?⁵

Similar criticism of loyalty to OPEC was also voiced by Chief Jerome Udoji, a strong NPN member and the President of the Manufacturers Association of Nigeria (MAN). Although it is not very clear whether the members of the Manufacturing Association of Nigeria and the Chamber of Commerce, Mining and Agriculture (NCCIMA) were advocating withdrawal from OPEC, their argument was very similar to the policy position of the Unity Party of Nigeria.⁶ They contended that in light of the current economic predicaments, it was logical for Nigeria to adopt a strategy of making up in volume what it was losing in per barrel price. In other words, it is better to sell a million and a half barrels at \$30 or less than 500,000 barrels at \$35 per barrel. They projected that a 500,000 barrel increase would net 1.8 million barrels per day in Nigeria's production (well within its capacity of 2.4 million barrels

per day), which, under then current prices, could increase government revenue by as much as \$5 billion, thus removing the substantial foreign borrowing and foreign exchange shortage. The logic of this position becomes apparent when you consider the fact that Nigeria is a net petroleum exporting country whose national economy is dependent upon its oil revenues.

A second policy option advocated for the federal government was to accept a national oil policy guided exclusively by the requirements of its membership in OPEC. OPEC's strategy for dealing with the glut then was to impose a production ceiling on its members which, apart from having the desired effect of stabilizing the market, also reduced OPEC members' share of oil traded in the world oil market. OPEC embarked on production curtailment as a means of arresting the downward pressure on crude oil prices and adding pressure to the consuming countries to draw down their high inventory.⁷ The success of this strategy was predicated on the cohesiveness and self-discipline with which the OPEC members continued to act together. A united OPEC price strategy backed by honestly reduced production was thought to be better strategy than engaging in unconventional trading practices and falling prey to the divisive machinations of the Western industrialized countries. They argued that Nigeria stood to benefit more in a market situation which guaranteed steady long-term price stability for its oil even at low levels of production.

The leading bureaucrats in the NNPC like M.A. Olorunfemi, Chief F.R.A. Marinho and some members of the government like David-West, the oil minister, advocated the pro-OPEC policy position which stressed the need for solidarity and unity especially during the difficult period of OPEC's existence. Chief F.R.A. Marinho argued that one of the most persuasive reasons for remaining in OPEC was the continuing fragility of the oil market. Any systematic oversupply of oil, even by a small margin, he went on, could bring about a total collapse of the world oil prices to the detriment of oil exporters, within or outside of OPEC. Therefore any marginal increase in production resulting in a price cascade would not necessarily benefit Nigeria.⁸

In regard to revenues, for instance, they argued that Nigeria may not necessarily maximize revenues by leaving the organization. If anything, such a move might engender a situation in which prices would be depressed. David-West, in his paper, argued, for instance, that Nigeria's exit from the organization might impel others to leave the organization - a phenomenon which he said would enable Western consumers to regain the market initiative from the oil exporters. He goes on to contend that such a move would be most welcomed by the consuming countries who all along had seen OPEC as a threat to their opulent lifestyle.⁹

Similarly, the country's interest in regards to meaningful negotiation with the oil companies will not

necessarily be enhanced by quitting OPEC. If anything, Nigeria's scope in this direction will be very much reduced. Olorunfemi portrays the scenario that might ensue:

Each nation exporting oil will now deal individually with the multinational oil companies on price and quantity....It will be miraculous for a country to be able to stand its ground against the conspiracy of the oil companies.¹⁰

More precisely, Nigeria's exit from OPEC might bring it to a situation in which the country will be forced to face the oil companies on a bilateral but unequal basis. M.A. Olorunfemi also pointed out that the benefits of membership far outweighed the current problems of Nigeria resulting from OPEC membership. Since OPEC's inception it has challenged the monopoly status of the seven international oil majors who in the past dominated the oil resources of OPEC countries, paying what amounted to token rents and royalties and refusing any participation by the governments of these countries in the oil industries.¹¹ OPEC fought and finally seized the power to fix the price of their oil.¹²

For a newcomer like Nigeria in the petroleum industry, there is much to be gained from OPEC in terms of research and technical advice, technological transfer and manpower development. There are also political as well as sentimental reasons why Nigeria should be guided by OPEC policy guidelines. OPEC is the only Third World organization that has held its own and won the respect especially of Western industrialized nations. It required a collective body such

as OPEC to take advantage not only of marketing situations, but to capitalize on them and make the gains thereon permanent. Their action or effort can be likened to a powerful trade union strong enough by the sheer number of workers at its command to support any gains that may accrue to it, however incidental.¹³

While continued OPEC membership may have been in Nigeria's long-term interest, boosting production was considered politically and economically more expedient. Another policy option was recommended by some oil analysts in the Nigeria Institute of International Affairs (NIIA) and some ministers in the Buhari administration. They contended that the Nigerian government could continue its membership in OPEC while proceeding to implement more innovative marketing strategies. Such strategies must be flexible enough to be able to respond to changes in both economic and technical factors in the market. According to Bassey Ake:

It is not impossible for us (Nigeria) to accommodate our membership of OPEC within a dynamic national oil strategy that seeks to generate optimal benefits from the oil industry.¹⁴

The above factor was particularly important in regard to the tremendous competition posed to Nigerian crudes in their traditional market by indigenous crudes: Alaskan North Slope crude oil, a relatively new crude having medium sulphur content, had displaced both sweet and heavy imported crude oil in the North American market. This displacement had been accentuated by the increasing flow of Mexican crudes to both

North and Latin America, which was Nigeria's main market, and by an increase of North Sea crudes. Furthermore the utilization of the indigenous crudes meant that foreign crudes such as Nigerian crude oil, hitherto used in the region, were automatically displaced. However, Dr. Bassey Ake argued that Nigerian crude could still maintain its market share in a shrinking world oil market, given responsive pricing and appropriate marketing policies and arrangements.¹⁵

In defense of this policy recommendation, the proponents contended that membership in OPEC did not conflict with a policy option that enabled a country to extract the optimal advantage from its vital oil resources as practiced by Saudi Arabia and Indonesia. It would allow Nigeria to adopt aggressive market strategies and greatly increase sales potential of its oil, while boosting production once again. Moreover, there is no OPEC rule that explicitly precludes mutually agreed bilateral arrangements between member countries and their trading partners.¹⁶ Saudi Arabia is an example of an OPEC member that has taken such decisions for the well-being of its oil industry -- decisions which do not call into question its leadership role in OPEC.

It is significant to point out that the policy positions of these various groups reflected their fractional and material interests. But the real motivation for advocating this first policy position was a calculated move on the part of the Unity Party of Nigeria to present itself

as a credible alternative to the policies of the ruling party -- the National Party of Nigeria (NPN). Indeed the UPN's position was largely informed by a group of academicians who had been commissioned by the party to produce studies which would rationalize Nigeria's exit from OPEC.

Politically, the Nigerian elections were scheduled for the late summer of 1983. In spite of the confidence exuded by the three main parties (NPN, UPN AND NPP) none was really certain of what the outcome of the elections for offices from president and governors through to the rest, was going to be. Mounting unemployment, inflation and scarcity of bread in the cities would be serious at any time but these combinations were particularly dangerous in the volatile political climate created by imminent elections. The bad news of the economy was ostensibly good news to the government opponents (a reflection of the cynicism of politicians in general) who showed it off as evidence of mismanagement of the Nigeria economy.

Nigeria's oil production had dropped from a planned 2 million barrels per day in 1981 to just around 0.5 million barrels per day in February 1983, with serious consequences for government revenues and foreign exchange earnings. Because of its anxiety to get the economy into better shape before the elections, the Shagari administration took drastic austerity measures to correct the situation -- especially import and foreign exchange restrictions. The situation was

complicated by the division in the ranks of the Nigerian government on the best strategy to adopt. Some political heavyweights in the ruling NPN believed that a more independent marketing strategy was electorally desirable, while Mallan Dikko, the presidential oil adviser, remained convinced of the need for loyalty to OPEC.

The members of NCCIMA were inspired by the need to secure foreign exchange at any cost. These middlemen were disposed toward this policy position because it was felt that more oil would be available for peddling and export if Nigeria were free from OPEC quotas. In the aftermath of the 1983 coup d'etat in Nigeria, it was revealed by oil minister Tam David-West that the government had been losing an estimated \$1 million a day in revenues it could have gained because of the illegal trading activities of these middlemen.¹⁷ Fraudulent practices included smuggling of oil products, illegal bunkering, unauthorized crude oil allocation and disregard for Nigeria petroleum laws. Furthermore the contracts awarded during the civilian regime of 1979-1983 to the oil companies by the Shagari government had many loopholes which enabled foreigners to exploit oil usually with the connivance of NNPC officials and some Nigeria businessmen.¹⁸ Indeed, the security of Nigeria's territorial waters was so lax that foreign oil companies routinely brought their ships into the country's territorial waters to take away oil without payment.

The bureaucrats in NNPC view OPEC solidarity as the only viable insurance, more so within a revitalized market, against a resurgence of the international oil companies and their governments to the detriment of the individual developing exporting country. Michael Olorunfemi made a persuasive argument that it was in Nigeria's best interest to remain within OPEC rather than step outside it.¹⁹ This is still true in spite of the reduced market share, and therefore power, of the cartel. According to him, it is true that the North Sea and other non-OPEC producers enjoy the benefits of the OPEC price market structure without paying a price for them. But they were not members of OPEC in the first place. It would be naive to assume that Nigeria or any other OPEC member state can leave the organization and become a free rider without serious implications for the organization and the oil market.²⁰ It was therefore important that Nigeria should not do anything that would rock the OPEC boat.

For the proponents of innovative marketing strategies, any unconventional marketing practice could be justified on the grounds that Nigeria's economy suffered by maintaining the production quota of 1.3 million barrels per day unfairly imposed by the OPEC production policy system. Indeed two oil analysts have argued that,

...with a debt structure and service burden like Nigeria's and the semblance of reluctance to help on the part of the IMF and other credit institutions in the industrialized world, the country it would appear had no choice but to engage in countertrade in order to attempt

to rectify the liquidity problem it has faced in the years since 1981.²¹

Although not all trading practices by member states were condoned by OPEC, they nevertheless represented a reality within the organization. The crucial issue which faced Nigeria has been articulated by another observer rhetorically:

What is Nigeria's interest? Is it membership in OPEC and satisfaction of the organization's wishes or is it its application to the provision of the national economic need requirements.²²

The Government's Consideration of The Advocated Policy Options

The Nigerian decision-makers assessed the alternative policy options advocated by the various proponents involved in the policy debate. Withdrawal from OPEC was not seriously considered by the Nigeria government because the Nigerian decision-makers all acknowledged the fact that the emergence of OPEC since 1960 as an oil producers cartel has witnessed an impressive power shift in international politics in favor of the less developed countries until the recent glut in the world oil market. According to the former Nigerian head of state, Major-General Muhammad Buhari, OPEC is the only Third World institution to withstand the pressures and manipulations of the industrialized countries.²³ The organization has earned Nigeria respectability among nations especially as regards the leadership role it plays in African affairs.²⁴

One of the weaknesses of the anti-OPEC policy stance, as argued by David-West, is that it seems to ignore the

fundamental economic truism of the interplay of supply and demand in the context of realizable market price. Secondly it also seems to ignore the technical reality that there is an upper limit beyond which Nigeria cannot produce, granting its present technical baseline.²⁵ Therefore exit from OPEC may not yield more revenues to the country. For withdrawal to be meaningful Nigeria would also have had to adopt aggressive market strategies aimed at greatly increasing the sales potential of its oil while boosting production. Michael Olorunfemi argued that the reality of the international market was that the current price structure existed because OPEC continuously acted as a buffer to absorb the shock in the market. If OPEC ceased to exist or if OPEC competed with non-OPEC countries, the current price structure would totally collapse.²⁶ Nigeria's exit from OPEC by itself would not necessarily change the country's economic and oil predicament considering the persistent glut in the world oil market and the availability of low-sulphur crude from other sources. The realities of the world oil situation therefore point in the direction of Nigeria's increased reliance on domestic economy and financial adjustments to overcome its present predicament.²⁷

Furthermore there was also a "big if" in the optimistic view of oil market affairs in Nigeria. There was a possibility of an absolute collapse in oil prices to a figure well below \$20 a barrel or the eruption of a general

"price war" in the market among the producers of a similar grade in which each would attempt to capture a larger chunk of the market by continually cutting its price. It was quite unlikely that OPEC, given the continuing glut in the market, would survive as an organization if Nigeria withdrew and any increase in the country's production would therefore only last for as long as it took for the inevitable price-cutting war to start. In such a scenario all the oil exporters would lose absolutely while the importing countries would emerge as winners and this would mean both a shrinking market and further decline in foreign exchange earnings. Chief F.R.A. Marhino, the former director of NNPC, argued that,

...within and without OPEC, Nigeria's behavior must have to conform with these market indications if it is not to precipitate a price cascade which would not necessarily stimulate production in any appreciable extent. A reason for this low elasticity can be traced to the fact that in recent times, there have been certain structural changes in the international oil industry, a good part of which is no longer reversible. There have been structural changes in demand and supply patterns in consumption and utilization and efficiency patterns, etc. Any marginal increase in production resulting in a price cascade may therefore not necessarily ensure to the benefit of Nigeria.²⁸

On the contrary, the crucial question that faced OPEC, according to the anti-OPEC school, was whether OPEC members would benefit less from the defense of their price structure which is maintained by production cutting strategy. While OPEC members have cut their production for almost three years, non-OPEC producers have dramatically increased theirs and have charged almost the same price as OPEC got for their small

exports. OPEC, not being a homogeneous unit, has imposed sacrifices on its members; some of them (the high absorbing countries), particularly Nigeria, can hardly afford to make them. Even the Nigerian oil minister Tam David-West (a pro-OPEC supporter) said that "there is limit to such sacrifice."²⁹ After almost three years of production cutting strategy during which the market showed no sign of recovering, some Nigerians were wondering how useful the sacrifice had been and questioned the wisdom of continuing to accept OPEC's policy. The problem was that OPEC was beginning to see its prestige as tied to being able to rigidly maintain the price it fixed rather than to a realistic evaluation of the world oil market situation.

In the aftermath of the North Sea cut in oil prices the policy options open to the Shagari cabinet were either to honor the OPEC agreement but lose all share of the oil market to non-OPEC producers that reduced prices, or match price reductions by non-OPEC producers, and, in the process, retain its market share but break its word of honor to OPEC colleagues.³⁰ Even among those member countries of OPEC who believed that a price cut was necessary to maintain the OPEC price structure, an agreement on how to do it became impossible because of conflict within OPEC -- for example, Saudi Arabia's insistence that African members increase the premium added to the "market price" of low sulphur crudes. This insistence, to some Nigerians who were seeking to lower

prices in order to increase their production, and the changed nature of oil technology in Europe and the U.S.A. for heavy crudes, must have suggested a lack of seriousness on the part of OPEC in seeking a realistic solution. These heavy-grade crudes had been in demand because of their relatively low prices and the improvement in technology for refining them. And taken together with the much reported Saudi loan to Nigeria, which was not given, put the Saudi's sincerity, goodwill and leadership in OPEC into question.

Another specific problem with this position as argued by the anti-OPEC school was the lack of self-discipline among the OPEC members. According to former Vice-President of Nigeria Alex Ekueme, other OPEC members are prone to using "all sorts of methods to circumvent official policy."³¹ Apart from the slump in the oil market the OPEC members have always cheated on export volume restrictions. Because of the Iran-Iraq war these two countries always exceeded their production quotas. However, OPEC's strategy would take a good deal more discipline than OPEC had been able to muster in the past. Indeed part of the OPEC problem stemmed from various members producing above their allotments under the existing quotas. Furthermore, the OPEC posture of defending its price structure seemed designed to invite further pressure from non-OPEC producers who were prepared to sell their crudes below the OPEC price. In the process new forces had arisen in the market whose challenge for a voice in price-making could not

be ignored. One such force was the spot market, which had usually been considered a marginal one.³² It had demonstrated its new muscle in the oil market by helping to bring about the persistent oil glut. OPEC's market strategy seemed to be merely postponing the inevitable day when it would have to face the reality of price cuts.

The critics of the innovative marketing strategy, which was mainly represented by the mass media, argued against this policy recommendation from the perspective that "you cannot have your cake and eat it too." They claimed that such policy is de facto a step toward cutting Nigeria's ties with OPEC and weakening OPEC's position within the world oil market. They contended that Nigeria's action involved unconventional oil trading practices which broke OPEC's policy guidelines and also created oil market instability. Such actions were not only hypocritical but would not produce immediate relief for the country's economic pains. This is because the oil companies, having sensed lower prices or unconventional trading practices among OPEC members, would probably have expected further cuts in oil prices.

There was vigorous debate in the cabinet concerning the rationale for the nation's continued adherence to OPEC-assigned quotas. Professor Tam David-West, even though he was often described as a "Sheikh of Countertrade," has been cited as being the major supporter (and understandably so) for the pro-OPEC position, amidst mounting waves of

antagonistic sentiment to OPEC quotas.³³ The loudest anti-countertrade noise in Nigeria originated from the NNPC. The state controlled oil company claimed that this approach limited its maneuvering room in the OPEC meetings and in the spot market.

David-West contended at least publicly that oil countertrade by the Nigerian government should not adversely affect oil market prices or disrupt OPEC's equilibrium if it remained within the country's quota, based on OPEC's quota system. According to him:

We've gone into countertrade, maybe we're latecomers. But it's a strategy for national survival and I have no apologies at all. But people always forget about the proviso that I made, provided we do not rock the boat. I've analyzed the pluses and minuses of the countertrade. I know where we can stop. It is a concept we cannot turn our backs on. But certain restraints are necessary to avoid rocking the boat.³⁴

Although the minister did not give an operational definition of "rocking the OPEC boat," one imagines that it has to do with a country exceeding its production quota within the OPEC ceiling or bartering its oil so cheaply that it will force down the price of oil on the world market. His serious criticism of oil countertrade as it was practiced was its effect on oil prices and stability. In effect the oil agreement provided an implicit discount of \$2 to \$3 per barrel and hence had a financial advantage over long-term contract agreements. Such discounts not only triggered a number of requests by other countries and companies who wanted oil countertrade with Nigeria but led existing NNPC customers to

phase out and stop lifting since they could not obtain similar discounts or attractive incentives.

In addition to this adverse impact, oil taken in countertrade by trading partners who did not operate integrated oil facilities was often dumped on the spot market, which led to the situation of excess supply and weaker oil prices. Oil being lifted by Brazil through countertrade was reported by Nigerian newspapers to have been exported to South Africa, principal trading partners of Brazil which compromised Nigeria's foreign policy interest. David-West, the oil minister, in May 1985, had written a secret monograph to Buhari, the head of state, spelling out his opposition to the way in which countertrade was being executed and the course they should take.

What was going to happen I predicted in May, was that our countertrade barrels would compete with our normal barrels. Normal customers served notice and started to 'dump' Nigeria. We had to quickly make amends. I had to invite these customers to come back and arrange with them to give them what I call sweeteners for them to lift. The countertrade story will make an interesting reading when the truth is known.³⁵

David-West recommended that apart from the fact that countertrade should be managed in such a way that the volume of oil allocated for countertrade did not resurface in the world oil market to compete with regular contracts,

Countertrade should be managed in such a way that the volume of oil you are allocating for countertrade does not compete directly with the regular contract. Countertrade oil can go to spot market and be sold cheap. Countertrade transactions should not be made term contracts. What we had before was that countertrade contracts were running parallel to the normal contracts.

You decide you want to build a refinery our own share of it is so many millions, translate that to oil and give them impulse activity so the impression is not created of a year's contract competing with your oil.³⁶

The other ministers (especially Dr. Mahmud Tukur, the minister for commerce and industries), Dr. Soley (minister of finance) and M.S. Adigun (minister of national planning) argued a "Nigeria first" policy of maximizing oil output and sales, in light of the country's economic emergency, to purchase the necessary imports.³⁷ Using the reports of discounting, overproduction and countertrade³⁸ practiced by other OPEC members as their ammunition, they argued that Nigeria should not narrow its considerations to the present circumstances of the market only -- rather it should look beyond in order to assess whether it could reasonably expect to sustain that level of selling. In other words, if Nigeria was selling 1.5 million barrels per day during the winter months but forecast that its share in summer months may drop to 1.2 million barrels per day without immediate prospect of full recovery, it makes good economic sense to line up countertrade partners well in advance and negotiate favorable terms rather than wait for the market to shrink Nigeria's share. Where the country finds itself unable to see its full OPEC oil quota, financial debts and economic responsibilities would leave no choice but to exercise countertrade options. Therefore countertrade was entered into purely as a buffer measure to sustain the country's OPEC-assigned production.

The answer must necessarily depend on and shift in consonance without short or long-term perceptions of:

- 1) A seller's market for oil wherein Nigeria is able to sell all of its quota (and perhaps a little excess) under OPEC at good prices for cash or normal credit terms.
- 2) A sluggish (buyers') market wherein Nigeria cannot dispose of its full OPEC quota.

In his remarks during a Radio Nigeria interview, the Nigerian head of state, Major General Muhammed Buhari, said that Nigeria's involvement in countertrading was deliberate, well planned and had brought a lot of relief to the country. He maintained that after considering the country's 1985 budget, the government had a gap of \$2.34 billion and had no alternative other than to resort to countertrading. Buhari observed that critics of Nigerian involvement in countertrading (the press) do not know what they are talking about because Nigeria would have been crushed as a nation but for countertrading. As to whether this market strategy conflicted with OPEC policies, Buhari -- himself a former energy minister -- said that Nigeria has been about the last OPEC country to engage in countertrading. "Other countries are doing it. The problem is our press, and some of the people who make so much noise about their own country."³⁹

Several less developed countries engaged in countertrading not necessarily because of a coordinated

national policy but because of an individual country's interpretation of the financial, marketing and development benefits derivable from the practice. This is because countertrading is largely perceived by these countries as an instrument for addressing the problems of a national economic emergency. In Nigeria's experience, the rationale for the country's decision to engage in oil counter-trading was largely based on the liquidity crisis that the nation had faced since 1981. In the deteriorating world market for OPEC oil, Nigeria had faced increasing difficulties of declining growth, rising prices, underutilized capacity, unemployment, inflation, heavy debt service burden, stringent external credit terms and latent social instability.

Therefore the aim of the countertrade was to sustain the flow from abroad of much-needed equipment spare parts and to meet minimum consumer demands in the face of continued shortages of essential commodities and international credit inflexibility. Early in the Buhari administration, they made a simplistic decision that Nigeria would pay 40 percent to 50 percent of its foreign exchange in serving the inherited external debts. Therefore countertrade was perceived by Nigerian decision-makers as a strategy to stave off revenue difficulties and as a short-term reply to the IMF.

Furthermore some members of the cabinet argued that any strict adherence to OPEC policy guidelines at that time, in the face of several economic difficulties, might be

counterproductive politically considering the government was a military regime seeking legitimacy immediately after the coup d'etat⁴⁰ and that it took power to salvage the country's economy. The credit squeeze, financial debts, social obligations and economic responsibilities would leave the government little choice other than to exercise the countertrade option. The former head of state, Major-General Muhammad Buhari, stated in an interview:

We believe the private sector especially the factories shouldn't be starved of essential raw materials. We believe that as much as possible we should be able to save jobs and therefore to produce goods that are basic to us. And we don't have the money but we have the alternative and countertrade is the alternative. It was a deliberate thing, it was well planned and it has brought a lot of relief to us.⁴¹

The alternatives to countertrade were simply unacceptable to the government. The austerity which would have been forced on the nation by the lack of foreign exchange foreseen in the budget (based on a 1.3 million barrels per day production figure) might have placed an intolerable strain on Nigerian society. Extra revenues from oil countertrade deals, on the other hand, may actually have allowed Nigeria to maintain imports near their 1983 level of around 7 billion naira rather than slashing many thousands of jobs in the process.

The apparent conflict between OPEC as an organization and the member states as individual sovereign economies within its ranks was over maintaining the stipulated price structure and ensuring adherence by members to the regulated production

quotas. Countertrade had become a short-term instrument of competition in an unstable oil market. It had become a subtle means of competition with non-OPEC producers who subscribed to the strategy of unrestrained production. As the non-OPEC producers expanded output and lowered oil prices at every opportunity, some OPEC members felt that they had to engage them in some form of product or price competition. Countertrade in weak oil-market conditions invariably involves some price discounting. Since this form of discounting is difficult to police, the main challenge to OPEC states was how to accommodate countertrading as part of a strategy of combatting their economic problems.

In the face of a soft market for Nigerian Bonny Light oil and declining revenue earnings, the Buhari administration thought of crude oil sold within the OPEC production ceiling as merely a market-creating exercise. In other words, countertrade was seen as an additional strategy to boost international trade and reduce the near-total reliance on hard currency for international transactions. The economic insecurity that is inherent in the concentration of Nigeria's trade with large OECD countries would be sharply reduced as Nigeria initiated countertrade with countries like Brazil, Austria and Romania. This form of trade would lead to symbiotic relationships between Nigeria and its countertrading partners. The countertrade would make it possible to establish an export market with other countries and thus

enlarge market opportunities. This practice would, of course, alter already established trading patterns of conventional exchange but its net effect might well be a greater volume of world trade in the face of the real alternative situation of no trade at all.

Implementation of Nigeria's Chosen Policy Options

The Nigerian policy-makers undertook a number of discrete actions in response to the "glut situation" in the world oil market. The immediate reason for the government's action was the need to make Nigeria's crude oil competitive with the North Sea crude of Britain and Norway. The government argued that by sticking to the OPEC price structure Nigeria's oil had become greatly undercut in the market by the less expensive North Sea crude, this being of a similar quality to Nigeria's low-sulphur brand, Bonny Light.⁴² We have already noted that the BNOC had in mid-February cut its official price by \$3 per barrel to \$30.50, thus making the Nigerian oil grossly overpriced in an already glutted market.

On February 19, 1983, the Shagari government decided to break ranks with other OPEC members by announcing a unilateral cut in Nigeria's Bonny Light Crude by \$5.50 to a \$30 per barrel reference price.⁴³ Although there was presidential consent before the announcement, and the cut was in response to British action, the immediate decision emanated from the presidential advisors for petroleum and economic

affairs -- Mallan Yahaya Dikko and Dr. E.C. Edozien, respectively -- and some senior bureaucrats in the NNPC. Mallan Yahaya Dikko, who announced the price cut, also threatened to match cent for cent any further cuts by the North Sea producers, and contended that both OPEC and non-OPEC producers must share the responsibility for maintaining price stability in the world oil market. Both groups stand to gain by responsible action. But however much Mallan Dikko reiterated Nigeria's commitment to OPEC, it is clear that he had begun to see a divergence of interests.⁴⁴

The Nigerian government oil price cut posed a cruel dilemma for OPEC. The other African light crude producers have had that inclination toward matching whatever price is decided on by Nigeria (to say nothing of the non-OPEC producers). And for their part the Gulf producers - whatever their predilection for a \$30/barrel market - can hardly be expected to tolerate a zero differential between Arabian light and Nigerian crude. Therefore the Nigeria government's announcement of the price cut triggered a series of meetings by OPEC members in London in order to avert a catastrophic price war. After eleven days of negotiations they arrived at a final agreement on March 14, 1983: OPEC cut its reference price from \$34 to \$29 per barrel, which marked the first reduction in its 23-year history. Nigeria was allowed to keep its price at \$30 instead of \$30.50, the price at which the existing differential between it and the OPEC reference price

should have placed it. OPEC decided on a production ceiling of 17.5 million barrels per day with Nigeria retaining the 1.3 million barrels per day production limit it had had since 1982.⁴⁵

OPEC's solution was a "quick fix," which had the effect of steadying the market and averting a price war no one seemed to want. But like all quick fixes, it appeared to ignore the main problem and therefore only provided a temporary respite. No sooner was the London Agreement signed than Mexico, the U.S.S.R. and the U.K. tried to offer price discounts to undercut the \$29 a barrel reference prices; and they also tried to offer longer-term contracts to push their sales. Given the increased competition that OPEC faced in an oil market biased toward buyers' interests, the flexibility of OPEC's pledge and its collective action was still open to question. Neither the Shagari government's decision to cut Nigeria's crude oil price nor OPEC's belated agreement in the London conference on a common price-production policy did much to improve the condition of the world economy or relieve Nigeria's basic economic difficulties, engendered by its one-export commodity. Worldwide demand for oil continued to decline and OPEC could not even dispose of about 16 million barrels per day. Nigeria's oil output had fallen by 65 percent within a year and its foreign reserves had diminished to the point that only one month's worth of import orders could be paid for.⁴⁶

In view of the Nigeria economic and financial predicament, a military coup d'etat took place on December 31, 1983, and the civilian regime of President Shagari was overthrown by Major-General Buhari. In its bid to win legitimacy for itself and salvage the economy, the new Nigerian military regime decided to pursue an aggressive market strategy and pressed OPEC for an increase in Nigerian production quotas. OPEC could not be indifferent to plaintive cries from the Nigerian policy-makers that, in view of Nigeria's peculiar circumstances (low reserves, large population and an absorptive capacity of the economy), the country should be granted an increase in its production quotas. Accordingly, in July 1984 at the OPEC ministerial conference in Vienna, Nigeria was granted an increase of 150,000 barrels per day.⁴⁷ This was regarded as a diplomatic achievement on the part of the Nigerian decision-makers considering the fact that all other OPEC member states abided by the decision to cut down from 17.5 million barrels per day to 16 million barrels per day (see Table 5:1).

But the world oil market continued to decline and the North Sea producers again started to discount their oil prices on the spot market thus making Nigeria's crude uncompetitive. The Nigerian government responded to the depressed oil market situation by offering to take up any oil unsold by Nigeria in return for the oil companies paying the NNPC's share of the operating cost. Naturally, the companies' terms for such a

contract included sharp price discounts. In October 1984, Norway and Britain discounted their light crude by \$1.50 and \$1.55, respectively.⁴⁸ In response to BNOC and Statoil price reductions, Nigeria exercised the policy option of matching cent for cent with the North Sea price reduction. Nigerian Petroleum Minister Tam David-West, in consultation with Major-General Buhari, decided to again unilaterally reduce the price of Bonny Light by \$2 -- from \$30 to \$28 a barrel.⁴⁹

This decision to reduce its oil price unilaterally can be attributed either to the failure of Nigeria's first decision to cut its price, which did not lead to a significant increase in revenue, or to the fact that the price-cut option is potent in the OPEC arsenal in the event of an all-out competition with the non-OPEC oil exporters. Basically Nigerian decision-makers contended they again broke ranks with other OPEC members to cut the price of Bonny Light in order to prevent a decline in sales -- the country was now placing its own economic health on a higher priority than its loyalty

Table 5:1

OPEC Production Cuts in Geneva Meeting of October 1984
Official (old-new) production quotas and reduction
in thousands of barrels a day

<u>Country</u>	<u>Old Quota</u>	<u>New Quota</u>	<u>Cutbacks</u>
Algeria	725	663	62
Ecuador	200	183	17
Gabon	150	137	13
Indonesia	1,300	1,189	111
Iran	2,400	2,300	100
Iraq	1,200	1,200	0
Kuwait	1,050	900	150
Libya	1,100	990	110
Nigeria	1,300	1,300	0
Qatar	300	280	20
Saudi Arabia	5,000	4,353	647
U.A.E.	1,100	950	150
Venezuela	<u>1,675</u>	<u>1,555</u>	<u>120</u>
TOTAL	17,500	16,000	1,500

Source: The New York Times, November 1, 1984.

Note: OPEC crude oil production in October 1984 dropped to half of its 1979 production level of 32 million barrels per day; by 1984 it was only 16 million barrels per day following the 1.5 million barrel per day cut from the previous production quota of 17.5 million barrels per day.

to OPEC. General Buhari defended the action by saying, "We will have to do that to survive."⁵⁰ The government's unilateral action received public support in the country as most people felt that OPEC was relevant to Nigeria only to the extent that it met the country's national objectives and interests.⁵¹ This second price cut was not well received by other OPEC members. Sheik Yamani, the Saudi Arabian oil minister, travelled to Nigeria and warned the Nigerian government officials that they could not define their interests alone in the oil market and he pressured Nigeria for collective action to defend the OPEC reference price of \$30 a barrel.⁵²

Nigerian Petroleum Minister David-West responded to the criticism of Nigeria by expressing Nigeria's intention to remain within OPEC while at the same time defending what they perceived to be the country's national interest. According to him, "Nigeria has two feet in OPEC and two eyes on the North Sea."⁵³ In early 1985, the British government abolished BNOC which signalled the British intention to adopt more of a spot-market pricing system. This further complicated the world oil market due to the volatile price nature in the spot market and raised the question of Nigeria's ability to monitor spot-market developments and its flexibility to react to market situations in light of Nigeria's continued membership in OPEC.

The Buhari military government decided to engage in a number of oil countertrades with some of its foreign trading partners.⁵⁴ The immediate pressure to find additional foreign exchange resources emanated from the Ministry of Commerce and Industry's inability to issue adequate import licenses for industrial raw material, spare parts and essential consumption commodities. The Brazil countertrade agreement originally had officially been ascribed to Dr. Mamud Tukur, then Minister of Commerce and Industries, who visited New York in July 1984 where he obtained an offer of U.S. \$1.0 billion in supplier credit from Cotia, a Brazilian company.⁵⁵ On his return to Nigeria the minister briefed the former head of state, Major-General M. Buhari, on the credit offer. He in turn directed the former Chief of Staff at supreme headquarters, Major-General Tunde Idiagbon, to set up an inter-ministerial committee to examine the proposal.⁵⁶

At the first formal meeting held under the chairmanship of former Chief of Staff Idiagbon on July 24, 1984, the Minister of Commerce and industry, Dr. Tukur, defended the credit offer from Cotia against the strong reservations expressed by some of his colleagues. From available records, it can only be stated that the head of state, the former Chief of Staff and Dr. Tukur were the principle architects of the Brazilian countertrade. Dr. Mahmud Tukur eventually signed the agreement on September 18, 1984, apparently on the grounds that it was a government

decision -- that of the head of state and the Chief of Staff. The 1984 countertrade agreement with Brazil constituted the first phase of the country's new countertrade efforts. Ten days after the commercial agreement had been signed, the oil lifting agreement had not been concluded. At a September 28, 1984 meeting, Chief of Staff Idiagbon gave a definitive directive that Dr. Tukur should get in touch with the Brazilian Ambassador the day after the meeting and threatened that if the minister resisted signing the agreement, he should himself sign it personally.⁵⁷

The administration of countertrade was placed under the jurisdiction of inter-ministerial committee by Major-General Tunde Idiagbon. The inter-ministerial committee was composed of the Minister of National Planning (Chief M.S. Adigun) as Chairman; Minister of Commerce and Industry (Dr. Mahamud Tukur); the Minister of Finance (Dr. O. Seleye); the Minister of Petroleum and Energy, (Professor Tam David-West); and the Governor of the Central Bank. As the countertrade project implementation progressed the following assignments among the ministers became more defined:

- 1) The Minister of National Planning received proposals from interested foreign companies and governments; negotiated with them and submitted recommendations to the inter-ministerial committee for consideration and decision as to whether to recommend specific cases or

proposals to the head of the federal military government.

2) The Minister of National Planning conveyed the recommendations of the committee to the head of state, received his reply and then communicated them to the following action points:

- a) The Ministry of Commerce and Industries which was responsible for the conclusion and signing of the commercial agreement and for the issuance of the import licenses;
- b) The Central Bank of Nigeria, which was charged with the negotiations and nominations of the escrow account agreement with appointed Nigerian and overseas banks;
- c) The Nigerian National Petroleum Corporation, which was responsible for the negotiation of the oil lifting agreement;
- d) The Ministry of National Planning, which was charged with the price negotiations for individual import products chosen by the committee from the list initially proposed by the foreign intermediary organizations.

The above-listed institutions are statutorily autonomous and the ministers who are the heads of these institutions are not responsible or answerable to one another.

All obligations in each agreement are to be discharged by their respective signatories.

It has, however, been observed that out of the five known countertrade agreements which the Nigerian government had entered into, four of them (namely the Brazilian, Austrian, French and Italian) fell under the countertrade classification of counterpurchase while the one with Romania was a bilateral trading agreement. This counterpurchase type of countertrade consists of an export of goods for cash on the condition that the importing country in turn sell goods to the trading partner over time for more or less the value of the imported goods. Counterpurchase involves contractual obligations for the sale and purchase on a reciprocal basis and the payment arrangements are conducted through an escrow account with the intermediation of banks. The proceeds of such an account are thereafter employed for the settlement of goods supplied by the second party. (For example, see the Brazilian scheme - Figure 5:1)

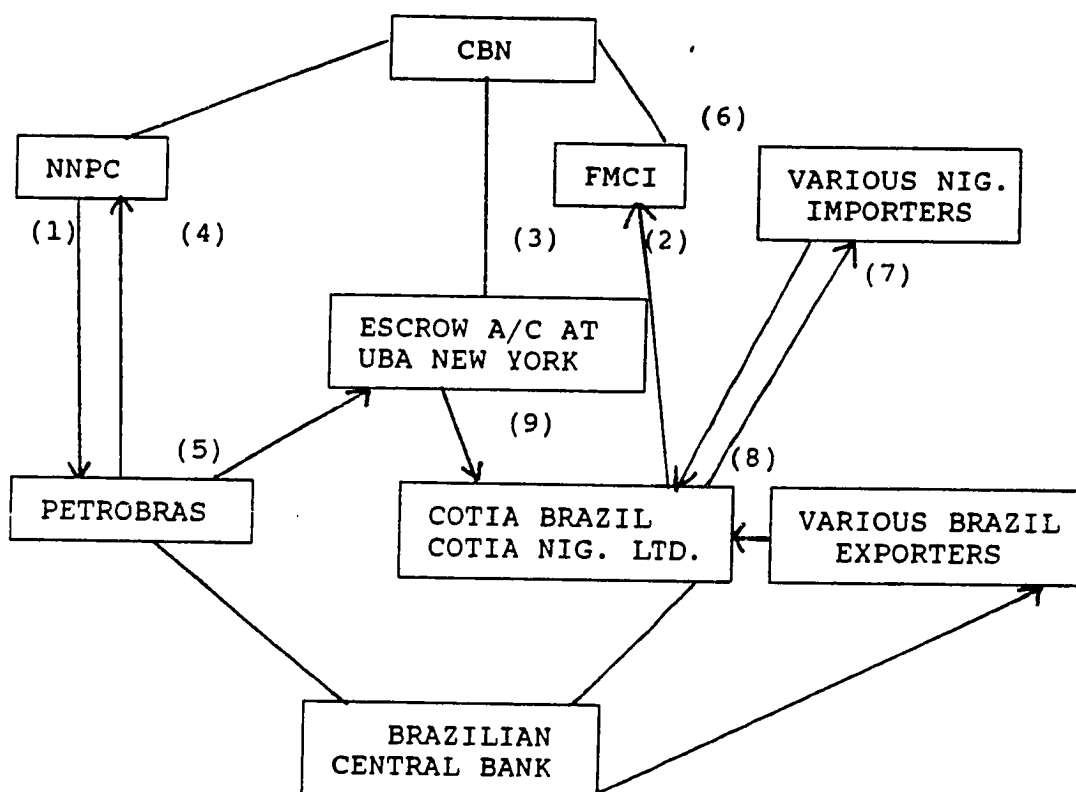
- 1) NNPC contracts to supply 40,000 barrels per day of oil to Petrobras..
- 2) Federal Ministry of Commerce signs a trade agreement with Cotia.
- 3) Central Bank of Nigeria appoints United Bank of Africa, New York, as its escrow account bank.
- 4) Petrobras opens an account in favor of NNPC for oil.

- 5) Payments are made by Petrobras to the escrow account.
- 6) Import licenses are issued by the Federal Ministry of Commerce and Industries (F.M.C.I.) to Nigerians.
- 7) Letters of credit confirmed through the escrow bank are opened on Cotia.
- 8) Cotia arranges purchases and shipment.
- 9) Cotia draws on letters of credit from the escrow account.

As to the status of the Brazilian scheme, it provided for the lifting of about 80,000 barrels per day by Petrobras of Brazil. The corresponding amount was paid into the escrow account (with the United Bank of Africa, New York) jointly held by the Central Bank of Nigeria and Cotia Commerce.

- 1) The purpose of the escrow account was to hold all proceeds from the initial sales of oil, from which all Nigerian purchases were to be settled thus involving an initiation of payment mechanism.⁵⁸
- 2) Cotia ultimately supplied goods to Nigerian importers and was paid from the escrow account funds.
- 3) Meanwhile, the Ministry of Commerce and Industries issued licenses to Nigerian importers according to its own priorities and criteria, based on the list of qualifying goods submitted by Cotia and incorporated in the trade agreement.

Figure 5:1

Example of Nigeria-Brazil CounterpurchaseSequence of Events

1. NNPC contracts to supply 40,000 barrels per day to Petrobras.
2. Federal Ministry of Commerce signs a Trade Agreement with Cotia.
3. CBN appoints UBA as Escrow Account Bank.
4. Petrobras opens L/C in favor of NNPC for oil.
5. Payments made by Petrobras to Escrow Account.
6. Import licenses issued by FMCI to Nigerians.
7. L/C's confirmed through Escrow Bank opened on Cotia.
8. Cotia arranges purchases and shipment.
9. Cotia draws on L/C's from Escrow Account.

Source: Report of Aboyade Committee of Investigation on Countertrade, November 18, 1985.

- 4) Based on pro forma invoices issued by Cotia importers, irrevocable Letters of Credit were established that were confirmed by U.B.A., New York, according to the availability of funds in the escrow account.
- 5) After receiving confirmed licenses, Cotia shipped goods directly to Nigerian importers. Upon negotiation of documents, including clear reports of finding issues by Swede Control/Intertek (inspecting agents), Cotia claimed payment from the escrow account (UBA, New York).
- 6) Petrobras is a Brazilian government company that deals in oil with Nigeria, and Cotia is a Brazilian company that deals in goods. When Nigerians want to get goods from Cotia, Nigeria does not give them oil to get goods which is a direct goods to goods relationship which is a classical barter. So, the Nigerian government gives Petrobras some oil which they sell and then put the proceeds into an escrow account and use the money to finance the purchase of goods.

The other schemes, with the exception of Romania, followed basically the same structure of the Brazilian scheme. These deals already negotiated estimated to involve the exchange of \$1.85 billion of Nigerian crude oil, for industrial raw materials, chemicals, intermediate products, spare parts, C.K.D. parts for motor vehicle assembly plants, equipment, food and consumer goods.⁵⁹ The estimated 200,000

barrels of oil per day in the countertrade deals were presumed to fall within Nigeria's OPEC quota, although this has not been explicitly stated or proved. The agreement with France involved the SCOA trading house and the ELF Aquitaine Oil Company, with International Bank for West Africa as the escrow account operator. It was signed in April 1985 and the deal contained a 6 percent effective oil price discount. It quickly became inoperative when world prices started to slip in mid-1985 and after only a few shipments of oil ELF Aquatiane served notice in July that it was pulling out of the deal.

Another agreement with Fiat and Agrip of Italy for 40,000 barrels per day exchange was reached in May 1985, but it was never fully implemented. The countertrade deal with Austria's Voest Alpine did work for a while but created severe financial difficulties for the Austrian Company, and controversy within the international committee set up to administer the countertrade.

The Italian deal was handled by two Italian firms, Fiat and ENI, and was worth about \$357 million. It involved the exchange of 40,000 barrels per day of Nigerian oil in return for automobile assembly kits and other industrial raw materials. The Nigerian government adopted another arrangement with Romania in which oil debts to Nigeria were to be settled by supplying fertilizer, pharmaceuticals, building materials and other equipment worth \$100 million.

This type of countertrade was referred to as bilateral trading exchange.

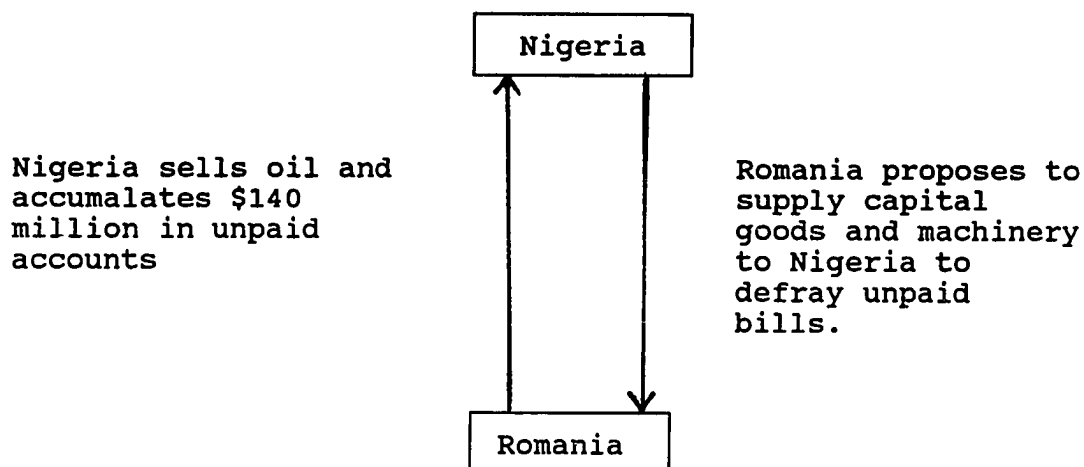
This type of countertrade is usually governed by a trading agreement between the two countries to foster mutual trade and increase the volume and value of traded goods and services between the partners, with a view to achieving a balance of trade between them over time. According to Idemudia and his companions, "the objective is essentially to ensure a quid pro quo for imports. If Country A must continue to import from country B, the latter must reciprocate in order to support A's import finance capacity.⁶⁰ In the face of a recurrent trade deficit, Nigeria considered this form of countertrade as a way of closing the existing trade gap and/or maintaining existing export markets for its product." Therefore the Romania-Nigeria agreement is basically a bilateral trading species of countertrade. (See Figure 5:2)

There was a severe split within Buhari's administration with regard to how best to implement the program of countertrade. David-West said that the countertrade committee set up by the Buhari government did not operate properly and that he, as oil minister, was not consulted about the oil that was being committed to the trade:

It took 200 pages of communication to prove any point. At one stage I was called anti-government and a saboteur by a colleague.⁶¹

Some of the countertrade agreements were rendered inoperative because of delays in signing the oil lifting agreements. This

Figure 5:2

The Nigeria-Romania Bilateral Trading Agreement

Source: Report of Aboyade Committee of Investigation on Countertrade, November 18, 1985, p. 19.

was partly due to disagreement between the oil minister and his colleagues on the choice of the company to be nominated for the lifting of crude oil. He cited the issue of the Expoma Company which caused a lot of division within the interministerial committee when it was approved by that body as both the operating and the oil lifting company. Expoma was later found to be a small company with a paid-up capital of \$5,000 and hence was incapable of lifting the magnitude of

crude oil, estimated at about \$200 million. The former head of state, General Buhari, upheld his judgment and the issue distanced him from his colleagues in the interministerial committee.⁶²

Tam David-West also admitted in the interview that he deliberately missed some of the interministerial meetings because he was not informed about the agenda beforehand and sometimes sent non-cabinet officers in NNPC to represent him - an action which was resented by his colleagues.

Let it be on record that I attended that committee (interministerial committee) meeting only once. I was not going to attend it anymore because I cannot attend a meeting without being told of the agenda, without being informed at least two days ahead of time. You don't phone me at eight o'clock to attend a meeting that you will be holding at ten o'clock.⁶³

Despite the keen interest shown by Nigeria's potential trading partners, including Canada, the U.K. and other Third World countries, the controversies associated with countertrade and the sudden overthrow of the Buhari government in late 1985 prevented the continuation of this trading practice. The signing in January 1986 of new agreements with the joint-venture oil-producing companies in Nigeria marked a firm shift by the Babangida regime away from the countertrade stance.

The Decision-Makers' Reassessment of
Nigeria's Chosen Options

The Nigerian policy behavior seems to have been guided by short-term revenue maximization rather than long-term strategy. There seems to have been consensus among Nigerian decision-makers that Nigeria's unilateral oil price-cut decisions outside the OPEC guidelines were clearly manifestations of its determination to be market responsive. According to Michael Olorunfemi, "the fact that OPEC eventually had to fall in line with Nigeria's decision was an indication that the country's actions were based on market realities in anticipation of OPEC collective decision."⁶⁴ The immediate reaction from other OPEC members to the first unilateral price cut was muted and although they were likely to decide on price cuts of their own, none of the members rushed to condemn Nigeria, which suggests an understanding and perhaps sympathy for the special circumstances that led to the decisions.

Hakeen Bello-Osagie, the special assistant to the presidential advisor on petroleum and energy during Shagari's regime, evaluated Nigeria's action of unilaterally cutting its oil prices. He felt it definitely produced a beneficial effect on OPEC: it eased the growing inflexibility in the OPEC decision-making process and pushed the organization toward greater cohesion and unity of purpose.⁶⁵ According to him, for months before the Nigerian action, the problem in OPEC was that it was beginning to see its prestige tied up to

its ability to rigidly maintain the price structure it fixes without any serious consideration of the effects of its decisions on individual members of the organization.

The then Secretary General of OPEC Marc Nan Nguema of Nigeria expressed similar views that Nigeria's price cuts would usher in a more active consideration of oil pricing and production policy. Nigeria's initiative therefore created a strong incentive for other OPEC members to rally around and deal realistically with the controversial questions of price revision and production policy. For some time OPEC adopted a pricing strategy that could defend itself, without requiring too much sacrifice of its members -- a strategy that was flexible enough to be able to respond to both economic and technical change in the oil market.⁶⁶

After Babangida's 1985 coup d'etat, the Nigerian government set up the Aboyade Committee of Investigation on Countertrade and assigned to it the job of assessing the achievements of the interministerial committee on countertrade as a strategy for the nation's economic revival and identifying any defects associated therewith and making recommendations. The Babangida administration accepted the findings and recommendations of the Aboyade Committee report.⁶⁷

The Aboyade Committee states that lack of preparedness for the intricacies of the scheme on the part of interministerial committees prevented the country from optimizing the benefits which could accrue from countertrade.

The Committee maintained that a comprehensive study of the politics of oil pricing and the implications of the countertrade in all its ramifications ought to have preceded any firm decision to countertrade using petroleum as the export commodity. In the absence of such initial homework, interministerial arguments and disagreements were a regular feature of their meetings, which affected the ensuing negotiations and implementation. As the Oil Minister said,

This committee was formed out of crisis because somebody just felt that the way we were going was bad, that we must have a coordinated structure. People who wanted to do it on their own still went ahead.⁶⁸

Countertrade is a phenomenon in the international trade which Nigeria cannot ignore, but the nation's present form of policy formulation and implementation denies it the ability to effectively go into the practice and reap its full benefits. Nigeria, according to Aboyade's report, did not appear yet at that time to have the political willpower to take such a decisive policy in the face of its fragile economy and the hostile attitude of the Western industrial nations.⁶⁹ He maintained that a policy of such fundamental importance should be deliberate, decisive and sustained. but in the circumstances of 1984, the country appeared to have only drifted into countertrade with a Brazilian company (Cotia), without proper preparation.⁷⁰

The Aboyade Committee of Investigation on Countertrade recommended the continuation of countertrade, but recommended a more coherent policy formulation and a revamped kind of

machinery to handle countertrade in order to reap its full benefits.⁷¹ The Committee recommended the setting up of a committee to review the existing agreements on countertrade.⁷² In the 1986 budget, General Babangida confirmed that a reorganized system of countertrade would be actively promoted as a short-term measure toward national economic recovery and pursued "on a selective basis for both oil and non-oil international trade and payment."⁷³

The other recommendations of the Aboyade Committee included the need within the bureaucracy for an analytical center on countertrade, not only for the purpose of evaluating and recommending ways and means of enabling the country to cope effectively with the modern complexity of countertrade, but also to perform the following specific functions:

- 1) Act as the center of expertise for legal, commercial, economic and financial information on oil and other commodities of international exchange transactions.
- 2) Conduct cost/benefit studies on countertrade schemes within and outside Nigeria, as well as carry out postmortem evaluations of existing countertrade schemes in the country.
- 3) Develop and enhance professional negotiating skills.
- 4) Commission specialist studies and organize a hearing on issues related to citing and project-related, development-oriented countertrade possibilities,

particularly those relating to private sector proposals.

- 5) Coordinate the involvement of embassies and high commissions in the search for opportunities, particularly in non-oil exports from Nigeria.

Such an analytical resource center may be designed as the Bureau of Countertrade. Notwithstanding the existence of an External Trade Division in the Ministry of Trade, it is suggested that the Secretariat for the Bureau of Countertrade should be housed in the Ministry of National Planning. The ministry is in a neutral position to mediate between various ministries and capable of taking an overview of both the short and long-term interests of the nation. Members of the Bureau of Countertrade should consist of a representative of each of the following ministries and organizations:⁷⁴

- 1) Ministry of National Planning (in the chair)
- 2) NNPC/Ministry of Petroleum Resources
- 3) Ministry of Commerce and Industries
- 4) Ministry of Finance
- 5) Ministry of Justice
- 6) Central Bank of Nigeria
- 7) Nigerian National Shipping Line
- 8) Two members of the organized private sector
- 9) A reputed economist from the university system and an ad hoc member of other interested ministries and private interests.

The council should be made to ensure that countertrade deals are not approved in isolation from the broad overview of various national interests or to the detriment of (or in conflict with) decisions already taken or proposed by the federal government with regard to larger policy issues. By its nature, countertrade should essentially be a short-term device and should not be a permanent feature of the nation's trade policy. This is why each agreement should be for only one year, subject to renewal, to modify the scope and nature of the agreements. Countertrade should be used to finance development-oriented projects in the strategic sector of the economy, which result in the establishment of new projects, the transfer of technology, capital investments, generation of employment and manpower training.⁷⁵ Such projects could include petrochemical plants, oil refineries, liquified natural gas, etc. Countertrade on matters which straddle several ministries and government agencies should be properly deliberated by the council.

Extensive countertrade deals are not an alternative to long-term policy instruments to correct the structural problems of the Nigerian economy. Countertrade strategy must be recognized as being no more than a short-term palliative in that it cannot fundamentally restructure the Nigeria economy. For if the Nigeria economy is to be fundamentally restructured, countertrade must be a complement to other economic measures. According to the Aboyade report, great

attention should be given to the need for more radical budgetary policies and programs, a restraining monetary policy, sharp reductions in government expenditures, discouragement of luxury consumption, elimination of unearned incomes through patronage, enhancement of domestic savings and capital formation incentives, waste elimination, cost reduction, encouragement of non-oil exports, reversal of the urban-biased development strategy and a general clampdown on the long-held historical privileges and prerequisites enjoyed by a wide spectrum of the Nigerian elites.⁷⁶

However, this is not to say that countertrade is neither useful nor necessary in the short to medium run for Nigeria's economic revival and development process. Rather, it is to put usefulness and necessity in the proper perspective of overall magnitude and policy instruments. From this broad perspective, countertrade policy as a supplementary instrument can be harnessed in the following ways:

- 1) For so long as there is any shortfall in the Nigerian sale of oil below the OPEC production ceiling for the country, the gap in prospective export sales can be filled through countertrade oil lifting.
- 2) Beyond the OPEC production ceiling, it is possible to argue successfully with OPEC that Nigeria needs, under existing trading practices (e.g., the netback valuation), an additional 130,000 to 200,000 barrels average per day for the nation's economic survival and

reconstruction. This additionally can be used for selective servicing of external debts as instruments of a new economic-financial diplomacy with targeted foreign countries or trading regions of the world.⁷⁷

- 3) Non-oil products can be encouraged for underwriting newer countertrade deals. The possibilities of gas embodied in processed iron-ore, coal, bolumbite and some manufactured products, e.g., beer, can be included in a new trading relationship in the ECOWAS region as a deliberate policy of diversifying the country's export base.

In terms of countertrade, the decision-makers' evaluation reflected the controversies and internal power struggle which characterized the interministerial committee during the implementation of the program. While some of the decision-makers like Tam David-West were very critical in regard to the execution of the countertrade, others were more sympathetic and tried to rationalize why some of the trading practices were undertaken at the time. Dr. Mahmud Tukur, the Minister for Commerce and Industries, said, "The countertrade was a mere administrative device calculated to provide additional resources within the framework of government policy of self-reliance and unwillingness to accept IMF conditionalities as they stood."⁷⁸ The former Minister of Petroleum and Energy, Professor Tam David-West, raised some pertinent questions concerning the evaluation of countertrade

in his famous Gold Medal Lecture delivered in Lagos on August 16, 1985.⁷⁹

- 1) Should Nigeria go into countertrade because other OPEC countries have done so at one time or another?
- 2) Should countertrade be within OPEC quotas? If outside the quotas, what are the implications for the market and the price of crude?
- 3) Should countertrade be a pulse exercise or a sustained practice?
- 4) Should the oil market collapse? Do the other countertraders have other avenues for their nations' survival?
- 5) How much stake do the countertrade customers have in the oil market?

Even though the Nigerian oil minister expressed certain reservations about the implementation of the program, the Buhari administration welcomed countertrade as a strategy of national survival. According to him,

I've never been known to be opposed to countertrade in principle. I have been opposed to the way it was implemented. It was a strategy for national survival.⁸⁰

He held that the primary benefit of the countertrade was that it permitted the partners to avoid some of the financial constraints which restrict trade between them. The most important aspect was that industrial raw materials, which were in short supply due to a fall in Nigerian foreign exchange receipts, were made available. The industries were

once again put back to work, creating employment and new wealth. Professor Tam David-West assessed the benefits of countertrade in these terms:

Revenues have improved. Between 1983 and 1984 our oil revenues rose more than \$1 billion. Unemployment is down, but not as much as we want. Industries are not opening as fast as we want. Inflation is down but not as much as we want. And the constraints were spare parts. So we went into countertrade to get parts for industries.⁸¹

A formal OPEC quota system has been in existence since 1982 which assigned 1.3 million barrels per day to Nigeria. the Nigerian government never clearly established whether the crude oil to be lifted under countertrade deals was part of or outside its OPEC quota. "People had misconceptions. They thought the oil we used for countertrade was outside OPEC quota. The oil we're using was part of our quota and my prediction came true." (See Table 5:3)⁸² But while Tam David-West claimed that the Nigerian government had no difficulty in moving its crude oil before it started countertrade, he couldn't give a satisfactory answer for not taking money for oil and buying spare parts with it. The following are excerpts from the minister's answers to questions put to him during an interview with Petroleum Intelligence Weekly, June 10, 1985:

Q. To take your logic on countertrade -- if it is a strategy for national survival, does it mean you are doing it to move crude oil you could not otherwise move?

Table 5:3
Countertrade Crude Oil Disposition:
Surplus/Deficit Over Ouota
 (Million Barrels)

<u>Month</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>
January	-13.09	-.061	-3.20
February	-17.02	7.77	2.83
March	-11.77	-3.78	12.44
April	-5.77	-3.86	4.07
May	-10.16	-6.76	-3.64
June	7.50	4.86	-6.32
July	-10.03	-8.42	-11.52
August	-3.76	-5.76	
September	-3.74	-2.20	
October	-4.86	1.45	
November	-5.97	2.33	
December	-1.40	8.78	

Source: Data supplied to Aboyade Countertrade Committee
 by NNPC, Nov. 18, 1985, p. 171.

A. No, no. That is a conventional analysis that is wrong. It says that because the customer knows you are in a difficult position, he can ask you for a discount knowing you cannot bluff him and you are begging him to move your oil. That's the normal position. But in the case of Nigeria, and I state this unequivocally and in bold letters and remain to be challenged: We haven't had any difficulty in moving our oil before we started countertrade. We had people on the waiting list to get oil. I had people on the waiting list to get oil. I had 350 customers -- that record is here -- with applications.

Q. Let me push you still further on this. If you have, as you claim, refiners and traders lining up for your oil, why don't you give them the oil, take the money and buy the spare parts?

A. You sound as if you read one of my research papers. When you are making certain decisions, things are happening around you that look so attractive. But with hindsight I must admit: what you are saying is true. An alternative

might have been to get the joint-venture partners and other customers to increase their offtakes.

If this second model had existed at the time -- it has since emerged in our thinking -- then I felt sure we would have chosen it. I cannot be too sure of events in the next four months. The government is still looking at the whole question and will come to a decision. Fortunately, none of these are firm contracts. Maybe they will last for a period and then they'll be finished. I would like to believe that if the government decides to continue countertrade -- and I am not saying it will or won't -- in a second phase we shall be "wiser." I am sure we'll find other alternatives and options that may be an improvement on what we have.

The ministers differ in their evaluation of whether countertrade deals should have been tied with capital development projects such as steel refineries or petrochemicals, which are considered essential to the future long-term economic development of the country, or used for short-term consumer goods (refined sugar, CKD components, etc.) bought from the trading partners. According to David-West:

You must use countertrade on selective projects that will make an impact on the economy. Strictly selective, like a project that gives employment that spin-off effect to the economy. Do not use it for frivolities....If you want to use oil to build a refinery, petrochemical, LNG or industry I will support it because it will employ Nigerians across the board. The spin-off effect will be universal in the country.⁸³

But Dr. Tukur, the Minister of Commerce and Industries, argued that whatever oil countertrade was used for was a matter of judgment for the interministerial committee:

Whether the goods included in the trade agreement reflected our true national needs or not is a matter of judgement. The interministerial committee went through the proposed list and picked those which in its judgement were badly needed by the economy at the time. If fishing trawlers and gypsum were included in the Brazilian list, they must form a very peripheral part which were suggested by a specific company or organization.⁸⁴

While some policy-makers still preferred the option that Nigeria must survive before it could develop, others have maintained that survival can only be meaningful if it can be sustained through an appropriate development plan.

While the Nigerian crudes operated within the framework of generally weak market conditions, the reaction of the Nigerian government was not automatic but based on the perception of the opportunities and constraints existing in the global oil market. The choice of final reaction of the government was an outcome of their deliberation of advocated policy options towards OPEC in terms of their relative effectiveness and potential cost to their constituencies. In this situation, Nigerian decision-makers viewed the opportunities as being unilateral adjustment to the market condition in cooperation with foreign oil multinationals at the expense of OPEC.

FOOTNOTES

1. See "A Government White Paper," published in June 1983. This paper said that Nigeria should remain in OPEC, though it recommended a "more aggressive marketing policy within the OPEC framework." Also see Platt Oil Gram News.

2. See Nigeria Tribune, October 1982, 3.

3. G. O. Nwankwo, Nigeria and OPEC: To Be or Not to Be?, 61.

4. Nigerian Tribune, October 1982, 3; also Financial Times, London, 4, March 1983, 4.

5. Olu Akinmoldeun, "OPEC and International Trade -- Countertrade a Threat?", in Daily Times, Lagos, Nigeria, 22 May 1985, 3.

6. See Memorandum submitted by NNCIMA to President Shagari in 1981.

7. Olorunfemi, "Oil and Power Relationships," 8.

8. Marinho, 5.

9. David-West, "Oil Politics and Development in Nigeria," 25-26.

10. Olorunfemi, "Nigeria and OPEC, 21.

11. Ibid.

12. Ibid.

13. Ibid.

14. E. Ate Bassey, "Nigeria Needs a New Oil Strategy," in Nigerian Forum, March-April 1984, 57.

15. Ibid.

16. Ibid.

17. David-West, Oil Minister's Interview with African Economic Digest, April 1984.
18. Ibid.
19. Olorunfemi, "Nigeria and OPEC," 21-3.
20. Ibid.
21. Taiwo Idemudia and Mu'Azu Abdul-Malik, "Nigerian Oil: The Case for Countertrade," in OPEC Bulletin, Vol. XVII, No. 1, February 1986, 76.
22. Reginald Ibe, "OPEC and Nigeria: Which Came First?", in Vanguard, 15 October 1984.
23. See Nigeria Guardian, 7 August 1985. Nigeria's Head of State Buhari notifies U.A.E. that Nigeria will work for OPEC unity and honor.
24. Ibid.
25. David-West, "Oil Politics and Development in Nigeria," 23.
26. Olorunfemi, "Nigeria and OPEC," 20-1.
27. Ibid.
28. Marinho, 5.
29. West Africa Magazine, 29 October 1984.
30. E. Osagie, "Nigerian Economy: A Survey," a paper delivered at the conference, Nigerian Foreign Policy and Economic Relations, 6-7 August 1987, 25.
31. Nigerian Forum, March-April 1984, 87.
32. Olorunfemi, "Management of Petroleum Resources in the Fifth National Plan 1986-1990," a paper presented at the Annual Conference of the Nigerian Economic Society, 1987, 17.
33. See editorial comment, "The White Paper on Countertrade," in The Nigerian Guardian, 9 December 1985, 8. It was reported that Professor David-West wrote a memorandum denouncing the implementation of countertrade and circulated it among some members of the Supreme Military Council, although in public he supported the policy.

34. Petroleum Intelligence Weekly, 10 May 1985, 1; "Nigeria First Policy of New Regime Could Test OPEC," in Petroleum Intelligence Weekly, Vol. 23, No. 4, New York, January 1984, 1; and "Nigeria's Own Interest Comes before OPEC," in Platt's Oilgram News Service, Vol. 62, No. 204, New York, 22 October 1984, 2-3.

35. Petroleum Intelligence Weekly, 10 June 1985, 9-10.

36. New Nigeria, 2.

37. Interview with M. S. Adigun (Minister of National Planning and Chairman of the Interminister Committee) and Dr. Soley (Minister of Finance and member of the Interminister Committee), during the summer of 1987.

38. Countertrade is defined here as "a form reciprocal transaction between parties in different countries in which each side accepts to take products from the other in exchange for goods supplied.

39. Platts Oilgram News Service, Vol. 63, No. 143, 25 July 1985, 3.

40. See Petroleum Intelligence Weekly, 10 June 1985, 9.

41. See interview with Major-General Muhammad Buhari in Nigerian Vanguard, 26 July 1985, 19.

42. E. Ate Bassey, "Nigeria Needs a New Oil Strategy," in Nigerian Forum, Vol. 4., March - April 1984, 81.

43. See West Africa Magazine, 21 March 1983, 29. Also based on an interview with Professor E. C. Edozien, The Presidential Economic Advisor, in the summer of 1987.

44. West Africa Editorial, 25 February 1983, 527.

45. West Africa Magazine, No. 3425, 21 March 1983, 29.

46. New Nigeria Newspaper, No. 3425, 21 March 1983, 29.

47. The Nigeria Guardian, 1 August 1984, 7.

48. Time Magazine, 27 October 1984, 68.

49. Interview with Professor Tam David-West in September 1987 in New Jersey.

50. London Financial Times, 4 February 1985, 3.

51. Ibid.

52. The Guardian, 26 October 1984.

53. Cited from The Financial Times, 31 January 1985, 48.

54. Idemudia Taiwo and Mu'Azu Abdul-Malik, "Nigerian Oil, the Case for Countertrade," in OPEC Bulletin, Vol. XVII, No. 1, February 1986, 27. See for example, Banks, "The Economics and Politics of Countertrade," in World Economy, 6 June 1983. See also Michael Imeson, "Variety of Countertrade," in The Executive World, March 1985. Michael Imeson identified at least six variants of countertrade: Countertrade is used here as a generic term which covers a whole variety of transactions ranging from simple barter deals to counterpurchases, to efforts to switch trading deals. These various manifestations of countertrade differ in detail but have the common feature in that they involve a reciprocal exchange of goods between participating countries or companies. From all indications, the Nigerian government was engaged in the second variant above -- counterpurchase.

55. See Report of Aboyade Committee of Investigation into Countertrade, 13 November 1985, 86-87. The Aboyade Committee of Investigation into Countertrade was set up and assigned with the job of assessing the achievement of the countertrade as a strategy for the nation's economic revival and identifying any defects associated therewith and to make recommendations thereon. Members of the Aboyade Committee were Professor Ojatonji Aboyade (Chairman), Dr. Chris Chima (Secretary), H. I. Alle, Mr. Rasheed Gbadamosi, Miss. B. I. Erokwu, and Colonel L. A. Uwumaregie.

56. Ibid.

57. Ibid., 88.

58. Akindele, "Nigerian External Economic Relations 1960-1985," in Afrika Spectrum, Vol. 21, 1986, 21.

59. See Newswatch, 15 July 1985 and UBA Monthly Business and Economic Digest, 8 May 1985, 5.

60. Idemudia Taiwo and Mu'Azu Abdul-Malik, 30.

61. See editorial comment, "The White Paper on Countertrade," 8. It was reported that Professor David-West wrote a memorandum denouncing the implementation of countertrade and circulated it among some members of the Supreme Military Council, although in public he supported the policy.

62. Ibid.

63. Ibid.

64. Olorunfemi, "Management of Petroleum Resources in the Fifth National Plan 1986-1990," 17.

65. Interview with Hakeen Bello-Osagie during the summer of 1987.

66. Ibid.

67. White paper on Aboyade Committee of Investigation into Countertrade, 13 November 1985.

68. Interview with David-West in New Nigeria, 7 January 1986, 2.

69. Ibid.

70. Ibid.

71. See Report on Aboyade Committee of Investigation on Countertrade, 114-7.

72. See Report on the Committee to Review the Countertrade Agreements. This report was a follow-up to the investigation that was to review the Countertrade Agreements with a view to ensuring that the interests of Nigeria were adequately protected particularly in the quantity or aggregate of the goods to be imported under the scheme. Members of the Review Committee were: Mr. J. K. Randle (Chairman); Alhaji Bashiri; Miss. Ama Ogan; Wing Commander, I. K. Ikpeazu; Mr. A. Oyakire; and Miss. Erokwu (Secretary).

73. See Aboyade Committee of Investigation on Countertrade, 31.

74. Ibid., 148.

75. Ibid, 125.

76. Ibid, 126.

77. Ibid.

78. Dr. Mahmud Tukur, "Committee to Review Countertrade Agreement," 218.

79. Tam David-West, "Perspectives on the Nigerian Oil Industry," in Gold Medal Lectures, Holiday Inn, Lagos, Nigeria, 16 August 1985, 41-2.

80. New Nigeria, 2.

81. Petroleum Intelligence Weekly, 10 June 1985, 9.

82. New Nigeria, 2.

83. Ibid.

84. Tukur, 218.

CHAPTER VI

CONCLUSION

Summary of the Analysis of Nigeria's Policy Behavior

This study has attempted to analyze Nigeria's policy behavior toward OPEC within the context of the changing environment of the world oil market. The primary objective was to identify the determinants of Nigeria's behavior in terms of its responsiveness to the changing oil market conditions. Nigerian decision-makers' perceptions of Nigeria's national interest constitute the basis for Nigeria's policy behavior. Since 1981, the Nigerian decision-makers have perceived the existence of a glut in the world oil market that has threatened the economic well-being of the petroleum exporting countries. This changed oil market condition has affected OPEC's ability to control oil production and pricing policy as its role has become marginal in the face of increasing competition from non-OPEC producers. OPEC had to resort to imposing a production ceiling on its members as the only way to maintain market stability and prevent the total collapse of its official pricing structure. The unstable oil market situation and OPEC's restrictive policy have explicitly

affected the position of Nigeria's crude oil in the world oil market.

The immediate and crucial problem confronted by the Nigerian decision-makers was how to stem the decline in oil revenues and production in the face of the North Sea competition through discount prices in the shrinking world oil market. In 1979, for example, Nigeria was producing around 2.3 million barrels per day and the North Sea 1.5 million barrels per day. In 1983, Nigeria was producing around 1.3 million barrels per day -- a complete reversal of position. The Nigerian decision-makers interpreted the country's economic problems in terms of reduced revenues from petroleum exports as a result of the declining trend in prices and the restrictive OPEC quota system. Consequently, it has become difficult to obtain the necessary foreign exchange earnings for essential raw materials and vital spare parts for use in local industries. In the ensuing debate, three broad policy positions emerged -- those who opposed Nigeria's continuous membership in OPEC, those who were supportive of OPEC's policy and those who wanted to pursue innovative market strategies within the framework of OPEC membership.

The adverse effects of the unexpected sharp fall in oil revenues on national budgets and development programs led the Nigerian government to adopt policy actions inconsistent with OPEC's pricing and production policy. The achievement of Nigerian national objectives as perceived by Nigerian

decision-makers required the maximization of oil revenues. Therefore, the unilateral reduction in oil prices in 1983 and 1984 reflected the determination of the Nigerian government to assert the primacy of its national interest vis-a-vis OPEC obligations. In 1984 -- a particularly difficult year because of the closure of factories and widespread underutilization due to lack of imported raw materials and spare parts -- the Buhari administration decided to countertrade Nigerian crude oil, in order to procure supplementary goods from abroad. In effect, oil countertrade was an administrative response to aggravated trade and payment difficulties and for cushioning the adverse effects of the oil glut.

Evaluation of Nigeria's Policy Behavior

The economic and technical conditions in the international oil market essentially determine the structure of demand and supply patterns as well as the relative values of a type of crude vis-a-vis other internationally traded crudes. But owing to the sensitivity of the oil market, the perception of changes in the market's development has become as important a factor in oil price variations as changes in supply and demand. Such factors as market short-term speculation, sensationalist media reports, disinformation or real stock levels have played a sizeable role recently in distorting the national balance of supply and demand.¹ Initially, there seems to be a misperception on the part of

the Nigerian decision-makers that the oil glut was a short-term aberration in the oil market rather than representative of a profound extended change comparable to other structural changes in the patterns of the world oil market. The absence of a proper coordination of production among OPEC members, coupled with the inability of the organization to judge and determine the extent of the glut in the market, had been responsible for the disappearance of surplus in the market. Lawrence Amu observed this misperception on the part of OPEC economists:

The inability of OPEC economists to recognize this common principle of supply and demand has eroded oil share in the energy market. The present OPEC attempt to freeze the prices of 1983 is a step in that direction, but one knows that compared with other fuels, e.g., coal, gas and even uranium or nuclear, oil is currently still overpriced.²

But there was ample evidence to suggest that the international petroleum market was again undergoing another fundamental structural change with serious implications for the future of the global oil market. Since 1981, OPEC has failed in its efforts to manage and coordinate worldwide production and supply in the world oil market. It has failed in its effort to coopt the non-OPEC exporters and induce cooperation with multinational oil companies with whom it had severed its ties through the trading policies of the 1970's. OPEC accounted for nearly 64 percent of the world oil supplies outside the Communist world, but in 1983 its market share had fallen to less than 40 percent. OPEC crude production fell

from a peak of 31 million barrels per day in 1979 to roughly 16 million barrels per day in 1983.³

The role of OPEC in the market became essentially a defensive one, to prevent the market from collapsing and the organization from disintegrating under the pressure of the glut. Saudi Arabia's role as a so-called swing producer was seriously undermined as it witnessed a drastic reduction in oil production to little more than 2 million barrels per day, less than half what it was allowed under the OPEC accord. OPEC's thirteen member countries became net borrowers in order to meet their economic and social obligations. OPEC's annual cash flow declined abruptly. In 1980, OPEC earned \$324 billion (more than double the \$158 billion earned in 1978), but by 1983 its revenues had fallen to \$150 billion and most of the thirteen OPEC countries recorded a deficit in their balance of payments.⁴

The market position and competitiveness of Nigerian crudes are sensitive to the availability of the other crudes in the world market. Under normal market conditions, the equilibrium price differentials for Nigerian crudes relative to other comparable crudes are consistent with the market assessment of the crudes. Nigerian crudes are priced at the same level with Algerian, Libyan, North Sea, and other sweet crudes. Given such perfect substitution between Nigerian crudes and other sweet crudes, it means that any policy arrived at either in terms of maintaining or increasing their

market share would have to be closely related to the market position of the other crudes which have access to the same market. However, the apparent actual price differentials for some periods partly reflect the exigencies of the world petroleum market, such as reactions of oil buyers to political and supply uncertainties. Under normal market conditions, devoid of actual or expected supply disruptions, the price differentials are the same for Nigerian crudes as for all African low-sulphur crudes.

The increasing conversion and desulphurization capacities intended to handle a great volume of heavy crudes underscore the importance of continuous price adjustments, particularly in relation to heavy crudes. For example, U.S. refiners are increasingly able to handle heavy crudes, which will tend to make the U.S. oil market much more sensitive to price differentials between light and heavy crudes. Mexican crudes, which are heavier than Nigerian crudes, are proving extremely popular as competitively priced crudes in the U.S. market. It should be noted that investment in fuel oil desulphurization units is justified on the basis of the differential between low-sulphur light and heavy crude oil costs. And once they have been shifted, the economies of operating them will be based on heavy crudes plus marginal operating cost versus the alternative of light crude cost.

Any explanation of the Nigerian government's reaction to the oil glut must also take into account both the way in

which the problem was defined by Nigerian decision-makers and policy responses that were perceived as possible. Given the dependent nature of the Nigerian political economy and the ideological and material interests of the ruling coalition, it was inevitable that decision-makers interpreted the country's economic problems in terms of declining oil prices and reduced oil revenues. It should be pointed out here that at best these above factors explain only a part of the complex nature of the nation's economic problems. Surely there are more crucial problems endemic to the country's economic structure which have combined to impede the course of natural development and exacerbate the misfortunes arising from declining oil prices and revenues from petroleum export. According to Claude Ake,

Our economy is still oriented outwards and locked in dependence on the West....Our ruling class appears to be largely confined to the role of ensuring the existence of the political condition of accumulation.⁵

The oil glut conclusively demonstrates that Nigeria's high dependence on oil for the lion's share of its export earnings ultimately put it at the mercy of exogenous developments in the international oil market with serious domestic and foreign policy implications. The former managing director of NNPC, L. Amu, warned about this situation for the future of the country:

...it is hazardous for a country to rely on a single commodity to this extent because any reversal in the fortunes of this commodity will autonomically adversely affect the country's development programs. Besides, a country that depends on a single product is also highly

susceptible to political blackmail. The situation would be worse for a high-cost economy like ours, where the industrial sector cannot be relied upon to produce goods at competitive export prices to generate foreign exchange and where administrative machinery calculated to check excesses in government expenditures is very slow and almost ineffective.⁶

Tam David-West, the former oil minister, identified false priorities and misplaced values, among others, as some of the failures of the economy to reap adequate benefits from oil production. According to him, the economic difficulties which Nigeria finds itself in are:

The necessary price we have to pay for our pathetic planlessness, our lack of vision, avarice, our vanity, our false conception and perception of what constitutes a good life.⁷

Arthur Nwankwo also saw corruption, neglect of agriculture and manufactures as the root of the nation's problems.

Corruption has siphoned off the economic surplus. In 1980, \$5.6 billion was illogically stolen from the Nigerian National Petroleum Corporation. A haphazard enquiry set up by the President was not able to trace the funds. In search of quick wealth, millions of peasants have left the land for overcrowded cities, such as Lagos, Ibadan, Enugu, Kaduna and Port Harcourt. The influx has damaged Nigerian agriculture and made constant food importation a paramount necessity. Nigerian manufacturing has not shown any real growth since the advent of the oil boom.⁸

Another serious problem with the Nigerian oil industry is that it has continued to rely on foreign technology and expertise. The implication of this is that decades after the inception of the oil industry, the development of appropriate scientific and technological skills by Nigerians to take over the country's oil production activities has been unrealized.

Despite the government's participation in the oil industry, the Nigerian economy is still open to foreign manipulation because of the dominant role of oil multinationals in petroleum technology, the production process and marketing of petroleum products. Consequently, Nigeria continues to spend a vast proportion of its foreign exchange earnings on the employment of expatriate skills and foreign technology. This state of continuing technological dependence on outside forces for Nigeria's main source of revenue constitutes an obstacle not only to the nation's progress, but also to Nigerian-OPEC relations. Michael Olorunfemi made a similar point when he declared:

The country has not developed the capacity to manage its petroleum resources by itself, all the crude oil is still produced by foreign operators....The key management roles are performed largely by foreigners. Above all, an organizational structure has not been evolved to enable the petroleum resources to be properly integrated into the Nigerian economy.⁹

Incomplete information about the oil market and the impact of policy further exacerbated the problem of Nigerian policy-makers in correctly assessing the oil market situation. As OPEC became a marginal supplier in the world oil market with a 31 percent share, the spot market began to play an increasingly important role in the determination of oil market prices. Unlike the 1970's, when the spot market handled less than 5 percent of the international oil market and spot prices fell consistently lower than "contract prices," in the early 1980's the spot market began to account for between 25 to 40

percent of total oil trading.¹⁰ As the role of the spot market forces became more influential, oil prices assumed an even more volatile course, thereby creating instability which was gradually undermining the OPEC price structure. For example, the British abolition of the BNOC and its move to adopt a more spot market-related pricing system further complicated Nigeria's problems in the oil market and its ability to abide by OPEC decisions.

The economic situation in the country seems to have given no time for a more rational assessment of alternative positions which policy-makers could have taken. Nigeria's unilateral policy decisions of joining non-OPEC producers to cut oil prices could therefore be regarded as a limited victory, in that the price cut was important more for the point it made than for the relief it brought to the country's economic troubles. Indeed, since it retained the OPEC production quota, the unilateral price cut did not lead to any significantly increased share in the world market, which was the basic aim of the government action. Furthermore, the Nigerian government failed to realize that the oil market had shifted from a sellers' to buyers' market and that OPEC was losing its ability to control the world oil market. According to Christopher Flavin, the evolutionary process in the oil industry had moved to a new stage:

Once controlled by a cartel of multinational oil companies and then by OPEC itself, the oil market today is increasingly competitive and shaped by market forces more than governmental or corporate decisions.¹¹

An evaluation of oil countertrade policy and its limits must take the following factors into consideration: first, the nation's relationship with OPEC and the stability of the oil market; second, the political economy of countertrade as manifested in its inefficiency as an economic measure when subjected to a cost-benefit analysis, both in respect to the terms of trade with other trading partners and equity (or lack of it) in relation to beneficiaries of the measure.¹² Countertrade has been used as a short-term instrument of competition in the world oil market by most OPEC member countries. OPEC's attitude to oil countertrade arrangements has been to discourage this trading practice because it is incompatible with the OPEC price structure and is difficult to police. At its 1984 Taifi meeting in Saudi Arabia, oil countertrade was identified by OPEC members as the major cause of the weakened market situation. They therefore expressed a desire to see it phased out.

Available evidence indicates that Nigeria was not the first OPEC country to propose countertrade nor was it the first country to engage in countertrading. Saudi Arabia, Iran, Iraq, Indonesia and Venezuela had, at various times, countertraded with industrialized countries such as the United States, France, West Germany and the U.S.S.R.¹³ (See Table 6:1). A countertrade was reported to have been contracted between Saudi Arabia and the U.S.A. in July 1984,

under which Saudi Arabia was to supply 34 million barrels of crude oil in exchange for ten Boeing 747 transportation aircraft.¹⁴ While it is true that countertrade transactions are nothing new in the world market or even in OPEC, Nigeria's entry into the business as a strategy of national survival perhaps introduced a new dimension to it and thus aroused unnecessary attention within OPEC.

Oil countertrade tends to exercise an adverse and more than proportionate influence on oil market stability. If all OPEC members were exceeding the tolerance limits, downward pressures on the spot market price would eventually result in either disarray in the OPEC price structure or a readjustment by OPEC to the realities of crude oil oversupply in the market. According to Michael Olorunfemi, "oil barter (countertrading) amounts to cutting off one's nose to spite one's face because in a sluggish market situation, the bartered oil will resurface in the market to put further pressure on the price level."¹⁵

The situation sort of presents a prisoner's dilemma to the Nigerian government. Nigeria will be at a disadvantage if it stays out when other OPEC countries are involving themselves in countertrade deals. And what reasons does Nigeria have for staying out of countertrade deals if they prove to be an alternative route to economic survival? But for non-OPEC countries, the situation is totally different, since most, except Mexico with a self-imposed ceiling, have

Table 6:1

OPEC Oil Countertrade in Millions of Barrels/Day

<u>Countries</u>	<u>1984</u>
Iran	0.35
Iraq	0.30
Libya	0.20
Nigeria	0.15
Indonesia	0.10
Saudi Arabia	0.06
Other OPEC Countries.....	<u>0.14</u>
TOTAL	<u>1.30 MB/D</u>

Source: OPEC Bulletin, Vol. XVII, No. 1, February 1986, p. 78.

However, it is estimated that the crude oil which was being disposed of through countertrade transactions rose to 1.4 million barrels per day in 1985. According to oil market analysts the level of OPEC oil countertrade indicated here could have a significant impact on oil market stability and development, especially in a weak market condition.

opportunity to sell additional oil, whether within or marginally outside the OPEC production ceiling, would of course be noted as short-term benefit, but cognizance must also be taken that such a benefit may have an effect on the medium-to long-run market position.

The Nigerian government may, perhaps, be the last to admit that its policy behavior creates tension in intra-OPEC relations. Even though the unconventional trading practices no ceiling to maintain. Oil supplied in countertrade would be treated merely as an incremental requirement in the international market, even when market fundamentals are showing weakness. It has been argued that the ability or may appear to be a short-term solution to economic problems, it cannot be denied that if these actions are allowed to go without restraint, the solidarity and influence of OPEC may be seriously endangered. Such practices pose a great challenge to the maintenance of market stability and might even generate unhealthy rivalries among OPEC members that could result in a price war and undermine the very foundation of the Nigerian economy. As long as the Nigerian government has decided to retain its membership in OPEC, a great deal of restraint must be exercised in the matter of unilateral price cuts or countertrade. As the president of OPEC, Alhaji Rilwanu Lukman of Nigeria, recently acknowledged:

No other group of oil suppliers has the potential to meet the incremental demand for oil in the long run. Consequently, OPEC's role in the influencing of the market situation is bound to become increasingly crucial. We are fully aware of this and we believe firmly that a stronger and more influential OPEC is in the interest of the world economy as a whole and the oil industry in particular. This assertion is vindicated by the traumatic experience of 1986 and the fact that if it had not been for OPEC decisiveness, the oil industry and all oil-producing countries would have had to suffer greater hardships.¹⁶

Countertrade has been criticized as being counterproductive to the growth of international trade. Although the issue of international trade based purely on comparative advantage has never been accepted by developing countries in view of the depressed state of the world markets for their primary products and the need to protect their infant industries, it must be admitted that countertrade has a medium-to long-term adverse effect on world trade. A recent GATT (General Agreement on Trade and Tariffs) report came down flatly against its interest discrimination and inefficiencies:

Substituting discriminatory bureaucratic decision-makers of the impersonal working of market forces may buy some peace in the short-term, but only at a heavy cost in terms of its impact on the medium-term prospects for friendly commercial and political relations. Bilateralism distorts the normal growth of trade and it often perpetuates inefficiencies in a specific nation's trading industries. It excludes non-participating countries expanding their trade and often locks countries into a long-term disadvantage trading pattern as is common with Comecon or among certain Western nations (such as Finland), which trade heavily with the Comecon bloc.¹⁷

The Nigerian decision-making process did not appear to be particularly oriented toward long-term policy outcomes; far more attention was paid to the issue of what to do next. Nigeria did not have the special administrative machinery to properly evaluate the countertrade deals and monitor their efficiency, particularly with regard to the choice, quality and prices of goods to be imported through countertrade. Apart from the inappropriate institutional framework, there was complete isolation of countertrade transactions as an

integral policy instrument for macro-economic management of the Nigerian economy. I tend to agree with the report of the Aboyade Committee of Investigation assessment of Nigerian countertrade:

The countertrading system probably made little more than marginal differences to the structural problems of import dependence, declining output, excess industrial capacity, unemployment, foreign debt problems and high inflation. Administratively, its operation was hardly conducive to the enhancement of political and administrative confidence. Its operational style provided an ingredient of suspecting that the ultimate rationale was a mixture of national interest and private gains. Reasons for the sensitivity and confidential nature of countertrade did not appear to be valid excuses for denying sound analytical cost benefit of the project - an important novel area in the international reciprocal trade.¹⁸

While countertrade was perceived by the decision-makers as a strategy for national survival, the Nigerian government could not afford to precipitate a downward oil price spiral, which would slash overall foreign exchange revenues. What has emerged from this analysis is that the "secret policy" adopted by the Nigerian government is that crude oil was disposed of outside the OPEC quotas through such subterfuge means as processing agreements or secret discounts, as long as they were beneficial to the economy in terms of relief from both internal and external economic pressures. The idea of countertrading in oil appeared to some members of government to be a clever policy instrument irrespective of the cost. The "policy of secrecy" at the same time helped undermine implementation of a countertrade strategy by the Interministerial Committee, where the oil minister and other

members could not agree on whether to exceed the OPEC quota or not. The trading system generated a lot of controversy and fighting within the Interministerial Committee, so much so that it affected its ability to negotiate to the best advantage of the nation with its trading partners.

It was an open secret that all or most of the OPEC member states involved in countertrading did so without respect to their assigned quotas, resulting in the dumping of large quantities of oil in the market. In regards to the real question of how much oil was committed to countertrade, the respected Petroleum Economist estimated that Nigeria was producing 1.7 million barrels per day, of which 200,000 barrels per day were set aside to meet the countertrade commitment.¹⁹ Oil countertrade, unlike a spot market transaction, is visible and frequently highly published. Consequently, long before the Nigerian government confirmed by default that it had signed countertrade deals, foreign journals had published the agreements in detail, which later on turned out to be accurate reports. Countertrade is not necessarily a secret trade and in the contemporary world, it has become an established international trading system involving not only leading OPEC members, but also Western countries, such as West Germany, Italy, France and the United States, as well as many countries with centrally planned economies. More effort should have been taken to educate the

public about countertrade as a highly specialized mode of international trade.

The business of importing in Nigeria was made complicated, rather than amplified, by countertrade. This has meant a high degree of bureaucratization and favoritism, which has created additional opportunities for corrupt practices. Femi Aribisala argued that a countertrade arrangement had implications for Nigeria's social class and political structure.²⁰ According to him, it was capable of creating a new crop of millionaire importers who are going to distribute the countertraded goods to the Nigerian consumers at high profit margins.²¹ It is estimated that around 30 percent of all Nigerian import licenses were at one stage tied to imports under countertrade agreements, imports often to be sourced away from traditional suppliers. The role of the fronting agencies for countertrade deals (Cotia of Brazil and SCOA of France) was seen as discriminating in favor of their own associated companies. The mark-up price of goods being purchased under countertrade deals is usually higher than market prices because such deals lend themselves more to a monopoly instead of a competitive market. The trading partners who engage in countertrade strive to get the best out of such deals, more so since they do not really require Nigeria's crude oil. To Nigeria, countertrade was a matter of survival; to them it was not.

Nigeria's behavior raises the question of how to address the subordinate position of the Nigerian state in the international system and the nature of its relationship with foreign and domestic capital. The commitment of the Nigerian ruling class to the maintenance of the peripheral capitalist economy predisposes them to accepting an unequal exchange agreement with transnational interests. In spite of the declining role of the oil companies at the global oil market level, they still play an important role in the oil trade in Nigeria and sometimes there seems to be a coincidence of interests between successive Nigerian governments and oil multinationals. While collaboration between top oil bureaucrats and foreign oil companies profits both, goals of OPEC unity, national control over oil, worker's rights and good oil field practice become less attainable. According to J.K. Onoh's observation,

the multinationals have always influenced and attempted to influence the economic, as well as the political, institution of the countries in which they operate. If the multinationals are allowed to control the economy of any country, such multinationals become the de facto policy making body deciding and dictating the entire spectrum of the developmental process."²²

The fact is that oil multinationals have identified Nigeria as the weak link in OPEC's chain and have put pressure on Nigeria to contribute to the destabilization of the organization. According to Airbisala,

the fact that the foreign oil companies were exploiting the acute vulnerability of the Nigerian government raised speculations of conspiracy on the part of major oil companies which seemed inclined to gang up against the

procurement of Nigerian oil in order to teach OPEC a lesson by attacking the weakest link in the organization."²³

The major constraint is the neo-colonial nature of the Nigerian economy in that it opens it to foreign manipulation, particularly the multinational oil companies who usually act in the interest of their home governments at a certain level. In a period of growing intra-OPEC strains therefore oil companies and Western powers can put pressure on a country to sell at less than established OPEC price either directly or by not buying in adequate quantity from that country. Nigeria, with a large population and low financial reserves, was the most likely vulnerable target for the oil companies with grave implications for OPEC unity and oil market stability. Hence the economic and political pressures on Nigeria were predictably disturbing to other members of OPEC, particularly in the period of the lack of oil demand in early 1982 and 1983.

The unilateral actions of Nigeria in 1983 triggered a chain of events which had the effect of undermining the official OPEC price structure and finally resulted in the total collapse of the world oil market. In early 1986, the OPEC countries failed to agree on the allocation of production quotas to firm up the oil market and thereby adopt a new policy of fair market share with non-OPEC producers. The implication of that was the abandonment of fixed-price activities and acceptance of market realities by the OPEC

cartel. As the official press release from the 76th meeting of the OPEC conference stated:

Having considered the past and likely future developments in the world oil market and the persistently declining trend of OPEC production, the conference decided to secure and defend OPEC's fair share in the world oil market consistent with the necessary income for member country development.²⁴

Implications for Future Nigerian Oil Policy Options

The analysis of Nigeria's policy behavior is significant not only for evaluating past strategies, but also for providing useful information for future policy options. This study raises some significant theoretical questions with implications for the decision-making process in Nigerian foreign policy behavior in particular and for Third World countries in general. In spite of the constraints of the world system, there are options available even to the peripheral states, like Nigeria, in their domestic and foreign policies. It may be said that these options are limited, but the important fact is that they do exist.²⁵

In other words, decisions are not automatic but decision-makers deliberately consider alternative policy options before reaching a final choice and reaction. Why international challenges such as the "oil crisis" or "oil glut" elicit different responses from states depends partly on the power instruments available to the state's decision-makers.

But the actual success of the state in achieving its policy goals will depend on forces and circumstances that range well beyond institutional constraints and policy options. The state structure in which the government decision-makers are situated is crucial in forming the eventual shape of the adjustment strategy. For patterns in the policy strategies of governments do exist and they can be traced to the enduring structures of the state and society.²⁶ For example, in Nigeria's case, the legacy of colonial capitalism, the international and domestic environments in which the peripheral state must operate, the general low resource levels and limited legitimacy, may all ultimately be vital to the ability of the state to control policy outcomes.

This does not mean that we can determine a priori the state's capacity to react to the situation. For the state's capabilities include not only the calculable opportunities and constraints, but also the policy instruments available to the decision-makers to effect or influence the operational result of whatever is attempted in the international arena. This supports John Ikenberry's contention that

"the state as actor and the state as structure are related: at the moments of crisis and change as during the oil shocks, the distinctive structure of the state itself shapes and constrains the substance of strategic policy. The policy instrument and institutional resources available to government elites form the most important determinants of adjustment to policy when crisis presents new challenges to government."²⁷

While the Nigerian state decision-makers might occasionally exercise partial autonomy from the domestic ruling coalition, it is important to recognize that this partial autonomy is counteracted by transnational interests because of its dependence on petroleum rent and foreign technology. The Nigerian state has been described as an organ of capital in general, i.e., both domestic and international.²⁸ Although Beckman's position ignored the complexity and relative autonomy of the Nigerian state, he nevertheless underlines its relationship with domestic and foreign capital. But this present analysis not only addresses the debate on the "relative autonomy" of the Nigerian state, but moves beyond to explore more interesting questions about how government decision-makers conceive of and attempt to implement state interests. We assumed that the government elites acted upon preferences that at least the decision-makers themselves understood to advance national interest. This means that the state actors and institutions may play an intervening role in shaping the array of interests in the policy process.

Nigeria's behavior raises the problem of cartelization of primary commodities among Third World states and the ability of these cartels to survive adverse market conditions. The policy response of OPEC member states and their ability to cope with their financial and economic difficulties will ultimately determine the shape and stability of the organization. The divergent position held by delegates during

the OPEC meeting reflected, to a certain extent, the varying political-economic conditions of individual member states. However, Nigeria's actions cannot be entirely divorced from the oil market and OPEC politics. We must never lose our perspective of OPEC determination or unity in enforcing market discipline among its members. But due recognition must also be given to OPEC's internal conflicts, even when it appeared committed to restoring high oil prices. The dismal state of the oil market owes its origin to unilateral actions on the part of these oil-producing countries. Although these practices are not condoned, they nevertheless represent a reality within the organization. Such actions include discounting, demand processing, spot market sales, over production and countertrade. Some of these unconventional trading practices constitute an aspect of the policy response that the Nigerian government has adopted in crisis-ridden times.

In the absence of a diversified economy and assuming that the deteriorating world oil market will persist as a result of surplus oil capacity, it is still unwise for Nigeria to leave OPEC. The best policy that the Nigerian government should adopt is to seek a fair deal from OPEC to increase its bargaining power within the framework of the organization. Under Buhari, the administration performed a balancing act between the pressing national interest for maximum revenues and the interests of OPEC. David-West managed to obtain an

increased OPEC quota, from 1.3 million barrels per day to 1.45 million on July 12 1984, in light of the economic difficulties in Nigeria, which earned it an additional 99 million naira monthly.²⁹ It was also exempted from cutting down production when collectively, all OPEC decided to cut from 17.5 million barrels to 16.0 million per day as part of the strategies of firming the oil market. Nigeria subsequently agreed to raise its official selling price in a compromise worked out with OPEC in January 1985, but set about offering an attractively priced package of different crudes to its customers, as a ploy that kept production at about 1.5 million barrels per day for the first half of 1985. By adopting these policy recommendations, it will demonstrate Nigeria's flexibility and ability to negotiate its problems within the framework of OPEC, which is sensitive to conditions both in the oil market and in the economies of member states.

The realities of the present-day market developments must be viewed by all OPEC members as showing that each country can only get an equitable share in the wealth accruing from oil by promoting a coordinated policy of defense of the price structure against OPEC trading partners. Nigeria might try to adopt a more flexible pricing policy not too far removed from OPEC guidelines, but still throwing the Nigerian oil industry's crude a certain degree of competition with Libya and the North Sea and Middle East oil industries. For unilateral decisions may not be in the best interests of

producing countries and a reduction in output may not meet the economic aspirations of the country because of needed revenue for development programs. Opting out of OPEC may also not be the answer. Olorunfemi made a similar suggestion:

Nigeria must continue to introduce some marketing flexibilities which will guarantee the nation a reasonable level of oil production between 1.45 and 1.65 million barrels a day. These marketing flexibilities should not push Nigeria outside OPEC so as to not invite counterveiling action from the other members of the organization that can easily precipitate the cascading of the crude oil prices. Nevertheless, Nigeria must be willing to take periodic market initiatives, such as an offshore processing arrangement and exploring the possibilities to sell product to the neighboring African countries. There should be a vigorous penetration of growing Third World countries, particularly Brazil, Korea and the Comecon countries, which are going to be the oil market growth area in the 1990's.³⁰

The instability in the world oil market since 1980 has undermined the use of long-term "contract" in the oil trade, while offering a fertile environment for other, unconventional trading practices in oil transactions. Nigeria is still one of the few OPEC countries to retain substantial arrangements under which the oil companies hold equity stakes in the country of their operations. The security inherent in this type of arrangement naturally does not encourage growth in oil countertrade or spot-market trading. Such an arrangement will benefit a country like Nigeria which can market a high proportion of its crude oil through company channels while complying with OPEC price agreements.

The rapid development of low-sulphur North Sea crudes that preferentially flow into Europe and the U.S.A. "locked

out" Nigerian crude oil from its single most important market, which took about 90 percent of Nigeria's exports since 1973. Within the framework of crude demand and supply in these market regions, it is apparent from the foregoing observations that the increasing North Sea and Mexican crude volumes being traded on the international market exerts strong pressures on Nigerian crude, as they are necessarily priced competitively in relation to both OPEC crudes and comparable non-OPEC crudes in order to generate revenues. The implication is that there is the need to ensure continuing competitiveness of Nigerian crudes relative to both low-sulphur and Gulf crudes. Moreover, the future market position of Nigerian crudes either in terms of price or demand in the traditional market, will be determined by some other economic activities shaping the world petroleum market. This concerns the refining and transportation activities which determine relative demand for crudes.

Aggressive marketing must remain the key variable in the overall policy strategy. Petroleum consumption in Africa may be relatively small compared to major industrialized countries but is, nevertheless, a growing regional market. Nigerian crude oil exports can be expanded through a vigorously pursued bilateral oil supply arrangement, either in the form of crude or refined products. Nigeria is well placed to serve a developing market for oil within Africa.

According to Ian Hume of the World Bank's energy department, the demand for oil will grow

more rapidly in the developing world, not only because growth is expected to be more rapid than in the rest of the world, but also because structural change is occurring in developing countries as their economies become more modern and urban based, thus raising new demands for commercial energy sources.³¹

So far, however, Nigeria has been very slow in exploiting its influence on the African continent to expand its export oil sales. Nigerian crude oil is exported principally to North America and Europe. The expansion of the oil market in Japan would effectively diversify Nigeria's international oil market and remove a disproportionate and harmful dependence on the North American market.

One of the serious problems faced by the Nigerian government is the shortage of foreign exchange earnings for the payment of its imports. What has been increasingly clear is that the attainment of Nigeria's national objectives has become more difficult as the declining trends in oil production and export persist. Therefore, a calculated strategy on the part of the Nigerian government to concentrate efforts toward refining, petrochemicals, transporting oil and exporting gas are steps in the right direction. There is overwhelming evidence in economic case in favor of OPEC nations to force a link between upstream and downstream activities to counteract the declining price of oil. At the very least, Nigeria ought to share proportionately in profits

accruing to the major oil companies from the exploitation of its oil in these operations. The precise financial terms of the comprehensive partnership, as it relates to each area of operation, should be worked into a new concessional agreement with the foreign companies. Apart from any joint arrangement with the foreign companies, the NNPC should engage itself extensively in direct marketing and refining operations. The ultimate goal of the Nigerian government should be to be able to assume full control of the production, processing and marketing functions of the oil industry. The expansion of refined oil output by Nigeria will have several potential impacts on the country's total revenues and subsequently on the internal structure of OPEC, which can strengthen its stability.

Nigeria's future revenues and expenditures cannot be predicated totally on oil sales, as they have been heretofore. Apart from large-scale utilization of domestic gas, Algeria, Saudi Arabia, Indonesia and some other OPEC countries have been stepping up investment in gas export projects.³² As shown in World Bank estimates, gas consumption in the U.S.A., Japan and Western Europe should increase from 6.0 billion barrels of oil equivalent (boe), in 1980 to about 7.3 boe in the 1990's, which should facilitate the development of a substantial market for import from OPEC countries in the 1990's and thereafter.³³ Nigeria and other OPEC countries should see this viable potential source of exports as capable

of affording their countries higher net foreign exchange earnings.

The Nigerian oil analysts have presented a number of arrangements in favor of commercialization of the Nigerian gas fields in spite of the initial high cost of investment involved in the LNG project. The present "glut" in the world oil market further underscores the significance of the LNG project as an alternative source of foreign exchange earnings and diversification of the Nigerian economy. The Nigerian government cannot depend on oil exports solely for its foreign exchange earnings. Liquefied natural gas is a major foreign exchange earner in countries like Algeria, Indonesia, Abu Dhabi and Libya. These countries are also oil exporting countries like Nigeria. Algeria supplies liquefied gas to the United Kingdom, France, Spain and the United States. The construction of the LNG project which was a major project of the Fourth National Development Plan: 1981-82, was to export liquefied gas to Europe, the United States and Japan where the industrial and domestic demand for gas is very high. The aim of the LNG project was to involve the liquefaction of gas and use of refrigerated ocean tankers to carry liquefied gas to foreign markets where it is regassified and distributed through the gas pipeline grid of the importing countries.

Nigeria has an abundant supply of natural gas and the estimated total reserves are put at 90 trillion cubic feet. Most of the gas is associated gas produced in joint

association with oil, with production scattered in many wells and in difficult swampy terrain. The cost of piping and treating the gas is high and most of it is now flared. The Bonny (LNG) Company floated to market the gas was liquidated in 1982 due to the withdrawal of two of its partners and also due to the difficulty of the federal government in meeting its share of the financial obligations. Although the Nigerian government is still interested in the project it has scaled down the size in order to reduce its financial commitments. Nevertheless the government needs to renew its interest and momentum in the project because it will provide much needed foreign exchange earnings.

Another argument in favor of gas development in Nigeria was the need to increase domestic consumption and to generate power for the local industries. Gas development will not only provide the Nigerian government with long-term energy options along with coal, oil, uranium and hydroelectric power, but it will also provide the country with optimum energy resources. As domestic energy demand increases, gas will be needed to generate power for iron and steel complexes at Ajaokuta, the NEPA thermal under construction in Lagos and at the new Federal Capital at Abuja. Apart from domestic consumption as energy resources, gas can also be utilized in fertilizers and petrochemical plants. If fertilizer and petrochemical projects were established in Nigeria, it would save millions of dollars in foreign exchange which is

currently being spent every year to import these products. In the long-run Nigeria may turn out to be a net exporter of these products like fertilizer.

Before oil was discovered in Nigeria, agriculture was the mainstay of the economy, with cocoa, groundnuts, palm oil and rubber bringing in a sizeable amount of foreign exchange. Neglected agricultural and rural sectors, have consequently been unable to provide either alternative export commodities, raw materials for local industries or adequate food for domestic needs. This neglect has led to continuous high imported food bills. Therefore, expansion of agricultural production and agro-allied industry will improve the export prospects for Nigeria. Mr. L.A.O. Amu, the former managing director of NNPC, sounded a somewhat belated warning to Nigeria's policy-makers:

Today, structural changes in the world oil market no longer guarantee a steady inflow of petroleum earnings. Indeed, a level of oil demand, compatible with our past revenue needs, cannot now be met. Faced with these prospects, it would be in the interest of national survival to develop new policies of structural changes aimed at giving the economy a new impetus and direction necessary for achieving a self-reliance, self-sufficiency and resiliency.³⁴

By exchange of agricultural and manufactured goods in countertrade deals, the Nigerian government can achieve two mutually reinforcing objectives: it would establish a permanent market for these products in a highly competitive and discriminatory international market and solve our current foreign exchange problem by increasing earnings from non-oil

export, while conserving oil. This will serve to stimulate the domestic market for the products. It will also divert attention from comments on oil countertrade, which has already threatened Nigeria's international image within OPEC. Nobody hates countertrade on any other commodity but on oil, because there is always a suspicion of imbalanced bargains and gains.

But there can be no doubt that the Nigerian government needed to develop a coherent and comprehensive countertrade policy. Unlike, say, Indonesia, there is still no blueprint for establishing a countertrade scheme in Nigeria. Instead of undefined or assumed roles by various ministries what is now required is a clear and well-articulated countertrade arrangement that is structured in such a manner that the country's interests are not compromised. This is precisely why Nigeria must fortify herself with legal guidelines as far as countertrade deals are concerned. We must, therefore, recommend that from the onset of the transaction, the agreement must be properly drafted to ensure that Nigeria's interests are not compromised. Agreement should reflect the contractual obligations of each party. Furthermore, the subject matter of the transaction is that the goods to be countertraded must be identified and stated in detail, with express provisions related to penalties in the event of breach either through non-performance or improper performance of obligations by the parties.

S. F. Jones cautioned that care should be taken by developing countries to identify the real benefits of countertrade instead of the apparent benefits. It would be a mistake to believe that countertrade offers a panacea, but it would probably be equally mistake to adopt a policy of total dismissal.³⁵ Countertrade, he maintained, can offer positive advantages in some circumstances and serious disadvantages in others and it is up to the developing country to try and separate the two. There are good prospects for countertrade in Nigeria, but the new thrust has to be in the direction of development-oriented countertrade policy. Countertrade deals could be used in financing major capital projects, such as the Ajakuta Steel Complex, the Liquified Natural Gas project, the refinery at Warri, the Lagos Egbin Gas Pipeline and infrastructural work in the new capital at Abuja. With regard to countertrade, I share the view expressed by Oladele Olashore, the Chief Executive of the First Bank of Nigeria. In his paper entitled "Countertrade and Nigeria's Oil Policy," he warned:

While it is clear that countertrade remains a beneficial form of trade in many ways for medium to long-term development projects, it is equally clear that the nation will have to proceed with some element of caution in the short-term, since the stakes on the international market have become very high. As a long-term measure, however, countertrade offers the nation a measure of restructuring the composition and direction of Nigeria's trade, as well as defining the relative importance of its trading partners. More importantly, countertrading, if arranged with good foresight, can be applied in prosecuting far-reaching development programs of immense benefit to the Nigerian people.³⁶

In order for OPEC to retain its market leadership in the world oil market in the 1980's and beyond, OPEC must adopt a market strategy that demonstrates flexibility, understanding and sympathy to member countries with high populations and high absorptive capacities like Venezuela, Nigeria and Indonesia. This is because during the glut situation in the world oil market, it is these countries that suffer the most in terms of inadequate foreign exchange earnings to finance their development plans. OPEC's aid policies should give special consideration to the financial and economic needs of these high-absorbing member states; charity begins at home. OPEC should, therefore, explore the possibility of amending the Articles of Agreement of the OPEC Fund for International Development so as to allow high-absorbing member states to benefit from the fund. For instance, it has been suggested that the OPEC fund should create a relief basket of funds, which will serve as a source of succor to those OPEC member states who are in financial and economic difficulties. In this way, OPEC would not only have strengthened itself, it would also have succeeded in giving a longer lease on life to a country like Nigeria that has done so much to accord a measure of credibility to OPEC aid programs in Africa.³⁷

FOOTNOTES

1. Rilwanu Lukman, "OPEC Policy Action and World Oil Market Prospects," in OPEC Bulletin, Vol. XIX, No. 2, February 1988, 3.
2. Lawrence Amu, "Oil Glut and the Nigerian Economy," (Lagos, Nigeria: NNPC, 1983), 11.
3. Rilwanu Lukman, "Market Stability and Its Requirement," The Eighth Oxford Energy Seminar, 2 September 1986, 1.
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7. David-West, "Oil Politics and Development in Nigeria," 21.
8. Arthur Nwankwo, After Oil What Is Next? (Enugu, Nigeria: Fourth Dimension Publishing Co. Ltd., 1983).
9. See Olorunfemi, "Management of the Petroleum Resources in the 5th National Plan 1986-1990," 17.
10. Ibid.
11. Christopher Flavin, "World Oil Coping with the Dangers of Success," World Watch Paper 66 (Washington, D.C.: Worldwatch Institute, 1985), 15.
12. "The Limits of Countertrade," editorial comment in Vanguard, 15 June 1985, 5.
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14. See Petroleum Intelligence Weekly, 10 September 1983 and 20 February 1984.
15. Olorunfemi, "Management of Petroleum Resources in the Fifth National Development Plan 1986-1990," 16.

16. Rilwanu Lukman, "President Offers OPEC's View of a Rational Energy Market: An Address Delivered to a Group of Japanese Oil Industry Representatives," in OPEC Bulletin, Vol. XVIII, 1988, 9.

17. See "Countertrade," in General Agreement on Trade and Tariffs Report, 1987, cited from Report on Review Committee on Countertrade Agreement, 48.

18. See Report on Aobyade Committee of Investigation, 13 November 1985, 51-2.

19. Petroleum Economist, June 1985, 217-8; Also Joe Nwokedi, "The Challenge of Countertrade," in Nigerian National Concord, 17 June 1985, 3; "Nigerian Crude Production Above OPEC Quota," in Platt's Oil Gram News Service, Vol. 62, No. 24, 1984.

20. F. Aribisala, "Countertrading Nigeria's Future," in National Concord, 31 May 1985, 31.

21. Ibid.

22. Onoh, The Nigerian Oil Economy, 11.

23. Aribisala, "Nigeria and OPEC: The Weak Link in OPEC Chain," 117. Also see "Oil Dealers Tell Federal Military Government, Let's Pull Out of OPEC," in National Concord, 5 April 1983, 2.

24. OPEC Official press release of the Seventy-Sixth Meeting of the Conference, Geneva, 9 December 1985.

25. Immanuel Wallerstein, Capitalist World Economy (Cambridge, Britain: Cambridge University Press, 1971).

26. G. John Ikenberry, "The Irony of State Strength: Comparative Responses to the Oil Shocks in the 1970's," in International Organisation, 40, 1, Winter 1986, 137.

27. Ibid, 106.

28. Bjorn Beckman, "Whose State? State and Capitalist Development in Nigeria," in Review of African Political Economy, No. 23, January - April 1982, 37-51. In the first place, the Nigerian state is an "organ of the domestic bourgeoisie, not (so much) because of the sectional rivalries between national foreign capital (which do exist), but because of the strategic role of this class in the bringing of its territory to the rules of international accumulation." In the second place, "the Nigerian states

is an organ of international capital, not so much because state institutions are directly commandeered by international firms and their local agents (which is done), but because of the way in which international world market-oriented accumulation has been internalized into the Nigerian political economy.

29. See "Federal Government to Earn Additional \$99 Monthly as OPEC Increases Nigeria's Quota by 6.15 Million Barrels Per Day," in Business Concord, Lagos, Nigeria, 13 July 1984, 1 and 12; "From Vienna with 150,000 Barrels Oil Increase for Nigeria," in The Guardian, Lagos, Nigeria, 12 July 1984, 1. "Oil Output Quota Raised: Increase Now at OPEC Okays Nigeria's Increased Oil Production," in The Punch, Lagos, Nigeria, 12 July 1984, 16; and "Nigeria Wins Temporary Boost in OPEC Quota Lobbying Effort Set," in Platt's Oilgram News Service, Vol. 63, No. 134, New York, 12 July 1984, 16.

30. Olorunfemi, "Management of the Petroleum Resources in the Fifth National Development Plan 1986-1990," 31.

31. See World Bank News, December 1985.

32. Indonesia has been exporting large volumes of gas in LNG since 1977, so that today it is one of the largest exporters of liquid natural gas. In Saudi Arabia, itself, with its huge reserves, there is now an immense network for collecting, treating and distributing the gas for the domestic and world markets. See World Bank Energy in the Developing Countries, Washington, D.C., August, 1980, 41.

33. Ibid.

34. Amu, "A Review of Nigeria's Oil Industry," 24.

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37. Kayode Soromekum, "The Nigerian Dimension of OPEC's Aid Program," in OPEC Bulletin, March 1987, 8.

APPENDIX A

Below is a list of state officials, energy editors, indigenous businessmen and academicians interviewed in Nigeria and the U.S.A. during the summer of 1987. Interviews were also conducted with officials of oil companies operating in Nigeria who preferred to remain anonymous. None of them are entirely responsible for the interpretation presented here and even some would disagree with some portions of my argument. Each of them is given thanks for his or her time and many insights.

<u>NAMES</u>	<u>DESIGNATION</u>
1. Miss Ama Ogan	Editor of Sunday Guardian and Member of the Committee to Review Countertrade Agreements.
2. Dr. C. Chima	Secretary to Aboyade Committee of Investigation on Countertrade and Director in the Federal Ministry of Natural Planning
3. Mr. Rashad Gbadamosi	Member of Committee of Investigation on Countertrade
4. Professor Tam David-West	Minister of Petroleum and Energy in Buhari's and Babangida's Administrations.
5. Chief M.S. Adigun	Ex-Minister, Federal Ministry of National Planning
6. Chief F.R.A. Marinho	Ex-Managing Director of Nigerian National Petroleum Corporation, Petroleum Consultant
7. Professor E.C. Edozien	Former Economic Advisor to President Shagari

8. Dr. O. Soley	Ex-Minister Federal Ministry of Finance in Buhari Administration
9. Mr. J.E.K. Oyegun	Ex-Permanent Secretary, Federal Ministry of Commerce and Industries, Lagos
10. Ben S. Osuno	Governor of Nigeria to OPEC
11. Michael Olorunfemi	General Manager of Economics and Corporate Planning Division NNPC, Lagos
12. Dr. O. Ogunsola	General Manager, Marketing Division NNPC, Lagos
13. Hakeem Bello-Osagie	Special Assistant to the Presidential Advisor on Petroleum and Energy during the Shagari regime
14. Ike C. Nwobodo	Chief Economist NNPC, Former Chief Economist Central Bank of Nigeria
15. Joe Nwokedi	Energy Editor in National Concord
16. Kola Damisa	Senior Correspondent for Energy, News Agency of Nigeria, Lagos
17. B.A. Ischie	Editor (Economic News) News Agency of Nigeria
18. A.O.S. Tifeyemi	Director of Petroleum Division -- Ministry of Petroleum Resources
19. Joy Ogwu	Former Acting Director of Research in Institute of International Affairs, Lagos

20. Dr. Kayode Soremekun	Lecturer, Department of International Relations, Obafemi Awolowo University - Ile-Ife, Nigeria
21. Professor Olajide Aluko	Department of International Relations, Obafemi Awolowo University, Ile-Ife, Nigeria
22. Ade Olaiya	Personnel Manager, NNPC, Lagos
23. Adeyeye S.A.	Assistant Director, Ministry of Petroleum Resources, Lagos
24. F. Bola Giwa	Assistant Director Administration and Finance, Ministry of Finance, Lagos
25. Chief Fayide M.O.	Former Governor of Nigeria to OPEC, Petroleum Consultant and Editor of <u>Nigeria Petroleum News</u> , Lagos
26. Ralph Uche Oboh	Assistant Librarian in NNPC, Lagos
27. Dave O. Igwe	Assistant Editor-in-chief (National Services) News Agency of Nigeria
28. Mr. Alabi	International Economic Division of Ministry of External Affairs, Lagos
21. Dr. Femi Aribisala	Special Advisor to Minister of External Affairs, and Research Fellow in Nigerian Institute of International Affairs, Lagos
30. Mr. Alex Nwokedi	Manager, Public Affairs Department NNPC

APPENDIX B
INTERVIEW SCHEDULE

QUESTIONNAIRE

- (1) Perception of "Oil" Situation
 - a) What was the Nigerian decision-makers' Perception of the world oil market?
 - i. Perception of the market condition:
 - oil prices
 - demand/supply
 - ii. Perception of OPEC in pricing and production strategies
 - iii. Perception of the activities of non-OPEC producers in relationship to OPEC
 - iv. Perception of the activities of the multinational oil companies and their consumer countries in the oil market
- (2) Interpretation
 - a) Why did the decision-makers consider the oil market situation a problem?
 - b) What was the effect of the oil situation as you saw it on Nigerian policy objectives?
 - i. Internal needs
 - economic
 - political
 - security
 - ii. External objectives
 - economic
 - political
 - security
 - capabilities
- (3) Consideration of Alternatives
 - a) Who participated in the final decision?
 - b) What were the alternative actions advocated as a response to the situation and by whom?
 - c) What options were considered by the decision-makers?
 - d) What were the arguments for and against those options?

- e) What were the reasons for the choice made?
 - political
 - economic
 - public opinion
 - external pressures
- f) How was the final decision made -- by majority, consensus or other?

(4) Evaluation of Chosen Actions

- a) Was there any evaluation of the action?
- b) Who was involved in the evaluation?
- c) How did the group consider the effect of the action in terms of its effectiveness and cost?
 - market situation
 - OPEC
 - non-OPEC producers
 - multinational oil companies/consumer nations
 - Nigerian foreign policy objectives

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