NIGERIA AND OPEC: EVOLUTION OF RELATIONS

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For about a century oil has been used as a weapon in international relations. The article attempts to evaluate Nigeria's role as an OPEC member and its relationship with this organization. The country's membership in OPEC has had a far reaching impact on both the international political economy of oil and Nigeria's development efforts.

Many factors combined to destine Nigeria to play a major role in the international oil industry and ensured that major oil consuming and producing countries would directly and indirectly influence the country's internal politics and its international relations. Nigeria is located in the Atlantic Basin, closer to the United States and Europe than the Middle East, which boasts of most of the global oil producing countries, such as Saudi Arabia, Kuwait and Iraq. An important advantage for the Nigerian oil industry is the quality of its sulphur free crude. This factor explains why Nigeria has on several occasions played a major role in the global oil market. The development of the Nigerian oil industry, however, has gone through phases, each of which has been influenced by the country's internal political dynamics, the role of major actors in OPEC and the general global political and economic situations.

Although Nigeria has never been directly involved in any major conflicts in the Middle East, which in most cases involved other OPEC member countries, it has not been insulated from their outcomes. Conflicts involving member countries of OPEC, such as the Iran-Iraq war of the 1980s and the Iraqi invasion Kuwait on August 2, 1990, had the effect of paralyzing the organization, inducing mutual destruction of oil facilities of belligerents and distorting prices of oil in the international market as operators reacted or scrambled for oil to guard against shortages.

Keywords: Nigeria, OPEC, oil industry, international relations, foreign policy, the Middle East

More than hundred years ago, in 1914 the British colonial administration issued the Colonial Mineral Ordinance to regulate the oil industry, which vested complete ownership rights of Nigeria's oil in the British Crown [1, pp. 216-217].

In 1937, Shell D'Arcy, an Anglo-Dutch consortium of Royal Dutch Shell and British Petroleum was formed; in 1938, the company was awarded an Oil Exploration License which covered the whole of the country and gave the company the right to choose where and when to explore for oil. The outbreak of the Second World War halted its activities, but exploration resumed in 1946.

In 1956, Shell D'Arcy, which was later to become Shell-BP, discovered oil in commercial quantity at Oloibiri. Two years later, in 1958, oil production started with a daily production of 5.000 barrels. In 1960, Nigeria divided its offshore continental shelf into twelve blocks of approximately 1,000 square miles each. Four of these went to Shell-BP, two were secured by Gulf, two by Mobil, and two by Texas Overseas [2, p. 15-18]. Shell-BP not only chose the best fields but it also underpaid Nigeria, taking advantage of the country's weak legislation.

The pace of development of the petroleum economy in Nigeria was partly explained by the monopoly situation it enjoyed, but also by the international context at the time when the Anglo-American oil companies controlled the industry in the capitalist world and coordinated global production and sale.

Despite the fact that colonial oil policy determined the production and export of crude oil, the quantity produced was in comparative terms very small. Indeed, at the time of independence in 1960, Canada, Qatar, Brunei and Trinidad, all members of the British Commonwealth, produced more oil than Nigeria, whose share was only 1.8% of total British Commonwealth crude production. While Nigeria's oil industry at the time of independence was insignificant, it had potential for future expansion, though there was no serious plan to develop the capacity of Nigerians to participate actively in the industry.

The first post-independence Nigerian administration continued with the policy inherited from the colonial administration. Apart from allocation of a lot of oilfields to the transnational oil companies, the government's only obvious practical link with the oil industry was through the petroleum section of the Ministry of Finance, which collected petroleum profit tax. The administration did not

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know the true extent of the country's reserves with the ramifications that oil production might have.

The post-independence administration's lack of capacity regarding developments in the oil industry was illustrated by the fact that discussion of this important sector has always been in generalities. However, developments on the global petroleum scene, which ultimately culminated in the formation of OPEC, had a profound effect on the Nigerian energy scene, especially in shaping its petroleum policy.

THE FORMATION OF OPEC

Before the mid-1960s, the crude oil market was dominated by the United States. The emergence of former Eastern Bloc countries in North Africa and the Middle East resulted in the formation of multiple markets and declining US dominance of the global oil industry. This development brought into question the international price fixing method, which was anchored on factors determined by the US oil industry.

There existed a polarization of supply and demand. Venezuela (which later became the architect of OPEC), the Middle East and North Africa had minimal demand in relative terms, given their low level of industrialization. The larger consumers, for instance Western Europe and Japan, had little or no crude oil production. The Middle East was in a vantage position to benefit from these developments due to its favorable geographical location, low production costs and considerable reserves. The region produced a third of the non-communist bloc oil and held 60 percent of world reserves, making it the major center of oil geopolitics.

The dominant idea at the time was that political independence would be empty if it was not accompanied by the transfer of property and resources controlled by foreign companies to the public sector.

It was the era of resource nationalism, and on September 15, 1960 OPEC came to existence with five members: Saudi Arabia, Kuwait, Iraq, Venezuela and Iran. Together, these countries controlled 90% of global exports of oil - 40% for Saudi Arabia, Kuwait and Iraq combined and 50% for Venezuela and Iran.

Eight other countries later joined OPEC: Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969), Nigeria (1971), Ecuador (1973) and Gabon (1975).

After its formation, OPEC moved rapidly to put in place a common fiscal system and the move toward effective state intervention began. The UN Resolutions No. 1803 (XVII) (1960) and No. 2518 (1966) were interpreted by the oil-producing countries as a reaffirmation of their right to exercise control over their natural resources. In result, transnational oil companies of the West started gradually to lose control of crude oil reserves not only in OPEC countries but also in non-OPEC states.

OPEC MEMBERSHIP'S IMPACT ON NIGERIA

The seeming disinterest in the Nigerian oil industry began to change in 1965 when Prime Minister Tafawa Balewa in a speech to the Chamber of Commerce revealed the potential impact of oil revenue on the balance of payments. This speech laid the foundation for later developments in the Nigerian oil industry and set the context of its relationship with the oil companies, OPEC and the Middle East.

The Balewa administration was overthrown in January 1966 before it could make a significant impact on the Nigerian oil industry and its relationship with oil producing countries that had regrouped in OPEC. Subsequent military regimes would, however, focus on the challenges.

In 1964, Nigeria sent an observer delegation to the OPEC Conference and adopted the organization's terms for tax assessment.

For its part, the Declaratory Statement of Petroleum Policy in Member Countries issued in 1968 by OPEC, which made reference to the inalienable right expressed by the United Nations of all countries to exercise permanent sovereignty over their natural resources and which demanded that the exploitation of the exhaustible petroleum resources of OPEC member countries should be geared toward securing the greatest possible benefit for its member countries, had profound effect on Nigerian policy makers. For example, the declaration urged members to acquire participation in concessions. In 1969, the government promulgated Petroleum Decree No. 51 that vested in the Nigerian state the entire ownership and control of all petroleum under or upon any Nigerian lands.

The Gowon regime (1966-1975), in line with OPEC member countries, restricted favorable tax conditions which the oil companies had since the colonial era.

In 1971, the Gowon administration joined OPEC, and in line with the organization's decision that host government participation in the oil industry should be enhanced, the administration established the Nigerian National Oil Corporation (NNOC) by Decree No. 18 of April 1, 1971 which paved the way for the country's direct participation in all aspects of the petroleum industry.

The corporation trained indigenous workers; managed oil leases; encouraged indigenous participation in the development of infrastructure for the industry; managed refineries; participated in marketing; developed a national tanker fleet; and constructed pipelines. Given the highly complex nature of the oil industry, the objectives which the NNOC was going to achieve were far too ambitious [3, p. 1].

Despite limited powers, the NNOC left its mark in the export of Nigerian crude oil. Boosted by the sharp price rises that followed the first oil shock of 1973, Nigeria saw its oil export earnings rise from N219 million in 1970 to N10.6 billion in 1979, thereby achieving an enviable status as the first sub-Saharan African country to successfully exploit its oil reserves. In 1977, NNOC was transformed into the Nigerian National Petroleum Corporation (NNPC) [3, p. 2].

Two years after Nigeria joined OPEC, political tension in the Middle East led to war on October 6, 1973 between Syria and Egypt on the one hand and Israel on the other. These developments affected the Nigerian oil industry and the country's relations with Israel. Political tension in the Middle East coincided with the rising demand for oil. On the political scene, tension was further heightened when Kuwait called on the Arab countries to use their oil as a political arm should there be war between Arab countries and Israel.

Two days after the commencement of the Arab-Israel war, OPEC and representatives of the oil companies met to negotiate a review of crude prices which was to take into consideration the consecutive devaluation of the dollar. OPEC demanded a substantial increase in crude oil prices, while oil companies insisted on 15% increase.

On October 16, ten days after the beginning of the War, Gulf producers raised the posted price of oil by 70% [4, p. 56]. This marked the first time OPEC unilaterally fixed the price of its crude oil. The following day, member countries of the Organization of Arab Petroleum Exporting Countries (OAPEC) at their meeting in Kuwait placed an embargo of oil supply on the United States, which they designated as a "principal hostile country", in response to US support for Israel with its $2 billion in emergency aid, including an outright grant of $1.5 billion.

The embargo was later extended to Western Europe and Japan. Arab countries also agreed to cut oil production by five percent from September's output and to continue until their economic and political objectives were met. The reduction, which was on the order of 2 million b/d, had in just three months pushed the spot market price substantially higher than the posted price [5].

The Arab-Israeli conflict was to have both an economic and political impact on Nigeria. Economically, the Nigerian oil industry got a boost as the United States turned to it. Rising revenues from oil consolidated the dominance of oil in the total export earnings of Nigeria [6]. Although the decision by members of OPEC to cut production was political, other members of OPEC came under heavy pressure to create a permanent mechanism through which OPEC members could maintain high prices at the end of the boycott.

The political impact of the Arab-Israeli conflict on Nigeria has to be understood against the background of the composition of OPEC itself and the relationship between Nigeria, the Arab countries of the Middle East and Israel.

At the time of the conflict, OPEC consisted of 11 countries, seven of which were Arab states either in conflict with themselves or with others. Nigeria's membership in the organization meant that it could not completely insulate itself from these conflicts. For centuries, Nigeria had maintained contact with Arab countries of North Africa and the Middle East through trade and pilgrimage to Saudi Arabia [7, p. 4]. The Nigerian government's position was that had Israel withdrawn its forces from the occupied Arab territories in accordance with the 1967 resolution of the United Nations, there would not have been war.

FALL OF THE SHAH OF IRAN AND ITS AFTERMATH

In 1979, six years after the first oil shock, the world economy was plunged into another spiral of oil price hikes caused by political and technical factors. Events leading to the Iranian revolution contributed to destabilizing the market when in October 1978 workers in the Iranian oil industry went on strike, heralding the death knell of the Pahlavi dynasty. By December of the same year the strike had deprived the world market of the total production of Iranian oil of approximately 6 million b/d.

Although Saudi Arabia, Nigeria, Venezuela and Libya increased their production to meet the shortfall, they could not stem the tide of price hikes. This was aggravated by the failure of Saudi Arabia to produce to capacity. Exactly four days after the fall of the Shah in January 1979, Saudi Arabia announced that for technical reasons it could produce only 9.5 million b/d, a reduction of 1 million b/d below its December 1978 production. Stocks of the oil companies were running low.

This led to massive restocking by the oil companies and the frantic demand considerably impacted the spot market trading in very limited stocks because transnational oil companies which had preferential crude had reduced supplies to third parties. Oil exporting countries were selling only a part of their production on the market.

IRAN-IRAQ WAR AND ITS IMPACT ON NIGERIA'S OIL INDUSTRY

In August 1980, Iraq launched an attack on Iran and advanced rapidly into the country. Iraq was preparing for the war after the fall of the Shah [8, p. 282]. It also increased its oil production in 1979 and 1980.

These developments had serious consequences on OPEC and relationships among its member countries: it paralyzed to some extent the operations of the organization, because two of its powerful members were locked in war. Saudi Arabia, Kuwait, Qatar and the UAE, Gulf countries not directly involved in the war, met to formulate a regional co-ordination of oil policy.

In their turn, Nigeria, Gabon, Libya and Algeria, four African countries, met in Algiers, the capital of Algeria, to consider their response should there be a shortage in the world market. Contrary to expectations, rather than a shortage there was a glut in the world market.

The situation was compounded by the decision of Saudi Arabia to maintain its oil production, rejecting all appeals to do the contrary. Its objective was to bring prices down to levels acceptable to it. As if to drive away producers like Nigeria from the market, Zaki Yamani, the Minister of Oil and Mineral Resources, even went so far to appeal to the consumer countries to help Saudi Arabia in its trial of strength against its own OPEC partners. Saudi Arabia did so because at that time its production accounted for 40% of total OPEC production and approximately half of its exports.

An effective 10% cut by the other 12 members of the organization and even higher cuts by Nigeria, Venezuela, Kuwait and Qatar withdrawing over 1.3 million b/d could not reverse the trend as supply far exceeded demand. It was a turbulent period for OPEC as member countries engaged in an acrimonious attempt to grapple with the glut [8, p. 287].

Since 1973 when OPEC initiated the move to exercise influence on the price of crude oil, there have been far reaching adjustments in the demand and supply of the product. The role played by countries of the OPEC is significant in this respect. The rise in the price of crude oil transformed hitherto unprofitable reserves into profitability. Having lost control over reserves of the Middle East, the transnational oil companies intensified their search in other regions of the world, particularly Asia, Africa and Latin America. The heavy burden on oil importing countries, which the rise in crude oil imposed, encouraged them to develop, where possible, their own national resources. This was the route taken by the UK, Norway, Brazil, Egypt, India, Malaysia and China.

Nigeria, Libya, Algeria and Gabon opposed the Saudi policy. They refused to yield to Saudi pressure that they cut the price of their crude oil by $5 (from $40 to $35) and unanimously affirmed at the end of a meeting held in Algeria on June 22, 1981, their determination to maintain the official selling price of their oil.

But the rapport de force between them and the oil companies had changed. To pile on pressure the oil companies began cancelling contracts they had entered into with these countries. Nigeria was hit hard. By July, its oil production had fallen to less than 900.000 barrels per day, which represented 60% less than what it produced in the same period in 1980, forcing it to break ranks with its co-African producers.

Attempts by the two African Arab countries to convince it to adhere to their strategy fell on deaf ears as combined pressure from the Saudis and the oil companies had created both political and economic tension in the country. As a result, the government decided to lower the prices of Nigerian crude and by so doing broke ranks with the African bloc, a triumph for the Saudis [8, p. 289].

Nigeria had become one of the weak links in OPEC with its large population, failed economic transformation and near total dependence on crude oil for revenues. As British writer P. Terzian notes, "the oil companies put every ounce of pressure they could muster upon Nigeria, the weak link in OPEC" [8, p. 297].

Thus three days after the end of OPEC's Geneva conference on March 20, 1982, Nigeria's production fell by 50%, from 1.2 million b/d to only 600.000 b/d. The companies refused to buy Nigeria's oil, arguing that it was costing them $5.50 a barrel more than North Sea crude, which competed favorably with Bonny Light in terms of quality.

Indeed, increasingly sophisticated refining and catalytic conversion made heavier crude more competitive with light Nigerian oil [9, p. 52]. This placed the Shagari administration and the national economy dependent on oil in a precarious situation. By the 1980s, no new investment was forthcoming in the industry. This resulted in a lull in exploration activities at a time when Nigeria needed to increase its reserves.

The fall in revenue as a result of the glut also coincided with falling oil reserves. It was then estimated that reserves fell from 18.2 billion barrels in 1978 to 16.2 billion in 1983 and then to 16 billion in 1984 [10, p. 83].

In the last few years, the growth in energy demand in hitherto low consuming countries has been unprecedented. The industry has also witnessed shifting trends in global energy demand from West to East and the concentration of reserves in a few countries.

Demography and economic growth are two other factors that have to be taken into consideration. The world's population is expected to grow by an average of 1% per annum till 2030, reaching some 8.2 billion, an increase of 1.7 billion. More than 94% of this growth will occur in developing countries. The rate of expansion will however gradually slow in all regions. On the other hand, world economic growth is assumed to be at an average of 3.5% per annum to 2030, with the highest growth coming from South Asia, predominantly India, Pakistan and China at an average of 5% [11].

Approximately 900 billion barrels (78%) of the world's reserves are in OPEC member countries. With advancing technologies, reserve availability is not the critical challenge to meeting global capacity additions as sufficient reserves exist to meet demand for decades to come. The main challenge is timely development of reserves and security of supply deliveries.

Furthermore, a significant portion of the world's remaining reserves are held and managed by national oil companies, particularly in OPEC countries. There is therefore increasing dependence on both OPEC and its national oil companies to ensure global availability.

Nigeria's planned capacity growth is at an average of 6% annually, higher than OPEC's. Given this distortion, therefore, the adaptation of quotas to the principle of proportionate spare capacity will be necessary in the long run. In other words, the adaptation of an OPEC quota mechanism, which takes into consideration installed capacity, is imperative if Nigeria is to monetize its capacity increases.

NIGERIA AND OPEC TODAY

In 2017, the value of Nigerian petroleum exports reached $38.6 billion [12]. In February 2018, OPEC allies pushed to restrict oil output in an international attempt to bolster crude prices [13]. Nigerian producers are heading in the opposite direction, aspiring to increase output by 250.000 more barrels a day to reach their overall goal of 2.5 million b/d by 2020. Ironically, it's happening at the same time that the Nigerian government has pledged to participate in a global pact lead by Saudi Arabia and Russia to restrict oil supply. The government promised to keep output under 1.8 million b/d in 2018. Meanwhile the nation's crude output was at its highest level in more than two years [14].

In January, Nigeria produced an average of 1.93 million b/d, well above the promised 1.8 million. On top of this figure, the nation is set to start up production in a new large-scale oil field by the end of the year, their first in half a decade. The new offshore Egina oil field will have a production capacity of 200.000 b/d. While Nigerian government officials say one thing and independent producers are doing the opposite, the rest of the oil-producing world is looking nervously on, hoping that other countries won't begin to follow Nigeria's lead and ramp up their own production, causing the tenuous OPEC deal to fall apart.

CONCLUSION

Nigeria's membership in OPEC in the 1970s was to a degree influenced by the resource nationalism of the founding members of the organization - the drive for the control of their hydrocarbon resources - and the need to channel those resources towards national economic development. While oil policies - fiscal and participation regulations - were generally fashioned in line with decisions and resolutions of OPEC, Nigeria opted for a gradualist approach. The early phase of the development of the Nigeria's oil industry owed a great deal to the geopolitics of Arab North Africa and the Middle East and helped to modify the balance of power between Nigeria and the oil companies operating in the country.

Although Nigeria was never directly involved in the major conflicts in the Middle East, which in most cases involved other OPEC member countries, it was not shielded from their outcomes. The instability in the Middle East and the need for uninterrupted supply of oil partly explains the intense pressure put on successive Nigerian administrations to quit OPEC.

The conflict in the Middle East that continues to have political significance in Nigeria is the Arab-Israeli conflict. Nigeria has a large Muslim population and has had long contacts with the countries of the Middle East, especially Saudi Arabia. During the Nigerian civil war (1967-1970), the Federal Government was supported by virtually all countries of the region in contrast with Israel, which provided covert support to separatists of Biafra.

Nigeria did not break diplomatic relations with Israel as some domestic political forces had wanted, especially after Abba Eban, Israel's Foreign Minister, had gone public with his country's support for Biafra. Nigeria however, severed diplomatic relations with Israel in support of the Arabs. It also supported all resolutions passed in the General Assembly of the United Nations calling on Israel to withdraw from the occupied territories.

While Nigeria enjoys cordial relations with OPEC member countries of the Middle East, and all subscribe to OPEC's objective of coordinating and unifying petroleum policies of member countries in order to secure fair and stable policies for petroleum producers, they have tended to act unilaterally in pursuit of their national interests. This could partly be explained by revenue needs determined by development strategies.

With limited reserves, and a large population in contrast with Saudi Arabia and Kuwait, which both have small populations and reserves that could last for over 100 years, coupled with its failure to significantly transform its oil dependent economy, Nigeria is considered as one of the weak links in OPEC despite its active role in the organization, especially in times of crisis.

Nigeria, however, has remained a member of OPEC despite the enormous domestic pressure its leaders have periodically come under to quit the organization, particularly on account of the export quota allowed the country since the mid-1980s. Gabon left in 1994; Ecuador and Indonesia suspended their membership in 1992 and 1999 respectively. To ease the periodic domestic pressure on Nigerian governments and keep it within the organization, some compromises will have to be reached, especially given the country's plans to develop capacity and its on-going attempt at economic transformation, which demands considerable public investment.

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