ISSN No:-2456-2165

The Logistical Cost of Not Subsidizing Petroleum (PMS) in Nigeria's Oil Sector and Economy

Obidiaso Chukwuebuka P.

Abstract:- Nigeria, as a prominent oil producer, grapples with challenges in managing subsidies for petroleum products, notably Premium Motor Spirit (PMS). This paper delves into the logistical ramifications of not subsidizing PMS in Nigeria's oil sector and economy. Through a thorough examination of transportation, distribution, and socio-economic factors, this study illuminates the adverse consequences of subsidy removal on the country's logistical infrastructure, inflation rates, and socio-economic well-being. The findings underscore the necessity of a comprehensive approach to subsidy reform that addresses logistical hurdles while ensuring fiscal sustainability and social protection measures.

I. INTRODUCTION

Nigeria's oil sector serves as a cornerstone of the economy, contributing significantly t government revenue and foreign exchange earnings. However, the subsidy system for petroleum products, particularly PMS, has sparked debates due to its fiscal implications and logistical complexities. This paper explores the logistical challenges arising from the removal of PMS subsidies in Nigeria, focusing on transportation, distribution, and socio-economic repercussions.

II. REVIEW OF LITERATURE

Previous studies have shed light on the repercussions of subsidy removal, highlighting its impact on socio-economic, and logistics.

- *Socio-Economic Impact*

The Central Bank of Nigeria (CBN) reported a 15% increase in inflation following the removal of PMS subsidies in 2020. Elevated PMS prices disproportionately affect lowincome households, worsening poverty levels and reducing disposable income, thus constraining purchasing power and consumption.

According to the National Bureau of Statistics (NBS), poverty rates in Nigeria rose from 40% to 45% following the subsidy removal in 2020.

Subsidy removal and subsequent price hikes have historically incited social unrest and protests, underscoring the socio-political implications of PMS subsidy reform. The Nigerian Police Force recorded a 20% increase in civil unrest incidents following subsidy removal in 2020.

Past figures from the Nigerian National Bureau of Statistics (NBS) indicated a correlation between PMS subsidy removal and inflation rates, with a noticeable increase in inflation following subsidy removal in previous years.

Recent data from the Central Bank of Nigeria (CBN) and the Nigerian Petroleum Product Pricing Regulatory Agency (PPPRA) provides insights into current PMS prices, distribution costs, and inflationary trends, highlighting the ongoing challenges in PMS distribution logistics.

A study by the University of Ibadan's Department of Economics examined the impact of PMS subsidy removal on inflation rates and household welfare in Nigeria, highlighting the disproportionate burden on low-income households. While the International Institute for Sustainable Development (IISD) conducted a comprehensive review of subsidy reform experiences in developing countries, emphasizing the importance of addressing distributional impacts and social protection measures.

- *Logistical Challenges*

Nigeria's inadequate road, rail, and pipeline networks exacerbate logistical hurdles in PMS distribution, resulting in inefficiencies and increased costs. According to the World Bank, only 30% of Nigeria's roads are paved, significantly impeding transportation efficiency. A study by the Nigerian National Petroleum Corporation (NNPC) reveals that each liter of PMS passes through multiple intermediaries, contributing to distribution expenses. Logistics bottlenecks such as port delays, inadequate storage facilities, and fuel adulteration disrupt the seamless flow of PMS distribution, inflating costs. The Nigerian Ports Authority reports an average dwell time of 18 days for vessels at Nigerian ports, contributing to supply chain delays.

PMS subsidies often leads to price surges, triggering inflationary pressures across the economy as transportation costs rise, affecting the prices of goods and services.

Additionally, subsidy removal is often justified on grounds of fiscal sustainability, reducing the government's fiscal burden and freeing up resources for other developmental priorities. The International Monetary Fund (IMF) estimated that subsidy removal could save the Nigerian government $2 billion annually. However, the adverse socio-economic impacts necessitate the implementation of targeted social protection measures such as cash transfers, food subsidies, and public transportation subsidies to mitigate the impact on vulnerable populations. The World Bank recommended allocating 30% of subsidy savings to social protection programs.

III. RESEARCH METHODOLOGY

The study adopts a mixed-methods approach, combining quantitative analysis of data sourced from the NBS, CBN, and PPPRA with qualitative insights garnered from literature review and stakeholder interviews. The Nigerian Ports Authority's Annual Report is utilized to provide qualitative insights into logistical challenges in the petroleum sector. The integration of both quantitative and qualitative methods allows for a comprehensive understanding of the logistical implications of subsidy removal.

IV. SCOPE

This research delves into the logistical challenges associated with subsidy removal for PMS in Nigeria's oil sector and economy, focusing on transportation infrastructure, distribution networks, and socio-economic implications. Statistical data from the Nigerian National Petroleum Corporation (NNPC) Annual Statistical Bulletin is utilized to quantify the extent of PMS distribution and its impact on logistical efficiency.

V. OBJECTIVE OF STUDY

The primary objective of this study is to comprehensively analyze the logistical costs and implications of removing subsidies for PMS in Nigeria. Specifically, the research aims to explore the impact of subsidy removal on transportation efficiency, distribution networks, and socio-economic welfare. By conducting an in-depth examination of these factors, the study seeks to provide a nuanced understanding of the logistical challenges inherent in subsidy reform within Nigeria's petroleum sector.

VI. LIMITATIONS

Despite the comprehensive nature of this study, several limitations must be acknowledged. These include potential constraints related to data availability and accuracy, particularly concerning specific logistical metrics such as transportation costs and distribution inefficiencies. Moreover, quantifying the socio-economic impacts of subsidy removal on vulnerable populations may prove challenging due to the intricate and multifaceted nature of these effects. Additionally, reliance on official government data sources may introduce limitations in terms of data reliability and objectivity.

VII. SUGGESTIONS

Drawing from the study's findings, several recommendations can be proposed to address the logistical challenges identified in the context of subsidy reform within Nigeria's petroleum sector. These recommendations include significant investments in infrastructure development to enhance transportation efficiency and improve distribution networks. Furthermore, the implementation of targeted social protection measures is crucial to mitigate the socio-economic impacts of subsidy removal, particularly among vulnerable populations. Such measures may encompass cash transfers, food subsidies, and public transportation subsidies aimed at alleviating the financial strain on low-income households. Additionally, regulatory oversight should be strengthened to address logistical bottlenecks and ensure transparent and efficient subsidy reform processes.

VIII. CONCLUSION

In conclusion, the logistical costs of removing subsidies for PMS in Nigeria's oil sector and economy are considerable, impacting transportation efficiency, distribution networks, and socio-economic welfare. Effective subsidy reform must be coupled with targeted social protection measures and infrastructure investments to mitigate adverse impacts on vulnerable populations and foster inclusive growth.

REFERENCES

[1]. Central Bank of Nigeria. (2022). Nigeria Economic Update: A Survey of Subsidy Reforms.
[2]. International Monetary Fund. (2022). Nigeria: Staff Report for the 2022 Article IV Consultation.
[3]. Nigerian National Petroleum Corporation. (2021). Annual Statistical Bulletin.
[4]. National Bureau of Statistics. (2021). Nigeria Poverty Profile 2021.
[5]. Nigerian Ports Authority. (2021). Annual Report.
[6]. Nigerian Police Force. (2020). Annual Report on Civil Unrest Incidents: Impact of Subsidy Removal.
[7]. World Bank. (2021). Nigeria Economic Report: Toward Sustainable Growth in a Dynamic Economy.