

## Original Paper

# Economic Implication of Crude Oil Theft in Nigeria

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### Abstract

*This study is carried out against the backdrop of oil theft as a threat to the economy and security of Nigeria. The study relied on existing literature on the problem and also draws from the Resource Curse Theory. The importance of crude oil to the economic development of Nigeria is also stressed. The reasons why crude oil should be sustained also form the epicentre of our discussion. The threat of the nefarious act on the security of the country is one of the main thrust of this work. The Dutch disease is identified as an economic explanation of the resource curse theory and this is used to explain the economic implication of oil theft in the Niger Delta of Nigeria. The paper posited that the implications on sustainable economic development include; reduced revenue, increased unemployment and diversification of the economy. Other implications include sustainable conflict, possession of arms, curb social development and displacement of persons. To fight the illicit practice of oil theft, it is recommended that transparency and accountability should be adhered to while security operatives should be re-oriented on the ethics of their job and there should be close relationship among government, oil producing communities and multinational corporations.*

### Keywords

*oil theft, resource curse, economic development, oil producing communities and security*

### 1. Introduction

Crude oil is the major products of many countries which eventually form the bedrock of modern economy. Oil has become the major source of globalization, without it there would be no plastic, little transport, and a world-wide landscape that few would recognize (Smil, 2008). According to Okereke (2013), Nigeria being a mono-economy nation largely depends on the oil sector for its economic survival. The Nigerian economy is dependent on the exploitation of crude oil and the nation's future is very much tied to the commodity. The Niger Delta region of Nigeria that play host to oil companies is endowed in both oil and gas resources. The resources from the region account for over 90% of the Nigerian export and

foreign exchange earnings (Ekverhare, 2002). Reports have it that the increase or otherwise crude oil production affects directly the revenue base and development programmes of Nigerian State.

The importance of crude oil in Nigeria is massive because oil generates about 5.9% to 9% of the country's GDP and over 95% of Nigeria's export revenue. Nigeria is the leading oil exporting country in Africa and eight in the world. Oil production funds numerous multi-billion investments in Nigeria.

The relevance of the Niger Delta to Nigeria cannot be over-emphasized. This is because more than 75% of the country's national income is generated from oil exports (OPEC, 2019). Also, the quality of the different types of crude oil found in the region makes it attractive for exploration by foreign investors, as they are characterized by low sulphur content, low salt composition and low soil to water ratio (Dickson & Usoessien, 2012). These qualities make the crude oil easy to transport through pipelines and have informed tagging the crude oil sourced from the Niger Delta, light sweet crude blends. Also the oil production activities necessitated the location of foreign and local oil companies in the region, therefore providing accommodation to drilling equipment, transportation fleets, and technological devices, that aid the extraction of crude oil from land or sea within the Niger Delta (Soremi, 2020).

However, this important resource base of the country is under serious threat due to clandestine and rapacious tendencies. The Niger Delta region grapples with the challenge of oil theft with poor living condition of most oil-producing communities (Ebegbulem et al., 2013). Therefore, this paper aims to discuss the; overview of oil theft; method of oil theft, participants and the social and economic implication of oil theft in the country.

## **2. Method**

A descriptive approach is used in this study to highlight issues involved in the study. Relevant literature on the subject matter was used to analyse the issue. The approach is expository where issues concerning the problem were articulated and discussed. The resource curse theory approach was also used to analyse the problem.

### *2.1 Theoretical Framework*

The Resource Curse Theory will be used to discuss issues addressed in this paper. The theory states that developing countries that are rich in natural resources and are dependent on the export of their natural resources, experience slower economic growth rate than developing countries that are resource-poor (Badeeb et al., 2017; Soremi, 2013). This term "resource curse" was first used by Auty (1994) and Soremi (2019). Resource curse has been applied to specific natural resources like the paradox of plenty oil booms and petro state by Karl (1997) and Ross (2012).

The expectation of economic growth and the subsequent disappointing performance of many developing countries rich in oil can serve as a good example to illustrate the resource curse theory. Some developing countries that are oil-rich such as Venezuela, Iran, Angola and Nigeria after years of exporting oil are today characterized by poor economic growth, vulnerability to price shocks, poverty and high inequality

as well as high level of corruption, authoritarianism and poor governance (Kennedy, 2014) considering the realities on ground in these countries, it helps to give credence to the resource curse theory.

The resource rich countries experience slow growth rate in two ways: (i) The rentier state structure and (ii) The Dutch disease (Badeeb et al., 2017). A rentier state is one that drives its revenue from rents for use of landed property. Rents are paid by extractive companies and remitted to the authority designated as owner of the rights to the property. In Nigeria and many other developing countries, extraction of crude oil is an activity dominated by international interest, the collection of rents represents an earning opportunity for the country that is devoid of significant local labour input (Ross, 1999; Soremi, 2019). According to the resource curse theory, a rentier economy will prompt a rent seeking behaviour.

Dutch disease on the other hand refers to a situation whereby increase in real exchange create of the resource-exporting country due to the revenue from oil, makes the country's non-oil export products less competitive and less attractive to investors (Otaha, 2012). According to Babeeb (2017), the phenomenon was identified when the economy of the previous manufacturing town of Groningen in the Netherlands transformed to a natural gas-mining enclave. The introduction of mining activities in the town thus led to the rapid decline of manufacturing industries. The term Dutch disease was coined to explain what led to the deindustrialization. The explanation of the Dutch disease is primarily economic (Soremi, 2019). They include the increase in the exchange rate of the resource-rich country leading to increase cost of non-mineral products. Another explanation is the flight of revenues to other countries where the mining companies originate.

## *2.2 An Overview of Oil Theft in Nigeria*

Oil theft in Nigeria is considered to be the illegal appropriation of crude or refined oil products from the pipeline of multinational oil companies. Oil theft in the country is facilitated by the pragmatic co-operation between security forces, militia organizations, the local population, and oil company employees who used a variety of methods to steal oil from the multinational corporations that are stationed within the country. The major oil giants currently operating in the country include Exxon Mobil, Chevron, Equinor, Shell and Agip. These are the five largest multinational oil companies present in Nigeria (Ibenegbu, 2018). Due to lack of federal oversight and a large network of corruption, oil theft is primarily circular rather than hierarchical and requires frequent collaboration between varieties of random players depending on the level of oil theft being committed (Ralby 1. January, 2017). Each group maintains a specific role in the oil theft trade in Nigeria.

Although this phenomenon is not restricted to only Nigeria; it is common in other countries of the world such as Texas USA, Indonesia and Mexico (The Economics, 2012: Jakarta globe 2013). However, Nigeria is leading with a record of over 300,000 barrels of oil being stolen daily. Considering this enormous quantity that is legally siphoned daily, Nigeria is recognized as the epicentre or hotspot for oil theft. The reasons for the occurrence of oil theft in Nigeria appear to be webbed in grim complexity.

## *2.3 Methods of Oil Theft*

The perpetrators of the illegal act of oil theft have adopted several means of stealing the product. Methods such as Hot-tapping and cold-tapping are extremely sophisticated methods of oil theft and are primarily used in large-scale operations during the crude oil stage. Terminal and vehicle transportation theft involves the re-appropriation of both crude and refined oil products from storage facilities during the process of export transportation.

#### 2.3.1 Hot-tapping

During the process of hot-tapping, an illegal secondary pipeline belonging to oil theft criminals is attached to high-pressure primary pipeline belonging to a multi-national co-operation (oil: the Mexican Cartels, Retrieved 2019). After this breach is successful, oil is diverted from the primary pipeline into a mobile oil bunkering facilities that are attached to the secondary pipeline.

By gradually withdrawing small amounts of oil, the primary pipeline is able to function at an almost normal pressure and can remain undetected by oil corporation's officials. Hot-tapping is said to extremely dangerous and complex.

#### 2.3.2 Hot-tapping Cold-tapping

In the process of cold-tapping, portion of a pipeline is blown up and a secondary pipeline is attached to the shut-down primary pipeline. After the primary pipeline is repaired, the existence of the secondary pipeline's access to the oil flow is unknown since the overall pipeline pressure will not fluctuate. Cold-tapping is considered to be less dangerous.

#### 2.3.3 Hot-tapping Terminal and Vehicle Transportation Theft

According to Vidal J. (2013), oil theft is common during the initial stages of the oil production process where theft is rampant at the port terminals where crude and refined oil products awaits shipment to international locations and during the transportation of oil products from corporate facilities. In export terminal theft, administrative collusion and security force corruption facilitate siphoning of oil shipment reserves into criminal trucks (Vidal J., 2013). In turn, these fuel trucks are used to transport illegal oil products for sale in neighbouring African countries where the price for oil is substantially higher than the subsidized rates in Nigeria.

### 3. Result

#### 3.1 Participants of Oil Theft in Nigeria

According to Boris (2015) oil theft in Nigeria requires the effective collaboration between a variety of participants and the maintenance of their individual function which are essential to committing theft. This collaboration and interaction is entirely situational and takes on a certain complexity depending on the level of oil theft that is being committed. The following participants can be identified.

#### 3.2 Officials of Oil Companies

In most instances of large-scale and illegal oil bunkering, corrupt resident oil authority officials allow for the successful tapping of oil pipelines. Subsequently, the Nigerian security forces or militant organizations offer guided escorts for the transportation of stolen refined crude oil products. These

products are eventually sold to neighbouring can African countries where the price is much higher (Mossman, 2019).

### *3.3 Military and Security Forces*

According to Garuba (2010), since the presidency of Ibrahim Babangida from 1986-1993 and his appointment of officials to supervise the oil producing sectors, the Nigerian military has maintained extensive control over the crude oil trade. The military personnel and joint-task force members that are involve in the illegal oil trade primarily serve as armed escorts for the stolen petroleum products during large scale operations. In addition to providing security for illegal trade, the Nigerian Navy is active in seizing transportation vessels that are suspected of containing stolen petroleum products (Taylor, 2019). However, in these operations, Nigerian security forces have often been accused of facilitating the disappearance of captured vessels and re-appropriated sale of sized products to foreign markets.

### *3.4 Militant Organizations*

Militant organizations according to Wilson (2014) have been often used by “Political godfathers” in the oil sector regions to cause disturbances in regional stability. Therefore political elites use the opportunity to implement methods of oil theft under more loose supervision by the government.

Considering the fact that over 50% of Nigeria’s total is designated as impoverished by the World Bank, the incentives for joining local gangs and militant organizations that work under these political elites remains an option. They served as armed escorts for the property of political elite or function as the sabotage mechanism that is necessary for cold-tapping operations (Wilson, 2014).

### *3.5 Local Population*

The general population that surrounds the variety of oil pipeline throughout Nigeria often facilitates the local creation and sale of illegally refined oil products as means of alleviating their impoverished condition. The locals use small-scale oil tapping to obtain a collection of crude reserves, their lack of technical expertise of the refinement of acquired crude oil reserves in rudimentary and cruel method in bush refineries “Kpo fire” have contributed significantly to the development of pollution in their area of production in Nigeria. Considering the benefits not minding the environmental consequences, oil theft has become a common practice and quick means of livelihood in the Niger Delta region of Nigeria.

## **4. Discussion**

### *4.1 Economic and Social Impact of Oil theft in Nigeria*

This draws from the proposition of the resource curse theory to identify the different impacts. According to scholars, the rentier state theses of the resource curse theory is politically inclined and have social implications, while the Dutch disease thesis is economically driven and have financial implications (Fleming et al., 2015). Therefore, this paper follows the approach of linking the economic and financial aspect of the resource curst theory.

### *4.2 Economic Implications*

#### **a) Reduced revenue for all layers of government**

Oil theft in Nigeria has affected the revenue of all layers of government. The number of barrel of crude oil has been affected due to hot-tapping, cold-tapping or when it's been transported. The resource curse theory and the Dutch disease plays out on the economy of Nigeria. Since the involvement in oil exportation, there has been near collapse of the non-oil sector, which in the past contributed the bulk of Nigeria's export earnings (Otaha, 2021). Nigeria depends heavily on revenue from crude oil, such that 80% of Federal government's revenue, 95% of export receipts and 90% of foreign exchange earnings come from oil export (Soremi, 2019). A country that is so heavily dependent on returns from sale of crude oil will be affected by any increase or decrease in the quantity of oil being sold through the government. According to Soremi (2019), the loss of revenue from oil theft which is negative impact can further lead to diversification of the economy. This will enable the government to pay more attention to non-attractive industries and embark on taxation programmes that are approximately monitored. If the growth in the revenue of the non-oil sector persists, which is a way to overcome the Dutch disease, it may help reduce government's dependence on oil and possibly contribute to a process that can help Nigeria escape the resource curse theory.

#### **b) Increase in Rate of Unemployment**

Bloomberg (2013) noted oil theft in Nigeria has led most of the international oil companies (IOCs) to exit from many of their onshore ventures. This development even though some of these companies has commence new operation off shore may bring about massive job cut offs in the country (Daily Trust, 2014) thereby demonstrating the volatility of mineral-dependent economy.

#### *4.3 Social Impacts of Oil Theft in Nigeria*

Soremi (2019) outline the social impact of oil theft in Nigeria to include;

- **Sustained Conflict:** According to notable scholars including Obi (2010), proceeds from oil theft are often used by warlords in the country to acquire weapons and also to recruit and train fighters. The exchange of the crude oil with weapons or purchase with proceeds from sales. These acquisitions and re-enforcement provide the criminal armed groups with resources they need to perpetuate their engagement in the illegal activity. In a bid to sustain receipt for oil rents, the Federal government often deploys military troops to the Niger Delta to rid the region of criminality. The militarization of the region has led to occasional face-off between the criminals and the military with reported casualties on both sides. Apart from the face-offs with the military, criminals groups also engage in hostilities among themselves over distribution of appropriated resources and alleged collaboration with security agencies (Ikelegbe, 2005). This continuous conflict threatens the security architecture of the region.
- **Impediment to Social Development:** The insecurity in the Niger Delta has affected the development of the region. They affected government social agencies and non-governmental organizations. Young people of school age may choose to join oil theft gangs in order to acquire more wealth. This led to loss of man power as most of them end their lives.

- **Internal Population Displacement:** Another social impact of oil theft in Nigeria is the internal population displacement of people due to constant clashes between the military and the criminal armed groups. People migrate to areas where there is relative peace.
- **Environmental Pollution:** The activities of oil theft in Nigeria ended in polluting the environment. There is incessant oil spills due to unprofessional handling of oil pipelines by the criminals. It causes pollution in all the facets of the environment (Land, Air and Water). This development also led to migration of people from the affected areas.

## 5. Suggestions to Reduce the Occurrence of Oil Theft in Nigeria

- The International Oil Companies (IOCs) operating in area should consider the plight of host communities by meeting up to their corporate social responsibilities by providing incentives that will improve the standard of living. This might make oil theft a less attractive vocation.
- Publication of criminal record of Corrupt Individuals, all information of people caught stealing crude oil should be made public; this may likely be followed by a demand for justice by Nigerians citizens and international activist. This action can lead to conviction and sentencing of the culprits which will in turn deter other from engaging in the illicit business.
- Election and governance process. Considering the dangers of oil theft on the economy and the people, there is a need to participate in election that will usher a new and responsible government. According to Soremi (2019), transparency and accountability can help guarantee that election processes are free and fair and devoid of manipulation. Credible elections will lead to emergence of competent leaders, who will not extol political demands over economic properties, but can facilitate diversification of the economy and commit to improving wellbeing in Nigeria. As a result, there will be improved living conditions in the oil producing areas and less people might be lured into becoming oil thieves.

## 6. Conclusion/Recommendations

The Niger Delta region of Nigeria has been noted for oil theft. It has become a common trade among the people. This paper applied the Resource Cause Theory to explain the threat of oil theft on economic development and security in Nigeria. In addition, the paper proposed that the rentier economy is not good for the country rather concentration should be on the diversification of the economy to pay more attention to the extractive industries and embark on taxation programmes that are appropriately monitored. Beyond oil theft, environmental challenges and request to energy security by oil-importing countries, to pose a threat to Nigeria's status as an oil-dependent nation. While these threats can deprive Nigeria to potential earnings from oil exports, they can also help to slowly ease the country out of its rentier state structure. As a non rentier state, the country will have no option but to rely on citizen's taxes for its funds, and in turn, the citizens will become more proactive in monitoring how the funds are being expended. With this change, Nigeria may devoid of criminal activities associated with oil.

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