

# An Assessment of the Impact of Oil Theft on Sustainable Economic Development in Nigeria

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**Abstract:** This paper examines the impact of oil theft on sustainable economic development in Nigeria against the backdrop of the country's dependence on petroleum as a source of the government's revenue. The paper also assesses Nigeria's oil resource economy and its contribution to national development. The article posits that although there is a large deposit of petroleum in Nigeria and oil resource is the country's primary source of income, its exploitation has not engendered the desired sustainable development due to oil theft. Entrapped in the vicissitudes of oil theft exacerbated by the establishment of illegal refineries and oil bunkering, it has been difficult for the nation to generate the needed revenue to initiate development. Therefore, to what extent has oil theft affected revenue generation in Nigeria? What has been responsible for oil theft? This paper explores and interrogates these, and other variegated issues arising from the oil theft analysis and suggests the way forward. The research method in the paper is qualitative, employing descriptive and analytical tools to conclude. Essentially, the report argues and demonstrates that Nigeria's development is far from sustainable despite the availability of oil deposits and their exploitation.

**Key words:** oil bunkering, oil resource economy, oil theft and sustainable development

**JEL codes:** O43, O14, O11

## 1. Introduction

Natural resources are critical drivers of economic development among nations that possess them, and the role of these resources for economic, political and social stability has been a subject of scholarly debate worldwide (Barma et al., 2012). Natural resources such as crude oil and other mineral resources are a source of a nation's wealth if properly harnessed and managed. This resource endowment varies according to geography. Nigeria is home to a large deposit of crude oil in the country's Niger Delta region, and has since been exploited for revenue generation by the government. Over the years, however, the country has suffered a setback in revenue generation attributed to crude oil theft. It is a truism that Nigerian crude oil is stolen commercially. Some of what is appropriated are exported. Proceeds of the stolen product are laundered through global monetary centres and used to shop for property in and out of Nigeria. In Nigeria, politicians, navy officers, militants, oil enterprise personnel, oil buyers and groups profit, as do other organized transnational criminal

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groups in the Gulf of Guinea (Katsouris & Sayne, 2013). Oil theft is one of the most severe natural resource crimes globally. In Nigeria, there is systematic theft, sale and illegal refining of as much as 20% of Nigeria's petroleum oil. Illegal bunkering and artisanal refining have accelerated exponentially during the last decade (Cartwright & Atampurge, 2020), making domestic resource mobilization for sustainable development difficult.

Domestic resource mobilization is a strategic priority for developing economies the world over. Economic sustainability is of top significance for many countries that can suffer from decreased tax proceeds because of resource theft (Romsom, 2022). Crude oil theft has been a recurring decimal concerning the safety and protection of the Nigerian oil infrastructure. It has brought about a decline in sales which accrue to the Federal Government. Consequently, the authorities cannot fulfil many of their responsibilities to the people (Imoisi & Okongwu, 2021). Against this backdrop, this paper assesses oil theft's impact on Nigeria's sustainable economic development. The article also considers Nigeria's oil resource economy and its contribution to national development. To achieve this objective, the article is segmented into six sections. Section one, the introduction, underpins the rationale for the study. Section two clears some conceptual cobwebs arising from the analysis in this paper. Section three examines the contribution of petroleum oil to Nigeria's economy. Section four appraises the dimension of oil theft in Nigeria, while sections five and six its implications on sustainable development in Nigeria and concludes the discussion.

## 2. Conceptual Clarification

The concepts used in this paper are the concepts of oil theft and sustainable economic development. It is vital to analyze them to provide the essential and illuminating background upon which the argument in this article will be understood. First is the concept of oil theft. Conceptualizing oil theft has elicited several viewpoints and perspectives from researchers and scholars. The debate has brought several arguments and terminologies, such as pipeline vandalism, oil bunkering and diversion of petroleum products. In this paper, we did not intend to engage in the heated debate on the appropriate definition of the term but to provide a conceptual framework that serves as a basis for analysis. While it may be defined as an illicit act involving the appropriation of crude oil and its derivative products in various ways, Odalonu sees it as "the act of hacking into pipelines to steal crude which is later refined or sold abroad" (Odalonu, 2015). Elsewhere, it is seen as oil taken from pipelines or float stations in addition to more crude oil brought for valid shipment that is not accounted for (Asuni, 2009). From these standpoints, we conceptualize oil theft for this paper to mean illegal diversion and trade of either crude or refined petroleum oil by criminals for self-enrichment against the judicious exploitation of oil for revenue generation by the government. Oil theft occurs in various ways, such as bunkering or unaccounted excess crude oil added to legitimate cargo for export. This definition is apt in the context of this paper because illegal trade in petroleum products dwindles government revenue needed for building other critical sectors of the economy for sustainable economic development in Nigeria.

On the other hand, the concept of sustainable economic development did not need to be replicated in this paper since it has been a subject of detailed analysis by scholars (Barbier, 1990). However, the idea is challenging to grasp it analytically since "one is attempting to describe the environmental, economic, and social features of an ongoing process", as Barbier puts it. However, in simple terms, sustainable economic development means "integrating the economic, social and environmental objectives of society to maximize human well-being in the present without compromising the ability of future generations to meet their needs" (OCED, 2001). Against this backdrop, this paper believes that sustainable economic development is the process of appropriate use and

conservation of resources for the development of quality and improved living standards for the current and future generations over a long period (Erhun, 2015). It, therefore, implies that for economic development to be called sustainable, it must be for an extended period. Therefore, this paper adopts this definition to assess the level of the contribution of Nigeria's oil resources to economic development to determine if such development is sustainable.

### **3. The Contribution of Petroleum Oil to Nigeria's Economy**

Before the discovery of petroleum oil in Nigeria, agriculture and other mineral resources were the major revenue contributors. With the discovery of oil and its subsequent exploitation, especially in the Niger Delta region in 1970 and even offshore in other parts of Nigeria, the government shifted from different sectors to the oil economy. The celebration that followed the discovery of crude oil in commercial quantity marked the beginning of another area of revenue generation focus in Nigeria (Agaba, 2013). It made Nigeria a mono-cultural economy. Nevertheless, petroleum oil has contributed to Nigeria's economy over the years, as can be discerned from the following argument.

The oil sector has assumed a prime place in Nigeria's economy, accounting for 80% of the country's Gross Domestic Product (GDP) since the beginning of the 21<sup>st</sup> century. Nigeria's oil has made the country a major player in the global oil industry, making her the 6<sup>th</sup> largest oil exporter and 7<sup>th</sup> largest oil producer (Aigbedion & Iyayi, 2007). Revenue from the oil economy comprising export earnings, petroleum income tax and royalties has grown progressively. According to the Central Bank of Nigeria, between 1970 and 1998, income from oil rose from 75.3% to 84.1% of the total federal revenue Central Bank of Nigeria, 1998. Aigbedion and Iyayi capture that Nigeria's income from crude oil elevated from US \$8,500 billion in 1989 to \$10.600 billion in 1990. By 1995, those incomes had declined to \$7,001 billion and fell in addition to \$5.276 billion in 1998. However, crude oil costs have improved regularly in the new millennium following the implementation of strict production quotas imposed by the Organization of Petroleum Exporting Countries (OPEC) on member nations to stem the glide of extra crude oil in the international marketplace (Aigbedion & Iyayi, 2007).

As a result of the dominant role of the oil industry in Nigeria's economy, the country's overall economic performance has been linked to oil costs in the past. In the year 2000, the oil GDP improved by 4.8% compared to the preceding year, which, according to the United Nations Economic Committee for Africa (UNECA), is the result of a sudden increase in the international marketplace that helped to propel the growth performance of the entire economy. Consequently, oil costs rose from \$18.00 a barrel in 1999 to \$28.00 in 2000 (Addis Ababa: UNECA, 2005). In another account, Akuva argued that Nigeria experienced a steady accumulation of excess funds from crude oil from 2000 to 2008. According to him, 2000 in 2008, crude oil prices increased from \$27.6 in 2000 to an unprecedented height of \$147 in 2008 (Akuva, 2009). However, after the global economic crisis in 2009, Nigeria's GDP retrogressed by 18.6% while production continued to increase (Igberaese, 2013). From 2008 to 2011, Eboh discovered that the country recorded gross and net oil sales of N23.998 trillion and N13.152 billion, respectively. From 2012 to 2016, N28.153 trillion and N13.612 trillion were recorded as gross and net oil sales, respectively (Eboh, 2017). From 2016 up to this period, Nigeria still depends almost solely on petroleum oil as her primary source of revenue. Of course, the large sales from oil offered net wealth and furnished the possibility for economic diversification essential for development to thrive. However, the large sales complicated macroeconomic management and made the economy exceedingly oil dependent (Akinlo, 2012). In recent times, oil GDP has become more unstable than non-oil GDP due to the instability of oil prices and, more profoundly, oil thievery.

#### 4. Dimensions of Oil Theft in Nigeria

Oil theft as illegal trade and exploitation of petroleum products occurs in different dimensions. This paper did not claim to have known all the dimensions upon which criminal gangs and their cohorts siphon oil. The article aims to prove how Nigeria's crude oil is illegally mined and exploited to dissect how it affects sustainable economic development in the country. As earlier motioned, crude oil stolen from Nigeria is on a commercial scale, and some of the stolen oil is exported to consumers outside Nigeria. How, then, is the nation's oil stolen? One source has claimed that in the Niger Delta, oil is stolen from oil export terminals. In addition, through sabotage of oil infrastructure, in particular pipelines, oil is stolen and transported with barges or boats to be exported or refined locally. These unlawful operations involve a network of security agents and local and overseas actors. It was expected that during the first quarter of 2013 alone, about 100,000 barrels per day (approximately 5 per cent of overall output) were stolen in the Niger Delta. It is estimated that Nigeria lost roughly \$10 billion to oil theft through sabotage in 2016 (Omorie, 2019).

Another dimension upon which oil theft is perpetuated is through the illegal establishment of refineries. For example, illicit refineries are established in the Niger Delta, Nigeria's oil-rich region, with the intent of siphoning crude oil. These are artisanal refineries constructed and installed without government approval, usually using local methods to refine crude oil. These illegal refineries result in revenue loss apart from the environmental hazards they portend to the communities that house such refineries. The report of Transparency International buttresses this point further:

Illegal activity has led to revenue losses as oil is siphoned off and stolen; the human cost and environmental pollution have similarly been significant. Regular spills of oil, arguably caused by oil theft and sabotage, have polluted the waterways, contaminated crops and other food sources, and released toxic chemicals into the air. In 2017, reports emerged that oil spills doubled the risk of child mortality in the Delta region (Transparency International, 2019).

Extraction of crude oil in the Niger Delta area is enabled through an unlawful network of onshore oil wells, pipelines and float stations placed within the creeks of the mangrove forests. These onshore oil facilities are connected with, channels to the export terminals and offshore oil platforms (Bowers & Ngada, 2018). There are about 2,800 oil wells linked to 130 flow stations in 218 oil fields. Transportation of extracted crude oil is through an exposed 4,441 km pipeline network (Department of Petroleum Resources, 2020). To a certain extent, the places of the oil infrastructure divulge them to disruption through perennial vandalism. It is mainly because criminals take advantage of the prevailing infrastructure by breaching oil pipelines and siphoning crude oil for marketing in the global black market or unconventional artisanal refining. The global black market for stolen crude oil is alleged to be underpinned by the need for cheap oil by certain overseas refining corporations in search of maximizing earnings through transnational organized criminality (Bowers & Ngada, 2018). Criminals bore holes into pipelines and extract oil into floating storages such as boats or barges. These are either transferred offshore into large carrier vessels or domestically refined. A second technique is for criminals to insert hoses into broken pipelines to siphon oil immediately into storage boats that can navigate ultra-shallow waters. After that, stolen products are transferred directly into vessels anchored offshore. These acts cumulatively amount to product losses of about 400,000 barrels per day (Bowers & Ngada, 2018).

## 5. Implications for Sustainable Development

Sustainable economic development is a consecutive change in the development of a state where all possible trajectories of development are attracted to the area of sustainable positions. Sustainable economic development entails integrating society's economic, social and environmental objectives to maximize human well-being in the present without compromising the ability of future generations to meet their needs. Giving that oil theft, apart from being responsible for revenue loss for the government, create environmental issues that result in the loss of lives and the destruction of aquatic habitat. A source claimed that about 200,000 barrels of crude oil per day are being lost to oil theft. This account estimate that the Nigerian government loses ₦20 billion yearly, which can be used to develop critical infrastructures and provide employment and social services like clean water, basic health facilities, schools and cash reserves needed to finance development in the nation (News Feed, 2013). It has created developmental challenges in the Niger Delta region, as the Niger Delta Development Commission reported. The developmental challenges of the region are "widespread poverty; a severe dearth of infrastructure and amenities in the rural areas; being the world's third largest wetland with fragile ecosystems; high unemployment, rural-urban migration, urban decay; and environmental degradation and pollution" (Niger Delta Development Commission, 2006). Corroborating this view, Yina maintained that the region is notoriously reputed for glaring at least 76% of the total natural gas resulting in a charged atmosphere of between 1300 and 1400 degrees centigrade, contributes to global warming than the rest of the world put together (Yina, 2014).

Furthermore, oil resource theft has resulted in militancy in Nigeria's oil-rich region. Criminal gangs in the Niger Delta vicinity often utilize proceeds from oil theft to purchase armouries and recruit and train fighters. These acquisitions and reinforcements provide the armed criminal groups with the necessary resources to perpetuate their engagement in unlawful activity. The militarization of the area has brought about occasional face-offs between the criminals, and the army, with casualties reported on each side (Soremi, 2020). Apart from the face-offs with the military, armed militant groups also engage in hostilities amongst themselves over the distribution of appropriate oil. It should be stressed that the activities of these militant groups, such as the Niger Delta Volunteer Force, Movement for the Emancipation of Niger Delta etc., threaten social security and further threaten the Nigerian nation's corporate existence. This and several security challenges sap the nation's economy from initiating developmental projects.

Another negative consequence of oil theft in the local communities is the high school dropouts in the affected districts and adjoining ones. Most children of school age desire to engage in the illegality of oil theft rather than go to school. Parents, too, have not helped matters, as they openly discourage children from attending schools because of the vast earnings realized from oil theft (Anyio, 2015) Consequently, primary and secondary enrollment in communities in the Niger Delta region is dismal. The attractions of the illegal sector perpetuate the lack of motivation to acquire education. The effect of this ugly trend on the future of the communities and Nigeria, in general, is gross in that it can create a criminalized society characterized by the threat of violent behaviors, as Cartwright and Atampugre input (Cartwright & Atampurge., 2020).

## 6. Conclusion

Economic growth and development are highly desirable by all societies as this provides the platform for the

well-being of human beings. Against this backdrop, nations of the world continuously harness human and natural resources to initiate developmental projects to ensure economic growth. As earlier argued, Nigeria has been exploiting resources to develop the nation since the discovery of petroleum oil. As such, the Nigerian oil industry has made many contributions over the years, particularly in generating government revenue and employment opportunities for enhanced economic development. It is, therefore, safe to argue that although the Nigerian economy experienced phenomenal growth as a result of oil revenue, however, it proved difficult to convert the oil wealth into broad-based improvements in economic performance and human development (Ayuba, 2017). It is partly a result of oil theft, the consequence of which is the compounding of Nigeria's development challenges. This paper believes that despite the availability of oil deposits and their exploitation, development in Nigeria, so far as it is, is far from sustainable.

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