Assessing the Impact of Imported Refined Crude Oil from the EU on Nigeria's Economic Growth and Development

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Over the past 30 years, Nigeria's crude oil refining capacity has declined, resulting in a dependence on imported refined petroleum products from the EU, primarily the Netherlands and Belgium. This reliance on imports, which comprise a fifth of Nigeria's total imports, has negatively impacted the exchange rate of the Nigerian Naira and, consequently, the nation's GDP. This article analyses how importing refined crude oil from the EU affects Nigeria's economic growth and development.

Nigeria, with a population of over 213 million (Data 2021), is the largest economy in Africa, mainly due to its rich crude oil reserves. Crude oil, discovered in Nigeria in 1956, is now the backbone of the country's economy, with petroleum exports accounting for around 90% of the country's total exports. Nigeria is currently the second-largest producer of oil in Africa and a member of OPEC. However, despite being a significant producer of crude oil, Nigeria still relies heavily on imported refined petroleum products to meet domestic demand, with over 80% of the demand being met through imports. In 2020, Nigeria imported $7.75 billion of refined petroleum products, becoming the world's 17th largest importer of refined petroleum and one of the highest in Africa. This is surprising considering that the country has four significant refineries with a combined refining capacity of 445,000 bpd (barrels of oil per day), which is more than enough to meet domestic demand. However, these refineries have been non-functional since the 1990s due to poor turnaround maintenance, low capacity, obsolete technology, fuel scarcity, and poor government investment. As a result, Nigeria depends heavily on imports from countries in Europe, Asia, and South America, with refined crude oil imports from the EU being the focus of this article.

Nigeria-European Union trade relationships

Nigeria's biggest import partners for refined petroleum are the Netherlands and Belgium, as shown by OPEC Annual Reports (2020). In contrast, although these countries buy crude oil from Nigeria, they do so in relatively small quantities. The Netherlands imports crude petroleum primarily from Russia, the United Kingdom, the United States, Norway, and Kazakhstan, accounting for only about 1.5% of total imports ($49.9M) from Nigeria. Nigeria exports crude oil mainly to the United States and the United Kingdom. Most of the revenues from oil exports are spent on salaries and importing goods and services, creating a negative trade balance. This overdependence on imports, which are foreign currency-based transactions, puts enormous pressure on the naira, affecting the economy through inflation. Nigeria needs to gradually reduce its oil exports to encourage alternative sources of revenue and conserve this finite and depleting resource.

Nigeria's refining capacity and economic diversification in comparison to other African oil-producing nations

Nigeria lags behind other top African oil-producing nations such as Angola, Libya, and Algeria regarding plant utilisation and meeting local demand for petroleum. While Angola imports 80% of its refined petroleum, Libya can meet over 60% of its local demand, and Algeria has the second-highest refining capacity in Africa after Egypt. However, Nigeria's petroleum industry contributes less than 10% of the country's GDP, despite contributing approximately 80% of the Federal Government's revenue and 90% of Nigeria's export earnings. In contrast, the petroleum sector contributes about 60% of Libya's GDP, over 30% of Algeria's GDP, and more than 50% of Qatar's and Kuwait's GDP. The Nigerian government has been urged to diversify the economy away from crude oil. However, the economy is already diversified away from oil, with over-dependence on oil for government revenues and foreign exchange earnings. To make the petroleum industry a significant contributor to GDP growth, the sector must shift from being just a source of rent to providing opportunities for in-country utilisation of its petroleum resources.

Concluding remarks

This article explored the impact of importing refined petroleum products from the European Union (EU) on Nigeria's economic growth and development. Due to limited refining capacity and outdated technology, Nigeria relies heavily on imported petroleum products from the Netherlands and Belgium, which puts pressure on the naira and contributes to inflation. Despite petroleum accounting for almost 90% of government revenue, it only contributes 10% to the nation's GDP, mainly due to high import expenditure. To reduce external dependency, Nigeria must refine crude oil within its borders and implement the National Petroleum Policy (NPP), supported by a plan to rehabilitate refineries and complete the construction of the Dangote refinery. The government's directive mandates the Nigerian National Petroleum Corporation (NNPC) to have a stake in privately-owned refineries exceeding 50,000 bpd. With a refining capacity of 1.095 million bpd before 2025, Nigeria is poised to become a net exporter of refined petroleum and a hub for West Africa's refining industry, creating employment opportunities in various sectors. Increasing refining capacity will also benefit the petrochemical industry, as by-products will become cheaper and more readily available, leading to economic diversification and increased competitiveness in other sectors.

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