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Original Article

Globalisation and Transnational Corporations in the Petroleum Sector of the Nigerian Economy: A Historical Analysis

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ABSTRACT

The crucial ingredient in the development of the global economy or any economy for that matter is an investment. Transnational Corporations (TNCs) are the main purveyors of Foreign Direct Investment (FDI). The Nigerian situation is no exception to the above pattern where TNCs occupies a towering influence over strategic sectors of the economy, especially the Petroleum sector. This paper examines the nature, dynamics, and scope of the operations of Transnational Corporations such as the Anglo/Dutch Shell Development Company in Nigeria's oil sector. The positive and negative impacts of such corporations on the Nigerian economy are also highlighted and weighed. It also analyses why the Nigerian state has found it more difficult to control the activities of such corporations. The research method adopted for the study is a historical approach that took cognisance of existing scholarly works and the use of simple descriptive analysis of available data on the study. The paper concluded by submitting that the corporations benefited more from the Nigerian economy than whatever they might have contributed, while certain suggestions are also proffered as a way forward.

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INTRODUCTION

Nazombe (1995) conceives Globalization as "the interlinking of national economies into an interdependent global economy and the development of a shared set of global images…". According to Grant (1996), globalisation is "a process whereby national borders cease to be an impediment to the movement of products and capitals". The UNRISD (1995) describes it as an "integrated global economy in which not only exchange but also production and finance are organised and articulated on a planetary scale."

From the above definitions, certain critical issues in the concept include the interlinking of hitherto wholly independent economies, the increasing irrelevance of national physical boundaries, and the emergence of a shared set of interests that are concomitant to economic integration.

According to Mimiko (1997), features of globalisation include mobility of capital, as the bottom line in all the talks about globalisation is an investment of funds, while enormous amounts of investible capital are getting transferred around the world. The growing powerlessness of states is another (feature). This becomes glaring as Transnational Corporations (TNCs) control about two-thirds of trade in manufactures, commodities, and services, while states find it much more difficult to control their activities. Thus, the concept of national sovereignty has virtually lost all its meaning.

The final feature is that Transnational Corporations (TNCs) are the most important players (actors) in the contemporary international business environment. They are one of the most powerful external forces operating in the global business environment with their "investments, activities, and products, penetrating national frontiers virtually at will" (UNRISD 1995).

Transnational Corporations (TNCs) can be defined as centrally-controlled business enterprise which has operations in two or more countries (Akinsanya, 1986). Implicit in this definition are two basic characteristics, central control and geographical spread. The headquarters of the TNCs is normally located in one country, usually a developed country, called the home–state or investor-state, while the subsidiaries are to be found in other countries, usually in the developing countries such as Nigeria, called the host states.

This paper specifically examines the nature, dynamics, and scope of Transnational Oil Corporations' activities in Nigeria. This will be followed by an incisive and critical review of the positive and negative roles of this corporation in the Nigerian economy. Next, the paper discusses reasons accounting for poor monitoring and control of such Corporations' activities by the government. Finally, suggestions on how to improve the situation are made, while the paper is rounded off with the conclusion.

NATURE, DYNAMICS, AND SCOPE OF TRANSNATIONAL OIL CORPORATIONS' ACTIVITIES IN NIGERIA IN HISTORICAL PERSPECTIVE

The oil industry is a strategic sector of the Nigerian economy, and it has from its inception been dominated by Transnational or foreign oil corporations. Oil prospecting in Nigeria, for example, began in 1937 when Shell- BP was given sole concessionary right covering the whole nation. The company made the first commercial discovery in Oloibiri (present Rivers State) in 1956 (Agbodike, 1998). There was later an influx of this sector of the Nigerian economy by other foreign oil Corporations from Britain, France, Germany, Italy, and the U.S.A, notably Mobil in 1955 and Agip, Gulf, Safrap, Philips in the 1960s and later Chevron, Pan Ocean etc.

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Onimode (1983) indicated that despite the entry of other expatriate oil companies into the industry, the output of crude oil was monopolised by Shell-BP between 1956 when it struck the first commercial discovery and 1965 when Gulf recorded its first output. Thereafter, the market structure of petroleum products has been a fairly tight oligopoly or cartel dominated by Shell.

The major activities in oil production involving the expatriate oil companies consist of exploration, prospecting, production, and refining with marketing and distribution required to deliver oil to final consumers. These activities involved five major areas of specialisation (Onimode, 1983). The first involves the mother companies or foreign oil companies which acquire the relevant leases and licences for all the processes from the Nigerian government. Second, there are foreign servicing companies that get contracts from the mother companies to carry out specific assignments, which include exploration, prospecting, production, and pipelining for transportation. Such service companies include Dowell Schlumberger, Forex, and Dresser Marcoba etc. The third specialisation involves the marketing companies for crude oil, which include the marketing subsidiaries of these corporations like Shell-BP. It needs to be pointed out that the marketing of crude oil was exclusively done by foreign oil companies until 1971, when the Nigerian National Petroleum Corporation (NNPC) was established.

Refining crude oil is another area of specialisation involving these corporations. And this activity was predominantly done overseas, especially in the U.S.A and Britain, by foreign oil companies. The first refinery was established in Elesa Eleme near Port-Harcourt in 1965, and this handles less than 20% of the country's crude oil output. This was the sole refinery in Nigeria before the Warri refinery was established in 1978.

The final area of specialisation is the domestic distribution of refined petroleum products (Petrol, diesel, kerosene, engine oil, and lubricants). Until indigenisation introduced indigenous participation after 1970, this activity was shared between road haulage subsidiaries of expatriate oil companies and assorted Levantine companies like Khalil and Dibbo (Akinbi 2006).

Another characteristic of the operations of Transnational oil corporations before Organisation of Petroleum Exporting Countries (OPEC's) price-fixing intervention (association of which Nigeria joined in 1971) is that these corporations also dictated crude oil prices. These prices were shamefully low. In 1969 for instance, the average posted price per barrel was barely $2.17 and $2.25 in 1970 (Asiodu, 1978).

It is therefore clear that up to 1979, Nigeria's oil industry was dominated by expatriate oil companies, while the country only exercised nominal control over the sector, especially with respect to production, disposal of output, and surplus appropriation. Since 1970, the oil industry has witnessed dramatic growth as the oil sector has become the main source of government revenue as well as being the main source of foreign exchange earnings. This has also led the government to take certain policy decisions, which revealed that she was not prepared to leave that sector to the dictates and control of the transnational oil corporations in the country (Akinbi, 2006).

First, two major policy decisions were the establishment of the Nigeria oil corporations (NNOC) in April 1971 and the joining of OPEC by the Federal government in July 1971. The NNOC was to be in charge of all states of oil activity from production to marketing. The NNOC was amalgamated in 1977 with the Ministry of Petroleum to form Nigerian National Petroleum Corporation (NNPC) (Adeniran, 1983).

Next was the policy decision of state participation in the oil industry and especially activities of the transnational oil corporations in Nigeria. Following OPEC's resolution requiring member countries to acquire at least 20% interest in the foreign oil companies and also in the spirit of indigenisation policy, Nigeria later acquired a generalised 55% share in all the producing foreign oil companies (Turner, 1976). State equity interests in these companies later increased over the years. Under the joint venture arrangement of the federal government with these companies, the latter carry out exploration and production on behalf of the government and each party contributes its share of funds in tune with its equity interest for the execution of programmes. (Agbodike, 1998). This

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second fiddle position of Nigeria under the Joint Venture Scheme exhibits the dependent status of Nigeria in the relationship. The proceeds are also shared among the members under the production sharing contract (PSC) in proportion to their equity interest.

Higher posted prices were also obtained for Nigeria's crude oil through OPEC (Price fixing intervention) as from 1973. This accounts for the price hike from $4.80 per barrel in 1972 to $14.69 per barrel in 1973 (Onimode, 1983). The prices rose astronomically in subsequent years. This is a radical departure from the low prices dictated for Nigeria's crude oil by the transnational oil corporations before 1971.

Despite the increasing activities of the NNPC in Nigeria's oil sector, the Transnational oil Corporations still maintained dominance over Nigeria's oil sector. The NNPC was assigned the responsibility for the exploration, production, and refining of petroleum as well as the distribution of foreign marketing of crude oil and petroleum products. Thus, apart from the Joint Venture (JV) arrangement, the NNPC also produced and marketed oil on its own on behalf of the federal government, while it also collected royalties and taxes from the Transnational oil corporations (Adeniran, 1983). In the field of refining, the NNPC has also made remarkable progress. Apart from the Port – Harcourt and Warri refineries mentioned earlier, the third refinery was commissioned in Kaduna in 1980. The sad situation, however, is that even with the third refinery, Nigeria still refines less than 40% of her crude oil output in the country (Onimode, 1983). The bulk of it is refined overseas by Transnational Oil Corporations such as Shell.

Also, one of the visible signs of domination of the oil sector by foreign firms could be seen in their control of the output of crude oil. These corporations still dominated production almost completely, although they have been forced to share the volume of crude oil produced by them with the federal government's NNPC. Table 1, which shows a summary of the monthly crude oil production in June 1979, indicates that the NNPC's share of total oil production is only 0.4%, while the area is dominated by Transnational oil Corporations, particularly Shell – BP.

Table 1: Summary of Monthly Crude Oil Production by Companies, June 1979

Name of Producing Company	**Production in Barrels**	**% Share**	**Cumulative Production in Barrels**
Shell – BP	40,946,246	56.6	4,629,622,879
Gulf	11,690,512	16.2	1,185,986,105
Mobil	8,064,797	11.1	637,775,457
Agip	7,201,777	10.0	450,570,383
ELF	2,268,462	3.1	7,143,674
Texaco Chevron	1,581,413	2.2	72,927,614
Pan Ocean	224,756	0.3	10,341,305
NNPC	273,405	0.4	13,100,449
Tenneco	119,634	0.2	355,462
Total	72,771,002		7,076,863,328

Note: NNPC = Nigerian National Petroleum Corporations owned by the Federal Government

Source: The Nigeria Trade Journal, April 1980, p. 31

The federal government in 1979 nationalised British Petroleum (BP) and renamed it African Petroleum (AP) (Onimode, 1983). This nationalisation of BP had not altered this pattern of domination of the oil sector dramatically because of the long entrenchment of the shell. It is essential also to state that the Anglo-Dutch Shell petroleum development company of Nigeria (SPDC) still remains the largest producer of crude oil in Nigeria. It still retains more than a third of the country's oil production and over a quarter of its reserves, while in June 2002, it added some 400 million barrels of crude to the Nigeria reserves (Punch, 2002).

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Impact of Transnational Oil Corporations on the Nigerian Economy

Expatriate Oil Companies have both positive and negative roles in the Nigerian economy. These shall be examined below:

Positive Impact

These oil companies have contributed significantly through the Joint Venture arrangements with the Federal government to undertake huge up and downstream oil exploration projects in the country by providing the capital, technological expertise, and organisational ability towards such end (Agbodike, 1998). Again, these companies have been undertaking massive training of Nigerian personnel and thereby enhanced more indigenous participation in the industry.

Also, the company's contribution to a noticeable increase in the oil production of the nation through active exploratory activities cannot be over-emphasised. For instance, oil production moved from an initial 5,100 barrels per day (bpd) to 1.53 million (bpd) in 1971 and 2. 6 million (bpd) in 1979, while the nation's reserve increased astronomically from 16 billion barrels to over 20 billion barrels by 1995 (Business Times, 2.10.95:17)

Finally, the Nigerian government had been enabled to earn huge national annual revenue through the sale of crude oil and proceeds from petroleum tax and royalties. For instance, by December 31, 1995, the sale of crude oil and proceeds from petroleum tax and royalties for the year amounted to $7,898 billion (Business Times, 1996). The government uses such funds for the socio-economic development of the country.

Negative Impact

The activities of the Transnational oil Corporations nevertheless have many unsavoury consequences for the country. First, the export of most of the country's oil as crude for overseas refining by these companies has the implication of reducing the technological impact of the oil sector on the economy and diminishes or fritters away the country's foreign exchange earnings from the sector. Onimode (1983) has indicated that petroleum products at anti – OPEC prices have a higher value than crude oil.

Again, the absence of petrol-chemical industry which would have taken care of the industrial manufacturing of such petroleum derivatives as spirits, oils, insecticides etc., as well as the liquefied Nitrogenous Gas (LNG) in Nigeria is a clear testimony to the myth of technological transfer in the oil sector by Transnational Oil Corporations. It also indicated its poor commitment to the economic development of Nigeria in that area. Instead, the country's natural gas, which is a by-product of crude oil has simply been flared up in flames all over the oil fields.

Moreso, these companies operating in Nigeria are generally said to be indifferent and insensitive on some occasions to the environmental problems of the host communities in which they operate, despite the fact that most of these problems arise due to the oil spillage activities of such companies (Aghalino, 2001; Akinbi, 2012).

Furthermore, despite the secretive activities of these foreign oil corporations and the difficulty of scrutinising their profits, they have operated to recapitalise Nigeria in a very serious way through some practices that have been indicated as being the general pattern of expatriate oil companies. Such practices include over-invoicing, low reinvestment of profit, transfer pricing, declaration of huge dividends, exploitative pricing of their refined petroleum products, and derivative etc. (Onimode, 1983). Thus, they contributed to siphoning off colossal economic surplus which would have been invested for transforming the Nigerian economy for the development of its countries of origin. This has been made possible through the willing collaboration of elements of the Nigerian bureaucratic bourgeoisie (Onimode, 1983).

Finally, despite the merits of the Joint venture and Production sharing contract arrangement between the federal government and the transnational oil corporations, the mysteries and secrecies that pervade the operations of the latter had ultimately resulted in depriving the former of getting the full value of her investments in the sector. For instance, Akinsanya (1986) has indicated that there was a rip-off of N495 million by Shell, Gulf, and Mobil through payment made to these companies by NNPC between 1975 and 1978. The payment was for mining, despite the fact that no oil was mined for

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the NNPC by these companies. It has also been indicated that between 1970 and 1985, the transnational oil companies carted away some 1,203 million metric tonnes of crude oil from Nigeria and pocketed all the profits while Nigeria looked on, powerless to share in the profits (The Nigerian Economist, 1987). Thus, Nigeria is marginalised in the Joint venture scheme with these companies.

It is therefore clear that these transnational oil corporations have impinged on the Nigerian economy both positively and negatively. While their activities have produced a mixed blend of impact, the seemingly positive effects could be seen as accidental or symbolic gestures.

Poor Monitoring and Control of TNCs Activities in Nigeria's Oil Sector

In light of the negative roles of these corporations in the Nigerian economy as above highlighted, it is clear that Nigeria as a host country finds it difficult to monitor or control the activities of such companies. Some reasons accounted for this development.

First, the TNCs tend to be too formidable than their host countries in financial and manpower resources. They, thus, to all intents and purposes, pose serious challenges to the organs of the state, including the government. Whereas a country like Nigeria with all its crude oil resources, had a GDP of $29.6 billion in 1992, the total sales of Royal Dutch Shell for that year was $ 96.6 billion (Mimiko 1997).

Secondly, the prevalent keen competition for FDI has invariably made it difficult for host countries like Nigeria to monitor or control their activities. If control becomes unacceptable to them¸, the TNCs would be divesting and moving their investments into countries where they think they can get better returns on their capital outlay. For instance, successive Nigerian governments have continued to take seriously the conclusion of a World Bank field team in 1955 that "without foreign investment, neither public nor private endeavour can achieve the rate of economic growth that the Nigerian people desire" (IBRD, 1955). Consequently, an important goal of Nigeria's international diplomacy has been to attract foreign investment into the country. No wonder then that the Nigerian government have expanded the area of foreign capital participation in the economy and offered alien investors additional and more lucrative incentives (Akinsanya, 1986). Also geared towards Nigeria's scrambling to create a conducive environment for TNCs to operate, Nigeria abolished the National Enterprises Promotion Decrees on equity participation of the 1970s and the Exchange Control Act of 1962 in October 1995 (Mimiko, 1997).

Moreover, according to Adeniran (1983), Nigeria cannot be said to have control over its economy given Nigeria's technological dependence on the developed countries that constitute the homes of several Transnational Oil Corporations in Nigeria, where Research and Development (R and D) are concentrated. Not to be neglected also is the existence of home support for such foreign corporations in Nigeria; as such companies "are expected to operate in such a way that their capitalist objectives and the anticipated dependence of the host countries are ensured". (Adeniran, 1983). Again, while there are supposed to be regulations guiding the Corporations, "Nigeria has no effective machinery for curtailing, controlling or ensuring compliance" (Adeniran, 1983).

Finally, the symbiotic collusion of some unpatriotic Nigerians with the TNCs has not helped the situation. For instance, the Guardian (2000) reported that Nigeria loses $330 million yearly over unaccounted oil expenses due to official ineptitude and towering influence of multinational corporations.

CONCLUSION

This paper has identified Transnational Corporations as the most important players in the global economy or any economy for that matter, such as Nigeria's. With particular reference to the transnational oil corporations, their activities, modus operandi, and their effects on the Nigerian economy are x-rayed in this paper. While it is agreed that the corporations have made certain positive contributions to the economy, their negative roles in the country are also prominent.

They have also benefited from the economy more than whatever they might have contributed, as the dominant trend in their operation has been toward the extraction of greater profit from their host

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countries, such as Nigeria. Reasons accounting for poor monitoring and control of their activities have also been highlighted, while some suggestions have been proffered to improve the situation.

Recommendations on How to Improve the Situation

While it is agreed that some Transnational oil corporations are engaged in some activities that are inimical (or not) to the best interest of the nation and control in a subtle way the political economy of the nation, Akinbi (2006) disagrees with the contention of Akinsanya (1986) of subversion of foreign corporations, which entails asserting permanent sovereignty over natural resources by depriving such corporations of their assets without adequate compensation. This standpoint is predicated on the ground that not all these corporations are guilty of the above charge; as a result, it will be wrong to expropriate the assets of all foreign corporations.

Secondly, it does not appear that the Nigerian government has any intention to eliminate foreign capital participation in the economy in view of the pockets of advantages Nigeria derived from their operations. If anything, the government has expanded the area of foreign capital participation in the economy, as it has offered alien investors additional and more lucrative incentives. Thus, rather than supporting the outright subversion of all foreign corporations including those in the petroleum sector, their regulation is rather advocated. There is, therefore, the need to set up a body to monitor the activities of foreign oil companies generally and review their services. Those found not to be making any meaningful contribution to the growth of the economy should be disengaged. In contrast, Nigerians who are discovered to be serving as fronts for their fraudulent activities should be tried and punished.

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