

**USMANU DANFODIO UNIVERSITY SOKOTO
(POSTGRADUATE SCHOOL)**

**AN ASSESSMENT OF THE NIGERIA'S ROLE IN OPEC
AND THE QUOTA ALLOCATION TO MEMBER
COUNTRIES**

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DEDICATION

I dedicated this work to my beloved Mother Late Fatima Muhammad Nasiru.

APPROVAL PAGE

This research study was carried out by Hauwa Nasiru and has been supervised by Dr. Shehu S. Muhammad and found acceptable as having satisfied one of the requirements for the award of the degree of master in international affairs and diplomacy in the faculty of social sciences, department of political science, Usmanu Danfodio University, Sokoto.

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ABSTRACT

The study assessed the role of Nigeria in OPEC and quota allocation to member countries. Nigeria being one of the most populous country in the world and the largest in size, both economically and politically in the West African sub-region and well known in the International arena is among the member-nations in the Organization of Petroleum Exporting Countries (OPEC). Its large size and its immense economic endowments empowered her to join OPEC and also played a vital role in it. Over the years, several problems which Nigeria faced and OPEC itself made scholars and the Nigeria to seek for the country's withdrawal in its membership of OPEC. Although some suggested that Nigeria should remain in OPEC because of the benefits it derives from being a member, since there is no organization that is not faced with one problem or the other. This study revealed that: OPEC was founded on September 10th 1960 in Baghdad by five oil-producing countries (Iran, Iraq, Kuwait Saudi Arabia and Venezuela) to form countervailing power bloc against the oil companies with the principal objectives of protecting the interest of the member states. Nigeria was not a member until 1971, and it was discovered that, despite of the crude oil which is available to Nigeria, the country is still faced with economic problem. This is because of the unequal allocation of quota within and among OPEC member countries and the over dependence on petroleum sector. At the end, it was concluded that there exists uneven allocation of quote to be produce among members. Since OPEC is a good example of cartel in economics, member countries must remain united, and support the price increment in the oil market so as to gain more revenue to enable them carter for their citizens.

CHAPTER ONE

1.0 INTRODUCTION

The contribution of oil to the global economy has, without doubt, been tremendous, even though other countries around the globe have other alternative sources of energy the petroleum products today have assumed global popularity with increasing frequency. The activities and heavy presence of big oil companies mostly owned and controlled by the foreign capitalist investors in most oil producing countries is enough to underscore this point.

Prior to 1960, oil producing countries witnessed outrageous and unprecedented exploitation by these oil extracting multinational companies which at that time were controlling oil operations in the oil rich countries, Anyaele (1994). As a reaction to this, five oil producing countries therefore met in Baghdad, the capital of Iraq to form a countervailing power bloc against the oil companies. The outcome of September 10th 1960 meeting of Iraq, Iran, Kuwait, Saudi Arabia and Venezuela marked the birth of the Organization of Petroleum Exporting Countries (OPEC), with the principal objectives of protecting the interest of its member states. OPEC was not major factor in the international politics until 1970s, when increased international demand made oil a relatively scarce commodity. In 1973-1974, OPEC brought about a fourfold increase in international price in crude oil. Further increase was set for late 1975.

Nigeria joined OPEC in July 1971 after ten (10) years of existence, but its oil policies were not in line with those of other member countries. For instance, Nigeria reserved for itself the right to acquire participation interest in the Agip as early as 1966 and, in fact, exercised such an option by acquiring 33 1/3% in Elf (a French company) in 1971. By April 1971, Nigeria had established the Nigerian National Petroleum Corporation (NNPC) to give effect to the

government's desire to participate effectively in strategic industries as expounded in the first National Development Plan (1962-1968).

Thus, with a production level of about 1.5, representing about 3% of the total world oil production and about 6.7% of the OPEC production Nigeria had established itself as a substantial net exporter of crude oil, being the 11th member in July 12th, 1973. As membership exclusively guarantees some measure of advantages in terms of access to research findings, technical and legal advices, the organization therefore recorded success in 1973 and Nigeria being a member benefited from it. The economy of Nigeria became import dependent, and there was flow of money into the country. But in 1978 the temporary oil glut and the continued depression in the oil market since 1981 has a considerate drawback on Nigeria.

As economic observes, "Oil multiplied Nigeria's export by a factor of 10 in the 70s, and its import by a factor of 11. This fuelled the Nigeria's honorable ambitions; to emerge as the greatest power in Africa. Now the country's leaders are bitterly disappointed by the way oil glut partially devalued this great natural resource so are some of the exporters.

Therefore, in the wake of this unhappy state of affairs Nigeria's four decade long membership has attracted a lot of analytical questions and comment from scholars of different ideology concerning the role that Nigeria, as a member in OPEC, plays and the issue of quota allocation to each member for production.

However, in the view of some scholars, Nigeria played a vital role in OPEC but yet it is still faced with economic problems. As such they maintained Nigeria should withdraw from OPEC to enable her to produce as much quantity of crude oil as they can in orders to boost their economy and thereby stem the tide of financial squeeze facing the country as a result of the quota which restricted them to produce. Nigeria on its own could not produce more than what it's

restricted to produce as long as it still remain a member of OPEC. While others opined that even if Nigeria opt out of OPEC, that would not solve it financial problems because there is availability of crude oil that would respond to future demand, and also since the non-OPEC member produces over one million barrels per day and can also provide much of the incremental barrel during the year. Nigeria should remain in OPEC because it contributes to the success of the organization and it enjoys the benefit of being a member of OPEC.

In view of the above arguments, the researcher goes with the second view which said: "Nigeria should remain in the organization" due to the contribution of Nigeria in OPEC and the quota allocated to Nigeria as a members.

1.1 STATEMENT OF THE RESEARCH PROBLEM

It has been a general concern from scholars of different fields and the Nigeria government in particular on the role of Nigeria in OPEC and the quota allocated to the member-nations for production, in particular, the quota for Nigeria to produce. The major income of Nigeria is from the crude oil the country produces. The much dependence on the oil sector led to the country's economic crises that became manifest in the previous and even the present time. Although, effort has been made to solve the economic crises but these effort proved abortive.

According to Godwin (1992), various measures that were introduced, such as Economic Stabilization Act of 1982, Structural Adjustment Program (SAP), Poverty Alleviation Program etc. failed to solve the problems.

The major problem is that Nigeria economy had been dependent on petroleum sector, thereby abandoning the agricultural sectors which constitute the major sector that provides revenue to the country in the early 60's. According Adedipe (2004:4), the major problem is the

Nigeria's economy has been dependent on petroleum in the last two and half decades. During this period the petroleum sector along contribute over 95% of the export earning, about 40% of the gross domestic product (GDP), about 70% of the Federal Government revenue and about 90% of new investment.

It is in the light of the above that, the study seek to assess Nigeria's role in OPEC and to examine the quota allocated to Nigeria and other OPEC members to produce. The study would also examine whether or not Nigeria's membership in OPEC is responsible for the countries current economic challenges, and also to know whether its membership in OPEC had affects the economic development negatively or positively.

However, the concern of this research is to study the role of Nigeria in OPEC and the issue of quota allocation and to show its impact on the economy and the life of the citizens.

1.2 AIMS AND OBJECTIVES OF THE STUDY

The major aim of the study is to assess the Nigeria's role in OPEC and the quota allocation principle to members. Other specific objectives of this study are:

- (i) To discuss the advantage and disadvantage of Nigeria membership.
- (ii) To examine the implications of Nigeria's dependence on oil sector and how it affects the economy.
- (iii) To discuss the achievements, programmes and problems of OPEC in general and on Nigeria in particular.
- (iv) To look at OPEC as influential body in the world oil market.
- (v) And finally, to look at Nigeria and the future of OPEC.

1.3 SCOPE AND LIMITATION OF THE STUDY

The research would focus on the assessment of Nigeria's membership in OPEC with particular reference to the role it plays and the quota allocation for OPEC members to produce. Thus, the scope of the study covered the aspect of the organization from its inception to date. In other words, the study would be limited to the period of the evolution of the world oil industry and the period that Nigeria started exploring petroleum. Although access to some top government officials involved in the oil export may be difficult, sometime, due to some protocols of administrative secrecy current statistical data for production may not be available and the location of OPEC head compounds the problem of accessing relevant information. Therefore, the data would be extracted from OPEC bulletin, books, newspapers and other literatures to mention but a few.

1.4 SIGNIFICANCE OF THE STUDY

There is need to understand, and to appreciate the role that Nigeria as member of OPEC played. Therefore the study served as sources of information on the Nigerian petroleum industry which is widely acclaimed as the backbone of Nigeria's sources of income. Another significance of the study is to portray the changes and development which Nigeria witness in its membership of OPEC.

Therefore, the study would be of significance in relation with the Nigeria National Petroleum Corporation (NNPC) which is an agency that is taking care of the marketing of crude oil internationally. The study would also contribute to the existing literatures and other related works. In other words, it would also serve as a guide to the students of international relations and other related field who will be concerned with the issues on Nigeria's membership in OPEC,

it role and quota allocated to OPEC members and also the problems of dependence on petroleum sector.

Finally, the study would be of importance to other countries that depends much on their petroleum sector. And also the implication of Nigeria's much reliance on petroleum and to device means for developing the economy to enable it solve the economic problems facing the country.

1.5 THEORETICAL APPROACH / FRAME WORK

The framework will concentrates on the most important OPEC program of enhancement of market for the petroleum exporting countries and how it affect the everyday lives of Nigerians as a member, using the analytical tool of the cognitive framework while leaving the more complex financial liberalization to future studies. Therefore, this section will focus on the above four decades of attempts to achieve the underlying goals and how all this efforts are explained by theorist. The major theorists that will be analyzed in attempt to find the bases of this study are the Realist as a major paradigm, and functionalist view in a narrow perspective. The analysis of Talcott Parsons (1902-1979) will be the bases of analysis.

THE REALIST

The grand theories of the realist school that emerged out of American political thought, view the state as the single most important factor in the international system with predetermined national interest which often quantifies costs and benefits involved in different policy alternatives to achieve desired goals. It assumes that these tasks are undertaken often without enough resource, information and time. The theory conceptualized state behaviors as a "consequence of bounded rationality" (Kaohane, 1984:62).

The realist also view the international system as lacking in any centralized authority which make and enforce laws governing inter-state relationship, and that in international politics, state compete with one another without established rules and norms. These theory explains that often conflicts exist in OPEC, as countries exceeding their allocated quotas and hence members states has less to do.

The basic assumption of the realist school suffered a “backlash in the 1960’s as it faced serious criticisms particularly in areas originally viewed as “low politics”, such as “monetary management, health, humanitarian efforts and the environment (Keohane 1989). Thus functionalist and non-functionalist all attempted to gain for itself distinct analytical features in their examination of the international system.

FUNCTIONALISM

The functionalism blue print based its assumptions on the believe that in a world of economic interdependence, political problems such as social, technical and humanitarian could be prioritized and solved. It insists that in a world of economic interdependence, common economic interest create the need for international institutions and rules (Mitranny, 1966). Its assumptions emphasized a practical approach to problems solving, insisting that could be achieved by prioritizing areas of common interest.

Parsons contributions to functionalist claimed that power and influence (for the societal community) had an institutional function which essentially was structurally similar to the general systematic function of dependency. Parson divided the components of the media into a question of value -principle versus products control within that social process which carried the “massage components”. In this way, while “utility” could be regarded as the value principle for the

economy (medium money), “effectiveness” was the value principle for the system community (medium: influence).

From the functional view, the Nigerian membership in OPEC is a great step towards achieving a greater goal of national integration and economic benefit. This we will argue is the form and the intent of Nigeria when it joined OPEC. But the underlying questions still remains has Nigeria achieved those goals?

Functionalism pessimist strongly illuminate the setback involved in an international integration program due to the reluctance of member states in the organization to transfer sovereignty to a higher level particularly in areas of strong national interest (Mitranny, 1966). For them, this condition would only reproduce supra-national body with state like functions and solely dominated by the most powerful states.

1.6 HYPOTHESIS

This study is concerned with establishing the following hypothesis:

- Nigeria’s membership in OPEC plays a vital role and also contributes its quota as a member.
- Nigeria contributed positively to the development of OPEC funds to some extent, but it has negative impact on the life of its citizens. This is because of the quota allocated to its production. This also has a devastating impact on its economy and the life of its people in general.

1.7 METHODOLOGY

The study relied mainly on documentary sources, such as published and unpublished reports, books, journals, newspapers, magazines, periodical, government publications and reports, literatures etc., that have discussed either fully or partially on the Nigeria's role in OPEC. More so, some of these sources are largely available in the public and private libraries. As such the internet cafe.

1.9 DEFINITION OF CONCEPT

- **Organization:** "An **organization** is a social entity that has a collective goal and is linked to an external environment. The word is derived from the Greek word *organon*, itself derived from the better-known word *ergon* which means "organ" – a compartment for a particular task. (Wikipedia, the free encyclopedia). According to Business Dictionary, An organization is defined by the elements that are part of it (who belongs to the organization and who does not?), its communication (which elements communicate and how do they communicate?), its autonomy (which changes are executed autonomously by the organization or its elements?), and its rules of action compared to outside events (what causes an organization to act as a collective actor?). In view of the above definitions we can say: Organization is a productive unit where an economic activity is organized with the aim of undertaking some economic activities. Such unit must be marked by a high degree of conscious planning e.g. budgeting, the existence of power centers, for example, managers and replacement of membership such as through recruitment.

Since an organization comprises of social units and these units are human groups, that is, (member-nations) that deliberately agreed to unite and construct themselves in order to seek specified goals which can be found in its aims and objectives. Therefore, OPEC as an

organization marked by a high degree of conscious planning e.g. in some of its programs, it organizes and budget fund for carry out its programmes for instance, International Fund for Agricultural Development (IFAD) which Nigeria is among the beneficiaries, Energy for the Poor Initiatives, OPEC Fund for International Development (OFID) and others.

- OPEC: OPEC means Organization of the Petroleum Exporting Countries. It is a permanent inter-governmental organization currently consisting of twelve (12) oil producing and exporting countries spread across three continents America, Asia and Africa. The members include Algeria, Angola, Ecuador, Iran, Iraq, Kuwait, Libya, Nigeria, Qatar, Saudi Arabia, United Arab Emirate and Venezuela. OPEC has had its headquarter in Vienna since 1965. (OPEC: Brief History).

- QUOTA: the Macmillan school dictionary define the concept of quota as an official amount of a product that someone or group of persons are allowed to make or produce, and sell or buy.

- ROLE: a role (from the French role, and sometimes so spelt in English) or social role is a set of connected behaviors, rights and obligations as conceptualized by actors in a social situation. It is an expected or free or continuously changing behavior and may have a given individual social status or social position. It is vital to both functionalists and integrationist understanding of society. (Wikipedia free encyclopedia).

CHAPTER TWO

LITERATURE REVIEW

2.1 INTRODUCTION

This chapter explores various books, journals, magazines, seminar papers, newspapers and other literatures that are relevant to the study. The chapter also laid emphasis on views of some scholars in order to ascertain the role of Nigeria in OPEC with particular reference to the quota allocation to member-nations of OPEC.

2.2 CONCEPTUAL FRAMEWORK

The Organization of Petroleum Exporting Countries (OPEC) is a permanent inter-governmental organization founded at the Baghdad conference on September 10-14-1960, by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. These five members were later joined by nine other members: Qatar (1961); Indonesia (1962) but suspended its membership from January 2009; Libya (1962); United Arab Emirate (1967); Algeria (1969); Nigeria (1971); Ecuador (1973) but suspended its membership from December (1992) and returned back in October 2007; Angola 2007 and Gabon (1975-1994).

In the first five years of its inception, the organization headquarters was at Geneva in Switzerland but the headquarter was later moved to Vienna in Austria on the first day of September 1965.

The concept OPEC has been regarded as an oil export cartel. The cartel sets the world market price of crude oil and adjusts its total production ceiling accordingly with each member being allocated a corresponding daily production quota.

According to Shihata I. the word OPEC is generally associated in the public mind with one phenomenon: ever increasing oil prices. He further argued that, the organization has been inaccurately carried in the media as a powerful “cartel” which controls the supply and pricing of this vital commodity. OPEC has been blamed especially by western politician, for the world's present economic ills. More so, under faulty assumption, OPEC has been looked upon particularly by the third world politicians to provide financial remedies for the world's ailing economy. As a result of these, Dr Chakib Khelil (the OPEC conference president) in the organization's 147 (extraordinary) meeting in Vienna, spoke that: “the global community should be more concerned about what affects the financial crises of the United States of America might have on world economic growth than the ability of oil producers to supply adequate amounts of crude oil to the international markets.

In article 2 of the statute establishing OPEC, it is stated that the principal aim of OPEC should be the coordination and unification of the petroleum policies of member countries and to determine the best means of safeguarding OPEC member's interest. Perhaps that is why Khelil, speaking at a press conference after the one-day meeting stressed that, base on the reliable industry, data there is more than enough crude oil available to meet consumer's needs worldwide. He furthers spoke that stock levels are good OPEC's 13 members are producing close to 32 million barrels / day of crude oil and increasing supplies are coming from non-OPEC productions, who are meeting most of the 1.3 to 1.5 percent increases in demand growth forecast for 2008.

He further affirmed that “the world economy should not be concerned about the supply of oil, there is plenty available. It should be more concerned about the ramifications within the banking system of the effects of the subprime crisis in the US”. The Algeria's energy and mines

minister Khelil, when speaking to media representatives and analysts assembled at the OPEC secretary after the organization's oil and energy ministers decided to maintain OPEC's current production policy into the first quarter. The conference, after reviewing the latest oil market developments and economic indicators agreed that, at the present time, the current level of OPEC oil output is sufficient to meet expected demand in the first quarter of 2008. The Conference also observed that OPEC production decision had ensured that the market remained well supplied throughout 2007 that also, the first half of 2008 was likely to witness a crude inventor build. Supply/demand forecasts indicate that commercial oil stocks are in line with the seasonal trend and are expected to remain within their five years average during the traditionally lower demand season in 2008".

"In view of the current situation coupled with the projected economic slow-down, the conference therefore agreed that the current OPEC production is sufficient to meet expected demand for the first quarter of the years". At the same time, the conference noted that "the significant uncertainties associated with the projected downturn in the global economy call for "vigilant attention to their impact on key market fundamentals". The minister reiterated the organization's determination to take every measure deemed necessary to keep the oil market stable. He also said that, if the demand for oil is there, then he is confident the supply will be there also.

Khelil also stressed that OPEC has always been on hand to meet oil demand when there is a need for it. The organization has supported the world's economy in the past and even during its worst period – in 2003. When OPEC lost some 4m barrel per day of oil from its members, the organization still meet its supply obligation in meeting world demand. OPEC effectively helps economic growth and keeps inflation at low rates in the consuming countries.

Zuhayr Mikdshi puts forwards that in September, 1960 five leading oil exporting countries of three Arab (Iraq, Kuwait and Saudi Arabia) and two non Arab (Iran and Venezuela) founded the organization of petroleum exporting countries. He further argues that the coming of OPEC governments together in September was inevitable because of the refusal by the governments to accept the cut in posted prices that had been initiated for tax reference purpose by the transnational companies in August.

When OPEC was formed in 1960, the daily crude oil production rate for Venezuela, Kuwait, Saudi Arabia, Iran and Iraq were 2.85, 1.69, 1.31, 1.07 and 0.97 million barrels respectively. He further said: This accounted for 41.4 percent of the daily world crude oil production of 21 million barrels per day at that time. In the year 1971, when Nigeria joined OPEC, the eleven member nations accounted for the production of 52% of the world's production of about 48.52million barrels per day. Today OPEC's daily production account for 15 percent of the world's natural gas, 55 percent of oil traded internationally and possesses 78 percent of the world's total proven crude oil reserved. In general, nine of its members feature in the top 12 global oil exporters and Nigeria makes one of these lists (Ihenacho, 2002).

2.3 EVOLUTION OF THE WORLD OIL INDUSTRY

The evolution of the world oil industry dates back to the middle of the 19th century when Edward Drake, known as “Colonel, an ex-railway guard and mineral prospector, was commissioned by a drilling company to locate a salt body in Pennsylvania, United States of America. After some days of working, Drake instead of locating the salt body struck oil in commercial quantity at a depth of about twenty one meters on the 28th of August, 1859 at Titusville, Pennsylvania, USA.

That discovery led to the emergence of the first oil field. That is the Pennsylvania oil field alongside the pioneer oil company the then standard oil of Ohio owned by an American business Mongol John Division Rockefeller. The standard oil company was not only responsible for oil production, but was also responsible for the organization, management, refining and distribution of about forty-five percent of the world total energy requirement.

In 1890 the United States of America congress came up with an act with the view of breaking the monopoly of the standard oil that consequently led to its splitting up into three independent companies which are the Exxon, Mobile and Standard oil of California (Chevron).

With the discovery of more oil field, the gulf and Texaco oil companies came to emerge. In subsequent years, British Petroleum and Shell-an Anglo-Dutch Company originally trading in spices and shell also came to join the oil business. These oil companies are collectively referred to as “the seven sisters”, henceforth; they continued to dominate the oil market in an oligopolistic manner for almost a century. The “seven sisters” lifted oil from the poor, less developed nations and sold it at rock bottom prices to the rich and highly industrialized nations only to pay pittance in royalties to the former.

2.4 BIRTH OF OPEC

The organization of petroleum exporting countries (OPEC) is an international economic organization formed by some petroleum producing countries to stabilize and control the world output and price of crude oil. It is a good example of cartel in economics (Ewa, 1991).

Founded in September, 1960 at the Baghdad Conference by Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, the establishment of the organization, the world oil market was completely under the control of the “seven sisters”. These companies dominated the upstream

and downstream activities in the oil industries through exploration, exploitation, processing and distribution. There was huge transfer of cheap oil resources from the poor and less industrialize producing countries to the affluent and highly industrialized consuming nations. In order to halt these therefore, the need for full control, co-ordination and cooperation in the petroleum industries among the producers became pertinent. Thus, these led to the first meeting of some five oil producing nations in Venezuela in 1949 that eventually culminated in the formation of OPEC eleven years later.

2.5 POPULATION OF THE STUDY

It was estimated that OPEC member-nations have a population of more than 408 million and for nearly all of them, oil is the main marketable commodity and their source of foreign exchange (Bulleting, 2008). Thus, for these countries oil is the vital key to their nations economic, social and political development. Their oil revenues is used to expand and maintain their economy and industrial base and also to provide jobs, education, health care and a good standard of living for their citizens.

2.6 BRIEF PROFILE OF NIGERIA

Nigeria is located on the Gulf of Guinea in West Africa. It covers the area of about 923,773 square kilometers. Its population was 55,670, 052 by the 1963 census. In 1978, its population was estimated to be 79 million, and 88.5 million according to 1991 census. In 2006 it rose to 144.0 million. It is also widely affirmed that Nigeria is the largest country in Africa. In fact larger than 16 West African countries put together (NPC 1991 and Info please 2006).

Nigeria gained its independence from British colonial rule on October 1st 1960 thereby becoming a member of the common wealth of nations. Nigeria also joined the United Nations Organization (UNO) as a loose Federation of self-governing states. On 1st October 1963 exactly three years after its independence, the country became a Republic, with four regional governments in addition to a federal territory in Lagos. These were the northern western, eastern and mid-western regions.

The country was later divided by a military decree into twelve states (12) on 27th of May 1967 by General Yakubu Gowon Regime. The twelve states structure was also replaced by nineteen states by another decree promulgated early in 1976 by General Murtala Ramat Muhammad. Additional two and nine states were created by another military decree, General Ibrahim Badamasi Babangida in 1986 and 1991 respectively.

In 1996, the country was divided into 36 states with the Federal Capital Territory (FCT) in Abuja. The affairs of all these states are run by the governors with the exception of the Federal Capital Territory (Abuja). The states were further divided into 774 local government areas which are run by the local government Chairman. Both the states and the local government areas received their subvention from the federal government account.

2.7 DEVELOPMENT OF PETROLEUM INDUSTRY IN NIGERIA AND THE NIGERIAS' ECONOMY

Historically, the economy of Nigeria was based on agriculture. At the time of independence, Nigeria exported several varieties of agricultural products such as groundnut, cotton, palm produce, rubber, cocoa etc. That era was the golden era of agriculture in the Nigerian economic. Agriculture then constituted the engine of growth as well as source of foreign exchange earnings and public revenue. In 1960, agricultural sector accounted for

approximately 64% of GDP and employed over 73% of the total labour force. Agricultural products also accounted for approximately 71% of the total export and were thus, predominant earners of foreign exchange for the country (Iyocha et al, 2002:6). The sector also produced food and industrial raw materials which were vital to the continuity of Nigeria's economic development. In the 1970's, a new dimension emerged with the discovered of petroleum resources, which make the mainstay of the Nigeria economy to change from agricultural sector to petroleum sector. During this period, agriculture was neglected, a sector whose relative share to the GDP was almost 64% in 1960 accounted for only 33.6% in 1986.

The first commercial crude oil was discovered in Nigeria by Shell BP in 1956 at Oloibiri in the present River State. The discovery ushered Nigeria into the international oil arena. Two years later in 1958 Shell started oil exportation from Oloibiri field at the rate of 5,100 barrels per day, (Jonson, 2003).

However, oil was discovered in Nigeria and production started immediately. Before and throughout the first plan period (1962-68) the management and control of the petroleum industry was largely in hands of the multinational oil companies that brought the initial capital. The most important land marks in the history of oil development in Nigeria were the hydro-carbon oil refinery act of 1965 and the petroleum decree of 1967. The hydro-carbon act of 1965 gave the license for the first refinery in Eleme, Port Harcourt which was established in 1965. This met the domestic demand a petroleum products for a while. The petroleum decree of 1967 gave the right to fix petroleum prices to government. In 1978 the Warri refinery was established, and the Kaduna refinery was also established in 1980. Recent developments in the 1990s are in the area of Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LGP) projects.

Hitherto, the multinational oil marketing companies were charging exorbitant prices through a system known as “West African Supply Agreement”. Under this agreement the multinationals provides products from the refineries in Europe to West African consumers at a price dictated by themselves. After the commissioning of the Eleme refinery, seven marketing companies were approved for the buying of crude oil from the producing company and sending same to the refinery on a fee, after which the products were allocated among marketing companies on the basic of their crude oil supplies to the refinery.

Therefore, in order to strengthen the government’s bargaining relationship with the multinational oil companies, it became necessary for the government to expand the department of mines and power as a means of providing professional advice to regulate the activities of the oil companies. The government also took a bold step by acquiring 50 percent equity share in the Nigeria petroleum refining company between itself and the regional governments. As a result of the combined factors of increased level of production and export, as well as rapid oil price increase, oil revenue increased from ₦ 735 million in 1972 to ₦ 8,184 million in 1974 and to all record figure of ₦11.563 billion in 1981.

Prior to 1973, the pricing of petroleum products was ill-defined. During that time, the government had little control over the pricing of petroleum products. Some of these companies owned the majority of product marketing facilities such as storage, distribution network, sales outlet, etc. They were in absolute control of the entire product market in the country. Consequently, only Lagos and the neighboring states were regularly served. The further away from Lagos, the costlier and the more irregular the products became. In 1973 the Retail Pricing Policy of Petroleum Products was brought under the government and a uniform price was established throughout the country.

The Third National Development Plan period 1975-80 could be described as the “golden era” of oil industry in Nigeria. During the period, Nigeria reached the peak of its oil production of highest oil price and maximum annual oil revenue. The period witness the most extensive activities in the construction of refining facilities, establishment of network of pipe-lines and depots in the area of distribution and marketing of petroleum products. The period also marked a major attempt by government to recognize the Nigeria public oil sector.

Therefore, the government decided to merged the ministry of petroleum resources with the Nigeria National Oil Corporation (NNOC) into a new body called the Nigeria National Petroleum Corporation (NNPC) in 1977, with the primary aim of ensuring a better coordination of all the various activities of the industry and to achieve a better integration of the petroleum sector with the Nigeria economy.

2.8 CONTRIBUTIONS OF OPEC TO THE DEVELOPMENT OF NIGERIAS’ OIL INDUSTRY

Since Nigeria became a member of OPEC, it has gained and received a lot of contribution. For example OPEC has contributed to finding ways and means of stabilizing prices in the international oil market which Nigeria is a member country that produces crude oil. This can be seen in the area of regulation of output or production of crude oil which was a herculean task for OPEC members at the initial stage. This was due to member's diverse differences in terms of their political, cultural and economic system, which made it very difficult to work out an agreeable formulation for the regulation of production among the members.

OPEC has contributed in helping Nigeria to have the control of its oil company which was formally in the hands of the foreign capitalist investors who cared more for the economic interest of their home countries and also devoted a considerable amount of time to improving the

terms in the early concession agreements which Nigeria as a member signed before independent. These enable Nigeria to share equally in any benefits or concessions that have been won elsewhere.

The organization has contributed to the development of Nigeria by introducing a policy of conservation. Although this policy was introduced in 1968, during that time Nigeria was not a member until 1971. However, Nigeria has benefited with the policy because it has reserves of oil for the next generation in the face of fast depletion of oil resources.

Again, in the area of production, OPEC has contributed in assisting Nigeria to boosting its production. It has encouraged Nigeria to participate directly in the exploration of its natural resources. This led to the acquisition of participation interest in the operations of the foreign oil companies. Such acquired interests were taken over by the national oil companies of the producing countries that directly disposed of the crude oil accruing from the joint venture.

By participating as a member, this brought the oil producing countries face to face with the market. Nigeria's presence in the oil market led to direct marketing, which ultimately led to direct price determination. When OPEC for the first time in 1973 unilaterally fixed the price of its member's oil, the organization had finally come to its own having dislodged the major foreign oil companies from their traditional role of determining both the production and the price of oil.

In the field of refinery, OPEC has also contributed to the development of Nigeria by encouraging her to achieve a speedy transformation from being mere raw materials exporter to being manufacturers, by carrying out certain downstream operations, especially with regard to refinery and petrochemicals. Today, there is hardly any member country that has not established or proposed to have its own refineries and petrochemical plants. Even some of the countries that do not belong to OPEC had established their own refinery, e.g. Niger Republic.

2.9 CONTRIBUTIONS OF PETROLEUM TO THE DEVELOPMENT OF NIGERIA ECONOMY

The oil industry has contributed tremendously to the development of Nigeria and Nigeria's economy, this is so, because it provides, among other things, the greater parts of the foreign exchange earnings and total revenue needs for the socio-economic and political development of the country.

The companies that are operating in the industry are made up principally to producing and marketing the product. These companies such as Shell, Gulf and Mobile prospect and drill for oil. More so, the bulk of the Nigeria crude oil is sold unrefined. When refined, the products range from petrol to heavy liquids for road tarring. Some of the products are distributed by both major and independent oil marketers. During the refining process many products besides petrol are derived and their quality depends on the crude used. The commonest are Liquefied Petroleum Gas (LPG) used for domestic cooking and lighting; Petroleum Motor Spirit (PMS) otherwise known as "super kerosene", for stoves and lighting; Automotive Gas Oil (AGO) commonly called "diesel" for buses, trucks and trailers; and finally low and high pour fuel oil for boilers and heaters.

Another area which the petroleum industry has made large contributions is in the area of government revenue. For example, between 1964 and 1965 the Nigeria national budget anticipated revenue of about N200 million but between 1979 and 1980 the budgeted revenue was determined at about N13.8 billion. When the country's oil exploitation started in 1957, with 2.5 million barrels in that year, the oil production rose to 5,000 barrels in 1958. This continues to rise steadily to 415,000 barrels a day in 1966. The production later fell to 142,000 barrels a day as a result of the civil war in 1968. However, it rose sharply from 560,000 barrels a day in January 1970 after the civil war, to 21,000,000 barrels a day in 1972. More significantly was the

increase in oil prices after 1973. The oil revenue rose effectively from about US \$0.90 barrel to about US \$1.65. The price further raised to US \$37.00 a barrel in 1982.

Other areas to show how petroleum has contributed to the development of the country is its contribution to employment and manpower development and also to infrastructure development. Because of its intensive nature, it helps to employ relatively small numbers of people. It has created opportunities for petroleum refining and marketing, petro-chemical industries, oil transportation and many others.

With regards to manpower development, petroleum institute has been established in Warri, Edo state, for training and promotion of skills needed in various aspects of petroleum technology. Many technical institutes have also been established for the training of intermediate skills manpower, while scholarships have been awarded to many qualified Nigerians for the pursuit of higher and relevant courses in the universities.

In the aspect of infrastructural development, the government has effectively utilized the financial resources generated by the oil industry for the provision of infrastructures. Such as development in education, hospitals, water resource, telecommunications roads and so on, these could not have taken place without the revenue from the oil sector. These infrastructural developments, more especially that of the (PTF) Petroleum Trust Fund when General Muhammad Buhari was the chairman had created facilities for the rapid expansion of economic development.

2.10 AIMS AND OBJECTIVES OF OPEC

The organization according to its statutes was established with the following aims and objectives. To:

- (i) Coordinate and unify the petroleum policies of its members and to determine the best means for safeguarding the interest of its members individually or collectively.
- (ii) Stabilize the oil price in the world market in order to eliminate fluctuations.
- (iii) Coordinate and harmonize oil policies of members and to bring them in line with the standard set by OPEC.
- (iv) Stabilize the oil income or revenue of member-nations.
- (v) Negotiate for the participation of members in the oil exploration.
- (vi) Fix and allocate production quota to members.
- (vii) Ensure a steady supply of oil to consuming nations and ensure participation of foreign multinational companies in oil exploration does not jeopardize the interest of its members.

Although, the main objectives of OPEC is to stabilize world oil prices, this aim has not been easy to realize because members have diverse political, cultural and economic system and needs.

2.11 PROGRAMMES AND ACHIEVEMENT OF OPEC

After the establishment of OPEC in 1960 the organization decided to engage itself in some programmes to assist the developing countries. Following the first summit in Algiers, Algeria in 1975, members of OPEC expressed their commitment to assist the developing countries through a collective financial facility. As a result, in 1976, the finance ministers of

member countries met and established the OPEC special fund through which member countries would channel aid to developing countries.

Thereafter, OFID (OPEC Fund for International Development) started its operations in 1976, with an initial endowment of \$800 million in little over a year, its resources had doubled. By the end of 1977 OPEC had extended 71 loans to 58 developing countries, as well as channeling donations from its member countries to other development institutions, including the International Monetary Fund (IMF), the International Fund for Agricultural Development (IFAD). Due to its successful performance, the organization decided in 1980 to convert the temporary facility into full pledged permanent entity called the OPEC Fund for International Development (OFID). The organization had also used its resources, that is, (OFID) to provide grants for food aid, technical assistance research as well as similar intellectual activities.

More so, the organization had recorded success by providing financial support to the developing countries for their socio-economic development. Some achievements of OPEC are as follows:

- OPEC had achieved success in raising the price of oil from one dollar 50 cents in 1971 to 11 dollars 65 cents in 1974.
- It has succeeded in ensuring the participation of its member – nations in oil exploration.
- It has recorded success in the aspect of regulating the activities of the multi-national companies.
- It has helped its members to negotiate on new royalties.
- It has also achieved success by the establishment of the common-nations financially.
- The organization has served as a forum for members to rob mind on problems confronting them.

2.12 FACTORS THAT CONTRIBUTES TO THE SUCCESS OF OPEC

The success of OPEC came in 1973 and Nigeria being a member benefited from this. Therefore, for any organization to be successful in its activities, there has to be stability and progress for its continuity. Some of the factors that contribute to the success of OPEC include:

- (i) The high demand for oil by countries of the world, most especially by the developed countries for their industries. High demand for oil also made it to have price inelastic, mainly because, the crude oil has no close substitutes that can replace it.
- (ii) The unbroken monopoly of power that OPEC enjoys is another contributing factor to the success of the organization.
- (iii) OPEC is made up of the leading countries that were blessed with crude petroleum. (Oil producers).
- (iv) There exist socio-cultural and religious ties among member countries. These ties help in binding members together. For example, with few exceptions, members of OPEC belong to the Arab world and are Islamic states.
- (v) Another contributing factor for the success of OPEC is the fixing of quota, that is, the quantity of barrels for production for its members. This made the supply of oil to have price inelastic which no matter the price; members try not to increase their production quota. This is perhaps one of the problems Nigeria is facing being a member because of the quota allocated for Nigeria to produce, some are of the opinion that Nigeria should opt out to enable her produce more oil in order to get more revenue that will enable it solve the financial problems and to cater for the needs of the citizens.

2.13 PROBLEMS OF OPEC

It is pertinent to note however that, in spite of the drive by the member countries to achieve complete attainment of the said objectives, no organization can be without challenges. For instance, diversities in political, economic and cultural spheres of individual member-nations, made it quite difficult for OPEC to work out an agreeable formula for the regulation of production among its members at the initial stage of its formation. The problems of OPEC in the control of production quota and price stabilization are twofold. The constant disagreement between members of OPEC in fixing of price and production quotas remains a clog in the wheel for OPEC members. For instance OPEC failed to reach an agreement on oil prices at its meeting in Geneva in 1981. Each member country thereby fixed its prices freely and this partly led to the oil crisis in 1981 (Appadorai 1956). As a result, Nigeria reduced the price of the oil.

Another major challenge was the control of Oil Company which was in the hands of foreign investors who cared more for the economic interest of their home countries, which were mostly countries of Western Europe, Japan and United States (Ewa, 1991). Also, the emergence in the international oil market in the 1980's of the North Sea Oil producers of the United Kingdom and Norway has been another major catastrophe. Their production increased the supply of oil in the international market and reduced the price. This non OPEC oil produces remain a threat to OPEC. The most important challenge faced by OPEC after formation was the need to ensure a high degree of production and exportation of oil in a manner that would ensure a high degree of reconciliation between the requirement of the comprehensive and social development in the member countries, on the one hand, and the needs of the world economic for this vital commodity on the other (Abdulkarim, 1980). Going by the OPEC slogan which is, "supporting stability, fueling prosperity", one can easily say that, the slogan is not appropriate. Because, over

the years, the problems facing member countries have depended beyond stability of crude oil prices alone.

Also there exist a constant disagreement among members of OPEC in fixing of prices and production quotas, and also the failure by some members to implement an agreed prices and production quotas. For example, OPEC failed to reach an agreement on oil price at its meeting in Geneva in 1981. Each member country thereby fixed its own price freely and this partly led to the oil crisis of 1981. As a result Nigeria reduced on its own, the price of it oil from US \$40 per barrel to US \$36 per barrel. And at the same time, Nigeria also reduced output of the oil from 1.7 million barrels a day to 0.7 million barrels. This resulted to shortfall in revenue of US \$40 million a day at the rate of US 40 per barrel. The problems of OPEC have therefore continued to be compounded because of the forces beyond its control. Due to a tighter market and tough competition for buyers, the reaction of OPEC members themselves has been to break the rules they have set up. Many of the members, like Nigeria, solely depend on oil for foreign exchange earnings, the urge to flout OPEC rules is very strong. Production quotas set by OPEC are regularly exceeded not only by simple over production but also engaging in barter deals. The political disagreements which sometimes lead to war among member-nations are also another problem. For instance, the war between Iran and Iraq caused a serious problem to the organization. Although, by 1987, the situation had improved because the production quota and prices of OPEC members were monitored by the OPEC committee in order to secure stability.

Doran F. D. argues that, OPEC is marked by a fundamental schism opinion regarding optional pricing, that is, the high-price preference states and the low price preference state. The high-price preference states are characterized by large population, massive development plans, major plans for military buildup and hence a demand for huge amount of revenue, provided in

part by high export prices for crude oil. In contrast, the low-price preference states led by Saudi Arabia are characterized by small population, limited capital absorption capability, large and vulnerable financial reserves and a huge amount of untapped reserves of petroleum. High prices of petroleum would serve only to increase the financial reserves already subject to exchange control and devaluation and hasten the threat of energy substitution.

He further argue that split in price preference does not end in commercial and economic questions, that rivalries exist among OPEC states and that Saudi Arabia is distrustful of Iranian military ambitions in the Gulf Regions particularly in looking forward to a time when Iranian petroleum reserved would have run out but Saudi Arabia reserves would offer a potential agrees or an inviting prize. Since high current prices for crude oil for the Iranian military budget Saudi has a persuasive reason for opposing marginal increment in oil prices.

The challenge of prosperity now manifests itself, in better linkage of the oil sector to the wider economy of the member countries as well, optional utilization of both crude oil and natural gas which in the past was a nuisance by-product of crude oil production, but now, it has come to age and extremely valuable. Member countries now have to address these issues to make more leverage of their membership of OPEC.

2.14 NIGERIA'S ROLE IN OPEC

OPEC, as mentioned earlier was established a month before Nigeria's independence – that is in September 1960 and Nigeria did not became a member until July 1971. Though Nigeria joined OPEC after 10 years of its existence, its oil policies were in line with those of other member countries. Pertinent to note is the fact that the history of oil in Nigeria is as old as the country itself. Oil exploration in Nigeria dates back to 1908 with the discovery of oil at Araromi,

in the present Ondo State. A general company Nigeria Butmen Corporation started this pioneering effort that was cut short by the first world war of 1914-1918 (Johnson, 2003).

Another exploration activity took off in 1937 by an Anglo-Dutch consortium that served as forerunner of the present day Shell Petroleum Development Company of Nigeria Limited then known as Shell D' Archy which was given the sole concession right that covered the whole territory of Nigeria. The company operated under the mineral Oil ordinance no 17 of 1914 and its amendments of 1925 and 1950 which give only companies registered in Britain or any of its protectorates the right to prospect for oil in Nigeria and further provided that the principal officers of such companies must be British subject. The second world war of 1939-1945 also interrupted the exploratory activities of the Shell D Archy. But the first commercial crude oil was discovered in Nigeria by Shell BP in 1965 at Olaibiri in the present Rivers State as mentioned earlier. The discovery ushered Nigeria into the international oil arena. In 1958, Shell started oil exportation from Olaibiri field at a rate of 5,100 barrels per day (Johnson, 2003).

From the foregoing it could be understood that Nigeria as the 6th oil exporter in the world and second largest in Africa, has many roles to play in many ways as a member of OPEC. For instance, in April 1971, Nigeria established the National Oil Corporation to give effect to the government's desire to participate effectively in strategic industries as expounded in the first National Development Plan 1962-1968 (Ewa, 1991).

Thus with a production level of about 1.5 million barrels per day in 1971, representing about 3% of the total world oil production and about 6.7% of the OPEC production, Nigeria had established itself as a substantial net exporter of crude oil. Nigeria has also contributed immensely to the objectives of the organization and has contributed in the balancing role of OPEC in world energy prices and also in preventing major global economic trauma.

Nigeria has played a vital role in cooperating with other OPEC members to provide support in various multilateral negotiations, such as the United Nations Sponsored Negotiations on Climatic Change and Research Findings. Nigeria has more than demonstrated its role in the promotion of OPEC interest especially in this sphere to fashion out its fiscal policies in the same pattern as those of OPEC members and direct exploitation of its hydrocarbon resources. Its membership role in OPEC adds more force to the crusade of wresting control from the major foreign oil companies. As a member country, Nigeria remain committed to making sure that the organization continues to grow and mature into an established, much respected and integral part of the global energy industry in particular, and the world economy in general, this is an aspiration which OPEC member countries all together share and re-affirm today.

2.15 REASONS FOR NIGERIA'S MEMBERSHIP

OPEC, as an international or inter-regional organization has gain a lot of success since its inception. This geared some oil producing countries to join OPEC in other to boats their country's economy and Nigeria happens to be among these countries. The reasons that pushed Nigeria to join OPEC can be found in the primary aim and objectives of the organization.

Nigeria therefore, joined OPEC in other to safeguard the primary economic interest of the country and to fuel prosperity of its people. Nigeria joined OPEC to make sure that the energy industry continues to grow and mature into an established much respected industry and the world economy in general. More concretely, Nigeria joined OPEC as a result of the realization that the country was not gaining as much as other OPEC countries from its oil industry. The leaders of Nigeria realized that, the country was losing revenue from its Petroleum Tax Administration and the only way to handle the situation is to join the organization. Even before joining OPEC,

Nigeria was benefitting from the organizations activities. For instance, the principle of posted price determination and royalty expensing were borrowed from OPEC, this benefit encouraged Nigeria to join OPEC.

In a nutshell, Nigeria joined the organization because of the need to correct it faulty administration of the petroleum taxation such that the government receipts per barrel and posted prices could be compared more favorable with other member of OPEC as well as the advisability of aligning it aspirations with those of older oil exporting countries at similar stages of development.

2.16 ADVANTAGES OF NIGERIA'S MEMBERSHIP IN OPEC

OPEC membership of Nigeria has guaranteed some measure of advantages and benefits. One among them is the international recognition which Nigeria had successfully obtained on the principle of consultation by the oil companies and a measure of control over and share in the oil industry. These advantages that Nigeria derives were even present before it became a member of OPEC. And on becoming a member, Nigeria succeeded in assuming full control over the pricing of its oil. When the Nigerian National Petroleum Corporation (NNPC) was reorganized from the Nigeria National Petroleum Cooperation, the country succeeded in gaining the control of the management of the upstream sector of the industry. As a result, Nigeria and other OPEC members succeeded in putting an end to the unilateral determination of their oil by those oil companies who were formally controlling the price.

Also, Nigeria's membership has increased its political status in the committee of nations. The oil power has made Nigeria an influential African leader and has accorded its opportunity of

playing a leadership role in African politics. For example, the struggle for Angolan and Zimbabwean independence.

Nigeria as a member has enjoyed many of the achievements of OPEC since it became a member. These benefits would have been difficult for Nigeria to achieve but was made possible because of its membership. These include, majority equity participation in existing oil concession; increase in oil royalties and petroleum tax rates: efficient conservation measures and the use of production and service contracts for operating the oil industry instead of the traditional oil concessionary system. Its membership also guaranteed Nigeria's access to research findings, technical and legal advice.

Furthermore, as the search for a new international economic order continues, Nigeria together with other OPEC members took the initiative to establish the OPEC Fund for International Development in 1976 (OFID) without waiting for the industrialized countries. More so, Nigeria has succeeded as a member of OPEC in establishing and consolidating links with other developing countries maintaining with them a common goal on all global issues of mutual concern.

Finally, in spite of the relative advantages which Nigeria enjoyed as a member of OPEC, many have reservations over the continued membership with the organization. Because the agitation to quit OPEC is often driven by the grievance of restrictive production and export quota by OPEC to member countries which is seen as somewhat unfair and inequitable, as it limits opportunity to increase market share and revenue. This is why Ecuador and Gabon withdrew from OPEC because there exist biasness in the distribution or allocation of quota to members.

However OPEC restriction is to control oil market glut that could result from uncontrolled supply. More so, Nigeria has enjoyed strong protection from OPEC in the face of

low production caused by the Niger Delta restiveness which made production unstable, fluctuating considerable and reducing Nigeria's ability to meet its quota demand. Nigeria's production, which revolved around 2 million to 2.3 million barrels per day, dropped to as low as 1.2 million bpd in the wake of Niger Delta crisis. From the above notwithstanding, it is pertinent to point out that currently Nigeria produces the largest share in Africa ever since the beginning of Libyan crisis.

2.17 DISADVANTAGES OF NIGERIA'S MEMBERSHIP IN OPEC

Apart from the advantage Nigeria derived from its membership of OPEC as well. Although these arguments are based on academic differences. To start with, as a member of OPEC, Nigeria has lost the freedom to determine how much quantity of crude oil it should produce for sale in the international market and also to determine the price of its crude oil according to the market forces. This is as a result of the production sharing among OPEC members and the cut back agreements within OPEC which favour others. This unequal distribution of quotas allocated to members for production resulted to the withdraw of some of the OPEC members, like Gabon and Ecuador because there seems to bias in the distribution of production level.

The oil glut crisis of 1978 and the continued depression in the oil market since 1981 has considerably affected Nigeria's economy. This is because, from the peak of \$40 per barrel in 1980, the oil price drop down to \$16 officially and sometimes discounted to even \$10 per barrel. This drawdown in the price structure resulted to a fall in production level. OPEC, which controlled 54.5% of the world oil demand in 1974, lost ground to almost 29.69% in 1983, and also an estimate of 36.40% in 1985. Also, at the end of its last meeting in 1986 in Geneva, OPEC

reached an accord to cut its output by 7.25% for the first six months of the following years, that is, 1987, and also agreed to fix its oil prices around \$18.00 per barrel. This resulted to a failing demand, because individual members have had to be confronted with a cash flow squeeze. This combination failing price and the reduction in oil demand had badly hit Nigeria's economy.

Another disadvantage of Nigeria's membership is that, petroleum has dominated the Nigeria's economy such that it resulted to instability in the economy. For example, the National Development Plans and Budgets, since 1970, have been based on the fortunes or otherwise of the oil sector. This has been disappointing experiences because the country's optimism and anticipated prosperity had turned to harsh austerity. Stability in the economy has continued to be elusive. For instance, this is evidence in the present economy trauma that the country is now facing. Towards the end of the year 2011, the government decided to remove the oil subsidy which will result to positive impact on the development and the lives of Nigeria citizens but reverse is the case. This is because on first day of 2012, Nigerians started facing the most serious hardship, transportation became hard, as a result of the removal of the subsidy instead, the price rose from ₦65 per liter to the ₦ 130 and ₦ 140 per liter. Apart from the increase in fuel price, the fuel is not also available at the filling stations because vehicle have to queue for many hours waiting for oil.

Nigeria's membership of OPEC as a result of the oil industry has led to the neglect of the agricultural sector. The so-called "mono-product economy" has caused a very serious imbalance in the country's economy. This is perhaps the most biting aspect of petroleum in the Nigeria economy, because highly trained and skilled manpower is lying idle or underutilized. The social and political effects of this situation cannot be over looked if such imbalance in the economy persist since Nigeria pays more of her attention in the oil sector been a member of OPEC. This

is because the oil sector is capital intensive and Nigeria cannot readily provide the types of inputs needed, such as drilling rigs, refineries etc. which means consequently the sector will continue to rely on foreign inputs and contractors to handle the projects.

Yahaya Dikko, once a special adviser on petroleum between 1979-1983 and also once leaders of Nigeria delegate to OPEC was quite uninspiring. This is because of his inability to locate and recognize the locus of power in OPEC this put Nigeria into a poor position. But the moment of glory for Nigeria within OPEC came with the appointment of Tam David West, a Professor of virology as a minister of petroleum resources and Nigeria's mouth piece at OPEC. His proper articulation of issues in OPEC has earned Nigeria a distinguished position in the organization. Nevertheless, Nigeria has shared in the good fortunes and misfortunes of OPEC. The oil crises increase of 1973-1974 and that of 1979 gave Nigeria tremendous financial boost.

Thus, the oil wealth has been a mixed blessing to the Nigeria's economy. It seems that OPEC will again attain its former position of preeminence, or that oil exporters will ever have such vast sums of money to shape their national economic destinies. But also, Nigeria should diversify its export base and make realistic monetary and fiscal policies and not to rely more on oil because of her membership in OPEC.

CHAPTER THREE

DATA PRESENTATION, ANALYSIS AND INTERPRETATION

3.1 INTRODUCTION

This chapter presents and analyze the data on the available data on the study.

3.2 OPEC MEMBERSHIP AND QUOTA ALLOCATION, NIGERIA IN VIEW

OPEC was founded to unify and coordinate member's petroleum policies. OPEC pioneers include Iran, Iraq, Kuwait, Saudi Arabia and Venezuela. Between 1960 and 1975, the organization expanded to include Qatar (1961), Indonesia (1962), Libya (1962), the United Arab Emirates (1967), Algeria (1969) and Nigeria (1971). Ecuador and Gabon were early members of OPEC, but Ecuador withdrew since 1992 because of its inability to pay a \$2 million membership fee and felt that it needs to be producing oil more than the allocated quota, although Ecuador rejoined in October 2007.

In dealing with Nigeria membership in OPEC and the relationship of quotas to the population and also oil reserves of the various countries, there is need for correlation analysis among OPEC members with quota as dependent variable, population and oil reserves as independent factor.

TABLE 1 : ATA ON PETROLEUM PRODUCT OF OPEC MEMBERS

S/N	OPEC COUNTRIES/ DATE	Pop'n	Crude oil reserves (million barrel)	Crude oil prod. (bpd)	Crude oil quota (bpd)	Crude oil export (bpd)	Refining capacity (bpd)	Output of refine Prod. (bpd)	Consm of refine prod. (bpd)	Export of refine prods. (bpd)	% of petrol, prod contrib. to foreign export	% of petrol prod. Contrib. To GDP
1	Algeria 1969	31,476	11,314	735.1	782	397.3	462.2	469.6	194.1	408.2	69.2%	24.9%
2	Indonesia 1962	218,700	4,722	1,125.0	1,270	609.9	1057.0	1002.4	1068.9	152.4	15.6%	5.0%
3	Iran Sept. 1960	65,969	99,080	3,248.4	3,597	2093.6	1474.0	1440.5	1238.6	290.0	78.6%	18.1%
4	Iraq Sept. 1960	24,220	115,000	2,126.5	0	1138.0	603.0	518.2	547.1	22.5	77.9%	39.8%
5	Kuwait Sept. 1960	2,364	96,500	1,745.9	1,966	922.4	899.0	572.2	146.0	572.2	95.9%	44.0%
6	Libya 1962	5,535	36,000	1,200.3	1,312	1798.2	380.0	369.8	172.3	221.1	89.7%	53.1%
7	Nigeria July, 1971	132,909	31,506	1,801.7	2,018	508.8	445.0	307.0	200.0	78.2	98.8%	39/9%
8	Qatar 1961	611	15,207	568.9	635	5284.6	137.0	43.1	32.9	67.3	62.4%	36.6%
9	Saudi Arabia Sept. 1960	22,116	262,790	7,093.1	7,963	1614.0	1825.0	1596.9	1096.7	993.5	94.2%	33.1%
10	UAE 1967	3,049	97,800	1,900.3	2,138	1614.0	491.3	312.2	146.0	485.5	57.6%	30.6%
11	Venezuela Sept, 1960	25,099	77,800	2,431.8	2,819	1527.0	11,83.2	1228.7	407.0	569.7	75.7%	21.0%
Totals		532,048	847,719	23,977.0	24,500	17031.8	8956.7	7860.6	5206.6	3860.6		

Source <http://www.opec.org/MemberCountries/MemberCountries.htm>

In table 1, it shows clearly that the quota allocated to Nigeria and that of other OPEC members need a considerable change in order to make some improvement on the issues of quota allocations. This is because, when comparing Nigeria with Saudi Arabia, we found out that Nigeria with a population of 133 million (according to OPEC data) has a quota of 2,018 million barrels per day, while Saudi Arabia with a population of about 22 million has a quota of 7,963 million barrels per day.

Also, in comparing Nigeria with Venezuela, Venezuela with a population of more than 25 million has a quota of 2,819 million barrels per day higher than Nigeria, which has a population of up to 133 million while its quota is 2,018 million barrels per day. This simply explained that, some member countries have privilege over other members on quotas allocation, even though their population is less or not up to that of other members. Point to note here is that, as at the time, this information was gathered about OPEC members, Ecuador had suspended her membership while Gabon terminated her membership, that is why their information was not included.

Table 2: OPEC QUOTAS AND PRODUCTION IN THOUSAND OF BARRELS PER DAY

Region	Country	Date joined OPEC	Quota (7/1/05)	Production (1/07/)	Capacity
Middle east	Saudi Arabia	1960	10,099	9,800	12,500
Africa	Algeria	1969	894	1,360	1,430
Africa	Angola	2007	1,900	1,700	1,700
South America	Ecuador	2007	520	500	500
Middle east	Iran	1960	4,110	3,700	3,750
Middle east	Iraq	1960		1,481	
Middle east	Kuwait	1960	2,247	2,500	2,600
Africa	Libya	1962	1,500	1,650	1,700
Africa	Nigeria	1971	2,306	2,250	2,250
Middle east	Qatar	1961	726	810	850
Middle east	UAE	1967	2,444	2,500	2,600
South America	Venezuela	1960	3,225	2,340	2,450
	Total		29,971	29,591	30,330

Source: Quotas cirtas 2005

Table 2, shows that six of the OPEC members are Arabs which include Saudi Arabia, Iran, Iraq, Kuwait, Qatar and the United Arab Emirate. Four member countries are from the African region, these include; Algeria, Angola, Libya and Nigeria, while two other members are Ecuador and Venezuela from the South American region.

From the table, Saudi Arabia has the highest quota among the OPEC members that came from the Middle East region in the year 2005 but the production level decline from 10,099 to

9800 in the year 2007. Also, from the region of Africa, Nigeria Quota as at 2005 was 2,306 but it fell to 2,250 in 2007, and Nigeria was having the highest quota among the OPEC members from African region from the South American region comes Ecuador and Venezuela and Venezuela was having the highest quote between her and Ecuador with 3,225 quota in 2005 but the production fell to 2,340 in 2007.

Although not all the OPEC members witness the fall of their production level from the year 2005 to 2007 because member countries like Algeria witness some increase in the level of production from 2005 to 2007. Algeria's quota was 894, as at 2005 but it rose to 1,360 in 2007 Kuwait quota was 2,247 in 2005 and its production rose to 2,500 in 2007, Libya's quota was 1,500 but it increase to 1,650 in 2007, Qatar quota was 726 in 2005 but increased the production to 810 in 2007 and United Arab Emirate quota was 2,444 in 2005 and the production level also rose to 2,500 in 2007. This explained that OPEC members do not abide by the quota that they are allocated for to produce or there is no fix or permanent quota because it can reduce and or increase the production level at any time.

While some member countries witness increase in two years term, other members witness decline in the quota or production level of barrels per day. From the table, member countries like Angola lost the production of 200 barrels from 2005 to 2007, that is, (1,900) barrels in 2005 to 1,700 in 2007. Ecuador quota was 520 in 2005 but fell to 500 in 2007, that is, 20 barrels decrease. Iran production quota in 2005 was 4,110 but fell to 3,700 in 2007, Iraq remains a member of OPEC but Iraq production has not been a part of any OPEC quota agreements since March 1998. Nigeria's production quota also fell from 2,306 in 2005 to 2,250 in 2007, while Venezuela production quota as at 2005 was 3,225 but also fell to 2,340 in 2007. This shows that,

OPEC production quota is not static because it fell and rose from time to time and then there are cut back agreements of the production sharing within OPEC members.

However, the influence of OPEC in the international market rest squarely on its possession of oil which is vital for the member countries industrial developments. Nigeria joined the organization because she knew her interest would be better served being a member. However, the influence of OPEC in the international market rest squarely on its possession of oil which is vital for the member's countries industrial developments Nigeria joined the organization because she knew her interest would be better served being a member.

It was clear that the country was losing revenue from its petroleum tax administration and that joining OPEC would correct the situation as Nigeria could learn from the experience of the older OPEC members. To them, its membership of OPEC deprived the country the right to fix oil prices in accordance with the market forces. They also condemned its membership because of the production sharing and cut back agreements within OPEC members and that the membership has also deprived Nigeria the freedom to fix its oil production levels.

CHAPTER FOUR

SUMMARY, CONCLUSION AND RECOMMENDATIONS

4.1 INTRODUCTION

This chapter covers the summary of the work, conclusion and recommendations. The study is summarized base on its chapters. Put together, the researcher gave a brief history of the evolution of oil, the birth of OPEC, brief profile of Nigeria petroleum industry and the development of Nigeria Petroleum industry. Also, the study tries to give an insight into Nigeria's membership of OPEC and the role it plays is not left untouched. The issue of quota allocation, price and also production level are also discussed. Finally, conclusion and recommendations was drawn base on the research work.

4.2 SUMMARY

From the research finding it becomes clear that oil has contributed tremendously to the global economy although other countries in the world have other alternative source of energy. It was also observed from the research findings that before 1960, countries that produces oil witnessed exploitation of oil by the multinational companies that extract their oil. As a reaction to that, five oil producing countries met in Baghdad to form a countervailing power bloc against those companies. The outcome of the meeting resulted in the formation of OPEC, (Organization of Petroleum Exporting Countries), with the aim and objectives of coordinating their oil policies and to protect the interest of its member countries.

In the same chapter, we also mentioned that Nigeria was not a member of OPEC until July 1971, but the country had reserved for itself the right to acquire participation interest in

Agip in early 1966. By April 1971 Nigeria established the Nigeria National Oil Corporation. And that, when Nigeria joined the organization its production level was about 1.5 million barrel per day which represents about 6.7% of the OPEC production. The organization has recorded success in 1973 and Nigeria has benefited immensely from it. The economy of Nigeria therefore became import dependent and money flow into the country but the oil glut in 1981 has considerable drawback on the Nigeria economy.

Finally, chapter one portrays that Nigeria's four decade of long membership has attracted a lot of analytical questions and comments from different scholars on the role of Nigeria as a member of OPEC and the quota allocation among member countries of OPEC.

In chapter two, the study discusses the origin of OPEC and why the organization was founded. It was discovered that the organization of the petroleum exporting countries was established in 1960 by five oil producing countries, Saudi Arabia, Kuwait, Iran, Iraq, and Venezuela being the leading instigator, and that OPEC is a permanent inter-government and regional organization. Nine other members later joined the organization, they include Qatar, Libya, United Arab Emirates, Algeria, Nigeria, and Indonesia but Indonesia suspended its membership in January 2009, and Ecuador also suspended its membership in December 1992 and again returned to the organization in October 2007, Angola and Gabon. The organization headquarter was at Geneva in Switzerland for five years when it was founded but was later moved to Vienna in Austria.

We mentioned that, when OPEC was found in 1960, the daily crude oil production rate for Venezuela, were (2.85), Kuwait (1.69), Saudi Arabia (1.31), Iran (1.07), and Iraq (0.97) million barrels respectively. Meaning that, the daily crude oil production rate of the first five founding members accounted for 41.1 percent of the world daily crude oil production of 21

million barrels per day. Today, OPEC's daily production account for 15% of the world natural gas, 55% of the oil traded internationally and possesses 78% of the world's proven crude oil reserved.

The evolution of the world oil industry was also not left behind in this chapter. Here we discussed that, Edward Drake located and struck oil at a depth of about twenty one meters on the 28th of August, 1859 at Titusville, Pennsylvania in USA. With the discovery of more oil field, Gulf and Texaco companies emerge. Then the British petroleum and Shell Company later joined the oil business and were later called the "seven sisters", that is, Standard Oil of California (Chevron), Exxon, Mobil, Gulf, Texaco, British Petroleum, and Shell. These Seven Sisters were said to have dominated the oil market for almost a century.

This chapter also mentioned that, oil was discovered in Nigeria in 1956 and production started immediately. But the first oil refinery in Nigeria was established in 1965 at Alesa Eleme, now in Port Harcourt. In 1978, the Warri refinery was established and the Kaduna refinery was also established in 1980. Recent development in 1990's is in the area of Liquefied Petroleum Gas (LPG) and Liquefied Natural Gas (LNG) projects. Prior to 1973 the price of petroleum products was ill-defined, as at then, the Nigeria government had little control over the pricing of its petroleum product. This is because the big oil extracting companies' owed majority of product marketing facilities such as the storage, distribution network, sales outlet etc. and they were in absolute control of the entire product market in the country. But in 1973, the retail pricing policy was brought under the government of Nigeria and a uniform price was established throughout the country. The period of 1975 -1980 was described as the "golden era" of oil industry in Nigeria. The period marked a major attempt by the government to recognize the Nigeria oil sector and Nigeria government decided to merged the ministry of petroleum resources with the Nigeria

National Petroleum Corporation (NNPC) in 1977, with the aim of ensuring a better coordination of all the various activities of the oil industry and to achieve a better integration of petroleum sector with the Nigeria economy. More so, the contribution of OPEC and petroleum to the development of the Nigeria economy, the aims and objectives of OPEC, programmes and achievement of OPEC, success and problems of OPEC are other areas of attraction in this chapter. The chapter revealed that, OPEC has contributed to the development of Nigeria by finding ways and means of stabilizing price of oil in the international oil market. It has also contributed to the development of Nigeria by encouraging her to achieve a speed transformation from a mere raw material exporter to being a manufacturer, thereby carry out certain downstream operations especially with regard to the area of refining and petrochemicals activities. The oil industry also contributes towards the development of the country. It has provided the greater part of the foreign exchange earnings and the socio-economic and political development in the country.

We also discussed some of the aims and objectives of the organization. Some of which are, to coordinate and unite the petroleum policies of its members and to determine the best means for safeguarding the interest of its members either individually or collectively. It further mention that in 1976, the finance ministers of member countries met and established OPEC Special Fund, through which member countries channel aid to developing countries. And that the high demand for oil and the unbroken monopoly that OPEC enjoys are some of the contributing factors for the success of the organization. Although the emergence of the North Sea Oil and Norway in the international market has imposed a threat on OPEC and also the constant disagreement among member countries in fixing of price and production quotas are basically some of the problems that the organization is facing.

From the research finding, we find out that Nigeria has played a vital role in its membership of OPEC by establishing itself as a substantial net export of crude oil, that is, when in 1971 its production level reached 1.5 million bpd, representing about 3% of the total world oil production and about 6.7% of OPEC production. The reasons for Nigeria's membership of OPEC were also mentioned in this chapter. Some of the reasons for her membership are, to safeguard the primary economic interest of the country and to enable the country's energy industry to keep growing and to mature into an established much respected energy industry and of the world in general.

The advantage and disadvantage of Nigeria's membership of OPEC was discussed also in this chapter. Its membership of OPEC has guaranteed her the full control over the pricing of its crude oil. Its membership has also gained her international recognition and has successfully obtained the principle of consultation and share in the oil industry. Although, some are against its membership in the organization because, the agitation to quit OPEC is often driven by the grievance of restrictive production and export quota by the organization which they see as unfair and inequitable as it limits opportunity to increase market share and revenue to the country.

Chapter three presents the analysis of the studies. In this chapter, the assessment of Nigeria's membership and the quota of crude oil to be produced by OPEC members were shown in a table. Comparison was made on the quota allocated to Nigeria for production and that of Saudi Arabia. It was observed that, Nigeria's population outnumbered that of Saudi Arabia but Saudi Arabia's quota was 7,963 million barrels per day while that of Nigeria was 2,018 million barrels per day (according to OPEC data). More so, Venezuela's population was about 25 million while Nigeria's population was 132,909 but Venezuela's quota was higher than Nigeria's quota, which is, 2,819 to Nigeria's 2,018. These therefore call for a considerable change in the quota allocation.

To round up this chapter, table two discussed that, six members of OPEC are from the Middle East region (Saudi Arabia, Iran, Iraq, Kuwait, Qatar and the United Arab Emirate), four members from the African region (Algeria, Angola, Libya and Nigeria), while Ecuador and Venezuela from the South American region. It was also observed that production quotas of some member rose in 2005 but decline in the year 2007 while reverse is the case to other members. For instance, Saudi Arabia quota decline from 10,099 to 9,800 in the year 2005 to 2007, while Algeria's production level rose from 894 barrels in 2005 to 1,360 in 2007. This simply means that there is no fixed or permanent quota to produce because it increases and decreases at any given period.

4.3 CONCLUSION

From the research finding, it could be understood from the foregoing that OPEC was established to serve as a pillar of support for member countries. International economic relations are influenced by interests which all nations seek to promote. The function of OPEC serves as an umbrella under which member nations interests can be promoted as well as protected. Member countries have gained tremendously from the support given by OPEC. For instance, at the time Nigeria joined the organization in 1971, the posted price for Nigeria Benny light was \$3.195 per barrel and until the new price discount was announced in 1981, the posted price for the same crude was \$44.358 per barrel. This represented a 13-fold increase, which is equivalent to 1288% increase. During the same period, Nigeria oil revenue increase from N603 million in 1971 to 13,571 million in 1980, representing 22 fold increased. This means that, Nigeria oil wealth is derived from the higher oil price which resulted from OPEC efforts.

More so, the recognition and utility of petroleum as a source of energy and overdependence of the country's economy on petroleum make it important for the country to actively involved itself in OPEC since it plays an important role in the international oil market and because it also serve our national interest. In spite of vigorous complains by the environmentalist for alternative source or sources of Nigeria, petroleum still remains the most reliable and economic source of energy in Nigeria. An investigation shows that about 60% of the world proven reserves lies within OPEC member nations.

The fact that OPEC is made up of fewer members could encourage to some extent increasing return to scale in terms of effective and efficient management of the entire organization. This has also continued to disburse interest – free loans and grants to many developing countries of the world.

In the light of the above the continued membership of Nigeria in OPEC and the role it plays for the organization in the international market shall ever remain a welcome idea. However, in ensuring a stronger OPEC, equity and justice in terms of quota allocation to members should be the watch words of the organization. Member countries with higher population and responsibilities like Nigeria in particular should be assigned reasonable quota. It has also been observed that Nigeria has contributed immensely to the development of OPEC in areas of production quota, membership strength as well as representation in the west African sub-region (Ewa, 2003).

4.4 RECOMMENDATIONS

Since OPEC is a good example of cartel in economics according (Ewa 1991). Member countries must remain united and support the price increase in the oil market to confer on them a

substantial amount of oil revenues for their economic development. OPEC member countries should continue to align with the objectives and aspirations of the organization and to render support that will help in fueling the prosperity of its member countries.

On the part of Nigeria as a member of OPEC, Nigeria together with other fellow OPEC members should implement and pass laws that would help in linking the oil industry with the wider economy in order to make significant progress. This will help in providing a platform that would enable them get more revenue to utilize and spend it in the oil industries, locally and internationally and to create jobs for their citizens.

In addition to this, member countries and the Nigerian government in particular should provide an enabling government and a responsible state to support policy implementation and appraisal in the country. Corruption and mismanagement of member countries' funds and that of Nigeria in particular by the dominant class should be monitored through the establishment of an anti-corruption body, and it must be independent to enable them function well. Members of the body should include representatives of all sections of the society. This will make the committee to enjoy wider acceptance and to function independently. The representatives should make sure that the voices of their people are honored. The Nigerian government should procure efficient and effective machinery for drilling and refining the crude oil internally. This will help in reducing the over dependence of Nigeria on the outsiders. The government should also be conscious of where and when to inject government money in the economy to control the problem of inflation and to disburse resources through appropriate channels in order to promote health care, socio-economic and political development in the country.

Finally, since there is no arena more glaring in disclosing the attitude and fraudulence of our Nigeria's leaders over the years than in the management of our country's oil and the unequal

distribution of quota by the Organization of Petroleum Exporting Countries (OPEC), OPEC we think might just be the best forum for Nigeria and other OPEC member countries to discuss and to proffer solutions on the unjust allocation of quotas and how our leaders spent the countries oil wealth the way they like. This is true because money that might be obtained from an upward revision of our quota of oil by OPEC is not wisely spent. This is because there is no successful policy that will add value to our petroleum.

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