

EFFECT OF FUEL SUBSIDY REMOVAL ON PURCHASE OF CONSUMER GOODS IN NIGERIA: A LITERATURE REVIEW

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ABSTRACT

The fuel subsidy removal in Nigeria has been a very controversial issue. While some experts believe that it will lead to increased poverty, others are of the opinion that it will liberate the much needed resources needed to develop other sectors of the economy. This study examines the implications of fuel subsidies removal on Nigeria's economic development. The study adopts exploratory research design and qualitative method to collect data, analysed via content analysis. Findings reveal amongst others that removal of fuel subsidy in Nigeria will have direct economic consequences including increase in product prices, hike in fuel pump prices and quality of petroleum products amongst others. The authors concludes that the higher the pump price of fuel, the higher will be the cost of consumer products purchased as fuel plays an important role in the production of goods and services in all sectors of the economy.

1.0 INTRODUCTION

Iyela (2008) arguing on the important of energy to the development of an economic, emphasizes that from the time of discovery of fire by Palaeolithic man until date, no human society can do without fire or other forms of energy, adding that the ability of any nation to meet its energy need is used as a barometer for measuring its economic development. To buttress his assertion, he cited Sambo (2004) who argued that energy is an essential input to all aspects of modern life, the livewire of industrial production, fuel for transportation as well as for the generation of electricity in conventional thermal power plants.

Fuel is an important factor determining transport costs, transport rates and the final prices consumers pay for goods and services in the economy. Innocent, Obu and Job (2015) in Adeniran (2016), observe that fuel plays a pivotal role in goods and services production within all sectors of an economy and this explains why government finds it expedient to subsidize fuel so that the citizen can have access to fuel which is the national importance.

Amyanwu (1997) in Mande (2014) justifies the removal of fuel subsidy, saying that it is a deregulation aimed at minimizing the intervention by government in the management of the economy, adding that in a deregulated economy, government is the catalyst of growth while the prime mover of the economy is the private sector.

Federal Republic of Nigeria (2000) cited in Mande (2014) sees deregulation as a necessary condition for the survival of the oil industry adding that the pace and strategy of deregulation have become crucial important and cannot be rapid to avoid problems of stagflation.

Fuel subsidy removal has been a topical issue for decades and successive governments have tried the reform without success, owing to fierce public demonstration of its removal. In an economy, subsidy exists when the government assist consumers of a certain commodity within that economy to pay lower than the real market price by paying part of it. In the case of subsidizing fuel, it implies that consumers pay less than the prevailing pump price per litre of petrol. It can as well be seen as the difference between the current market price of fuel and/or other petroleum products per litre and what the end users pay for same products (Soile, Tsaku & Yar' Adua, 2014).

Bazilian & Onyeji (2012) in (Soile, et al, 2014) have asserted that in developing countries, the government has introduced fossil fuel subsidies for end users principally as a means of promoting certain socio-economic and environmental targets, which they identified as including; energy redistribution, poverty alleviation, increasing domestic supply, correction of externalities, equity, national resource and/or wealth redistribution, and control of inflation.

Adelabu (2012) on his part noted that Nigeria, a strong member of the Organization of OPEC, has earning billions of dollars in revenue over the years, has not been able to provide its citizens with improved welfare condition owing to corruption, mismanagement, excessive subsidizing, inefficiencies, bureaucratic challenges and smuggling.

Also, Ering & Akpan (2012) have lamented that despite the benefits derived from oil, successive governments of Nigerian have not been able to reduce poverty significantly, as well as provide basic socio-economic services for her citizens' needs.

There has been a call from International Monetary Fund (IMF), corporate organizations and schoolers that subsidies should be removed from petroleum products because it distorts the real market price, thereby failing to reflect the actual market cost (Okwana, Ogbu & Pristine, 2015). They equally contend that reckless consumption is facilitated by subsidized goods (Sanders & Schnejder, 2000 reported in Okwanya, Ogbu & Pristines, 2015).

The thrust of this study therefore, is to investigate the effect of removing fuel subsidy on the purchase of consumer goods in Nigeria, in order to recommending strategies that would help to alleviate the suffering of the Nigerians.

1.2 Statement of the Problem

Petroleum products are known to have decisive influence on purchase of consumers' goods. Supporting this view, Darlington & Monday (2023) argued that majority of Nigerian population; heavily rely on fuel as an essential resource for their economic activities due to the persistent challenges with the electricity supply in the country. This has made organizations and individuals to depend on alternative means of generating what is more power. The recent withdrawal of subsidy from petroleum has further worsen matters as current prices of petroleum and/or chemical products now have significant impact on cost of living and conducting business in Nigeria. Fuel prices have significantly influenced the prices of consumers goods beyond the level an ordinary Nigerian consumer can afford. It therefore has become a critical factor in the manufacturing and purchasing of consumer products.

Although the Nigerian government has given a justification to their decision on subsidy removal, this study therefore attempts to investigate these assertions with the aim of making suitable recommendations that will alleviate the suffering caused by removing fuel subsidy within the Nigerian economy.

1.3 Objectives of the Study

1. To examine the effect of removing fuel subsidy on purchase of consumer goods
2. To identify major marketing strategies and government initiatives that can ameliorate the adverse effects of removing subsidy on consumer goods purchasers.

2.0 LITERATURE REVIEW

2.1 Concept of Subsidy

Subsidies are important policy instruments adopted by governmental economic social and environmental objectives (Harrun, Chemat, Fadzum Mohd, Khan & Zamzuri Noor, 2018). They added that energy resources are one of the resources that have encountered frequent intervention by governments in developing countries mainly providing subsidy to energy consumption.

Cambell (2011) in Adeniran (2016) has posited that as the reality of subsidy in Nigeria is that, as the pump price of fuel increases, the cost of almost everything in Nigeria increases, adding that the essence of fuel subsidy to make Nigerians have a reasonable cost of living, production, affordable services to everyone, as well as maintain good standard of living. He went further to say that any slight increase in the pump price of fuel without a palliative measure and place inflicts economic hardship on Nigerians and usually generates resistance and protest from the organized labour, civil society coalition and the teaming masses.

2.2 Concept of Consumer Buying Behaviour

Solomon (2011) mentions that consumer behaviour is the study of the processes involved when individuals or groups select (make a choice), purchase, use or dispose of products/services, ideas or experiences to provide for consumers' needs as well as their desires.

Basically, consumers' buying behaviour is determined by experience and inducements. While reasons are the inner factors that make the consumer to behave the way he does, inducements are exterior factors representing rewards the consumer expects from buying the products (Mfon & Uford, 2022). Consumer buying behaviour goes through three (3) major successive stages – the Pre-purchase decision, purchase decision and post purchase decision (Uford & Mfon 2023).

Kotler & Amstrong (2013) define consumer buying behaviour as the behaviour of customers and end users when buying a product, they include; individuals and households services and goods for personal consumption. It is difficult to predict accurately what happens in the consumers' mind (Al-Haaj et al. 1990) in Armah & Attafauh, (2020).

2.3 Concept of Consumer Products

Kotler and Armstrong (2013) see consumer products as those products and services bought by consumers (end users) for personal consumption, and classified based on how consumers go about buying them. They include; (i) convenience products, (ii) shopping products, (iii) specialty products and (iv) unsought products.

Convenience products: The process of acquiring or buying this product usually requires minimal comparison period and buying effort. Examples include laundry, candy, magazines and fast foods. Usually, they are low priced products, and placed in many locations for easy access by consumers.

Shopping Products: A shopping product is a type that the consumer usually compares attributes like; quality, style, suitability, as well as price in the selection process and actual purchase. Examples include; used cars, major appliances, furniture, clothing, airline services etc. They are usually distributed through very few outlets and are provided with sales support to assist customers through their comparison process.

Specialty Products: These are those products and services having unique brand identification or characteristics, which specific buyers are willing to make significant purchase effort. They include; high-priced photographic equipment, services of legal or medical specialists and specific car brands. Consumers are always willing to travel within significant distances to buy, and they do not compare specialty products but invest only the time needed to reach dealers carrying them.

Unsought Products: These are products type that the final consumers either do not know about and/or know about but do not normally consider buying. Examples include; life insurance, pre-planned funeral services and blood donation to Red cross. They require a significant effort of personal selling, advertising, and other marketing efforts.

3.0 PETROLEUM SUBSIDY REMOVAL AND THE NIGERIAN ECONOMY

Smith (2016) reported in Nwachukwu (2023) observes that subsidy removal has led to an immediate increase in Fuel prices resulting in changes in consumer purchasing decisions and preferences, leaving consumers with the choice of reducing their fuel consumption, seeking alternative energy sources or modifying their product choices.

Adewale (2024) views the Nigerian economy as operating and scaling on several factors, with logistics cost being one of the factors, affecting pricing system in trading. The cost of fuel (Diesel, Petrol and Kerosene) he continues, will affect the price of commodities. He further categorizes the effect of subsidy removal into:

3.1 Hike in fuel pump price and quality of petroleum products.

According to him, as soon as president Tinubu announces the fuel subsidy removal, many filling stations started selling at their outlets, while some started selling at high prices. He however added that stations like Mobil, BOVAS, and NNPC were still selling at reasonable prices while petroleum prices became competitive between major marketers and independent marketers.

3.2 Increase in Delivery Cost

On increase in delivery cost, he noted that the effect was felt by both the sellers and buyers. The delivery cost of fuel has gone up to about 300%. As a result, many transporters had to abandon their vehicles for lack of purchasing power to afford fuel cost.

3.3 Increase in the Cost of Purchase

Prices of physical and/or digital products increased due to the fact that all of them depend on delivery cost; from the source location to the destination. Raw materials, finished products, as well as food costs, he observes, increased beyond normal calculations while suppliers increased the market value to hedge the cost price and make some profits. He added that not only the buyers and sellers' experiences inflation but, the economy as well, which experienced an inflation of about 300% due to the fact that fuel subsidy was removed.

While Pedabo (2023) on his part, adds the following as the economic consequences of subsidy removal in Nigeria:

(1) Fiscal Sustainability: The author argues Fuel subsidy, imposes financial burden on the Nigerian government, diverting resources that could have been allocated to other critical sectors like education, infrastructure, and healthcare. Its removal would therefore allow the government to redirect these funds toward essential services and development projects thereby potentially improving the overall economic outlook of the country.

(2) Budgetary Control: On budgetary control, he points out that fuel subsidy removal may result in budgetary uncertainties due to regular global instability in the prices of oil and may impact on subsidy costs. Its elimination will enable the Nigerian Government to have a suitable influence over its budgets, and manage fiscal deficits, thus promoting economic stability as well as investors' confidence.

(3) Promoting Market Efficiency: Fuel subsidy distorts market forces and discourages the participation of private sector in the petroleum industry, adding that removing subsidy will therefore promote healthy competition, by creating investment friendly environment, and increase the potentials of the downstream sector with improved productivity, as well as long-term sustainability of economic growth.

(4) GDP and Economic Growth: He believes that the removal of subsidy will provide government with more opportunities to divest its oil investment while reinvesting in other sectors within the economy hence, encouraging economic growth but points out that the growth of Nigerian economy is not dependent on the availability of funds but also on the integrity of expenditure, as well as corresponding policies.

(5) Businesses and Employment: He further observes that in the short-run, the running cost of business is bound to increase because fuel is a pivotal source of energy to numerous businesses, especially the (SMEs), pointing out that an increase in fuel prices may influence final cost of production and/or business expenditures.

(6) Investment Possibilities: He contends that fuel subsidy removal will lead to the market forces determination of prices, and it's expected to liberalize the oil sector, thus, attracting more investors to the Nigerian economy and may result in formation of more standard and modular refineries within the country in the future. Most businesses may invest more in developing efficient means of providing fuel and other alternative sources of energy, with the target of increasing competitiveness amongst the industry players.

(7) Inflation: On inflation, he says based on the existing positive correlation between the pump prices and costs of other products in the country; fuel prices increment may likely result to an increase in prices of other products and services, and anticipated, may present an economic reaction to the regime of fuel subsidy removal.

(8) Social Welfare: On social welfare, he argues that although fuel subsidy removal signifies welcome development, its significant effects on the lower class citizens in the economy is a case for serious concern buttressing his argument on the minimum wage of N30, 000 which can now purchase only 40-litres of fuel @ the current pump price of N750 per litre. The amount he says is too insufficient for an economy that heavily relies on fuel for her electricity generation; he therefore warns that unless the government comes up with appropriate relief packages, the middle class citizens within the economic strata may also have been pushed into the lower class economic stratum. This will lead to a drop in Nigeria's GDP and economic stagnation.

3.4 Information Effects

Each planned partial subsidy removal sends information to marketers within the petroleum sector, transport operators and fuel dealers. Usually, the government shifts the additional cost of petroleum products to them. This immediately prompts an increase in prices of all petroleum products and the transportation fare within the economy. On getting the message, the transport operators adjust their fares to absorb the additional cost and subsequently, the producers in other sectors factor in the marginal transport costs into their cost of production and reflect it at a profit in their product pricing. Thus, whenever there is speculation of fuel price increment it triggers increases in prices of all other products (Inegbedion, Inegbedion, Obadiaru & Asaleye, 2020).

Ozili et al (2023) further identify the following as macroeconomic and microeconomic implications on fuel subsidy removal in Nigeria.

3.5 Microeconomic implications for the removal of fuel subsidy

a) Positive Macroeconomic Implications

- i. The saved funds from the removal of fuel subsidy would be reinvested in critical infrastructure development.
- ii. More financial resources would be available for development of other sectors
- iii. The budget deficit will reduce from the removal of fuel subsidy and could lead to a surplus budget in the future.
- iv. Reduced government borrowing
- v. Increase in employment

- vi. The exchange rate should be strengthened because the pressure on the exchange rate will be reduced
- vii. The economy's dependence on imported petrol will be reduced
- viii. Reduction in carbon emission through the removal of fuel subsidy.

b) Negative Macroeconomic implications

- i. Economic growth in the short-term will decrease
- ii. For Nigerians residents, their purchasing power will reduce and the economy will experience high inflation

3.6 Microeconomic Implications

a) Positive Microeconomic Implications

- i. Market-determined pricing will be enhanced
- ii. It will curb systematic corruption associated with payment of fuel subsidy
- iii. Increased competition
- iv. Domestic refineries will be revived

b) Negative Microeconomic Implications

- i. Increased poverty and vulnerability
- ii. National protest and other social unrest is imminent
- iii. Fuel smuggling may increase
- iv. Rise in crime
- v. Petroleum products prices may increase
- vi. The informal sector may experience loss of jobs etc.

4.0 SUMMARY

The study investigates the effect of removing fuel subsidy on the purchase of consumer goods in Nigeria. It stresses the importance of fuel prices and their effects on the purchase of consumer goods, cost of living and doing business in Nigeria, occasioned caused by the subsidy removal. It examines the role played by subsidy in helping to make consumer goods and petroleum products affordable as well as the challenges that may arise from this economic decision. This decision has led to a significant upward movement in petroleum products prices, affecting cost of transportation, consumer goods and other essential services in the country. It also identifies strategies and government initiatives to cushion in the adverse effects of removing fuel subsidy.

5.0 CONCLUSION

The study examines the effect of removing fuel subsidy on the purchase of consumer products in Nigeria. The study establishes that the higher the price of fuel, the higher will be the cost of consumer products purchased. This is because fuel remains an important production resource within all other sectors of the Nigeria's economy. Therefore any increase in its pump price will be passed on to the consumers.

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