



# Nigeria's Vulnerability in the Face of Global Energy Policy

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### Perspective

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## Abstract

The impact of the global energy policy that is pushing for a cleaner energy and the need for an environmentally friendly energy source such as renewable energy in view of the global concern for climate change that has largely been attributed to the activities of fossil fuel extraction, production and utilization on emerging economies like Nigeria deserves attention. Both foreign and domestic investment in the oil sector would be affected. Fewer investors would be willing to invest because there would be fewer buyers for the product due to declining demand. Consequently, Nigeria would struggle to fund its fiscal activities that depend largely on revenue from oil. Nevertheless, if Nigerian government could restructure its economy to be less dependent on oil by shifting emphasis to non-oil sectors like mining, agriculture and manufacturing, the potential impacts could be mitigated. However, for this to be feasible, deserve attention should be given to the power sector to promote rapid economic development particularly in the non-oil sector of the economy.

**Keywords:** Global Energy Policy; Nigeria; Oil; Economy; Petroleum

## Introduction

Undoubtedly, Nigeria is richly blessed with a major hydrocarbon resource endowment both in absolute terms and relative to other oil producing countries, particularly within the Organisation of Petroleum Exporting Countries (OPEC). With a proven crude oil reserve of 36.8 billion barrels and a maximum crude oil production capacity of 2.5 million barrel per day, Nigeria is the largest producer of oil in Africa and the sixth largest oil producing country in the world. Nigeria, like many other oil-rich developing nations depends hugely on fossil fuel such as crude oil and natural gas to fund its fiscal activities. Currently, the oil sector contributes about 65% of government total revenue and 86% of total revenues from export. Worryingly, Nigeria's continued dependence

on oil and gas as a mono-product commodity economy has made the country extremely vulnerable to visible volatility in the oil market. More worryingly, fossil fuels are not being newly formed at any significant rate, thus, current stocks are ultimately finite. As OPEC's influence gradually declines in the oil market coupled with the global concern for climate change and the need for environmentally friendly energy source such as renewable energy, Nigeria oil and gas faces an uncertain future.

According to Olorunfemi [1], the abundance of oil and gas had in the past, placed Nigeria at a considerable advantage for rapid economic growth and development particularly when the nation joined the Organization of Petroleum Exporting Countries (OPEC) in 1971. The country,

subsequently, gained the benefits of a stable oil market, yielding enormous levels of foreign exchange. It was said that money was no longer Nigeria's problem, only how to spend it. Unfortunately, Nigeria became a consuming nation, with the absolute neglect of a viable sector of the economy like agriculture which had been the mainstay of the economy before the evolution of the black gold.

### Missed Opportunities

Nigeria had considerable advantage when things were looking up for her during OPEC's great influence in the crude oil market coupled with global low awareness on climate change to convert her revenues from oil into infrastructures that could sustain the growth and development of the nation's economic activities. Regrettably, in spite of enormous revenues from oil, the highest producer of oil in Africa and the number 6<sup>th</sup> globally could not provide sufficient electricity to promote industrialisation nor maintain and sustain her refineries to reduce dependence on importation of refined products with its attendant negative impact on the nation's foreign reserves. The health sector could not guarantee quality health service delivery neither the security operatives are adequately equipped with modern technologies to guarantee safety of lives and properties. The transportation system, whether by road, sea or air is still below acceptable global standard that could promote and enhance foreign investment. The great concern now is that when the country lacks necessary infrastructures that could promote and sustain economic development when crude oil was seen as a major source of energy, what happens now that the world is moving away from crude oil with its potential low revenue for a mono-product commodity economy like Nigeria.

It is pertinent to state here that according to Sheikh Ahmed Zaki Yamani, the former oil minister of Saudi Arabia, the stone age did not end because of lack of stones, in like manner, the fossil fuels would still be available when the world would have moved away to a new world of energy source. Thus, it is high time Nigeria began to diversify away from Oil and Gas as the future of the hydrocarbon resource going forward would be shaped globally by climate change and environmental concerns that would require a transition from fossil fuel to a cleaner, renewable and more efficient energy source.

Unfortunately, while the Nigeria federating units and the Central Government are fighting over how fairly to share the revenues from hydrocarbon resource, the rest of the world is thinking how to move away from hydrocarbon resource as a way of preserving human existence that is being threatened by the environmental hazards from the consequences of production and utilization of fossil fuels as energy source.

### Global Energy Policy Implications on Oil Producing Nations

The economic relevance of fossil fuel is enhanced by the automobile industry that produces vehicles that run on fossil fuels such as petrol and diesel. Regrettably, the global transformation in mobility from fossil fuel vehicles to electric vehicles will come sooner than expected. Countries like Norway, China, United Kingdom and Germany are already transforming their mobility sector.

Norway for instance, planned to stop the sales of fossil fuel cars by 2025. To achieve this, incentives were put in place to encourage the purchase of electric cars. All electric cars and utility vans are exempted from purchase taxes which are extremely high for ordinary cars as well as 25% Value Added Tax (VAT) on purchase. All these fees' exemptions are making electric car purchase price competitive with conventional cars. Moreover, in China, the government has spent about \$60 billion in the last decade to create an industry that build electric cars while also reducing the number of licences available for gasoline-powered cars to increase demand for electric cars. By the end of 2020, the Chinese government targeted a sale of 5 million new energy vehicles (electric vehicles).

Furthermore, The United Kingdom government, in its transition to zero road emission strategy plans to achieve at least 50% and as many as 70% of new car sales to be ultra-low emission vehicles (ULEVs) by 2030 and 100% by 2035 to meet its 2050 net zero emission target. To achieve this, the government is providing grants to make electric vehicle ownership more affordable and to offset the costs of installing charging points. Similarly, the adoption of plug-in electric vehicles in Germany is actively supported by the German Federal Government. The government planned to deploy one million electric vehicles on German roads by the end of 2020. To achieve this, the German government and car industry were giving out subsidy for the purchase of electric cars. When the electric vehicle policy in those countries becomes fully operational, the implication on Nigeria hydrocarbon resource is that fewer investors would be willing to invest in its exploration and production because there would be fewer buyers for the product due to declining demand.

Another threat to the future of Nigeria oil is the development of Shale Oil in the United States. With the America's resolution to fully develop and produce her shale oil, Nigeria would not only lose one of her biggest crude oil buyers, but as well lose substantial revenue from crude oil sales due to the fact that the availability of shale oil would crash the crude oil price and could even make Nigeria crude oil to be sold at high discounts in order to attract new buyers.

According to Akhigbe [2], Nigeria may still have time to restructure her economy to be less dependent on oil by shifting emphasis to mining, agriculture and manufacturing. Meanwhile, for this to be possible, the government would have to give deserved attention to the problematic power sector. The power sector must be fixed to aid rapid economic development through manufacturing and agricultural value chain. The security challenge must also be addressed while the business environment is made conducive to attract foreign investment.

The government should also look at its tax administration. The Finance Act 2020 has brought some amendments into existing Tax Acts with its main aim of increasing revenue from tax to the government. Meanwhile, the Finance Act 2020 though, inadvertently has created a legally tax avoidance possibility in some instances, particularly, the Company Income Tax Act as amended which exempts companies with annual cumulative gross turnover of less than NGN25 million from tax payment. These companies are categorised as small companies. The possibility is high that for tax planning purposes, business promoters would begin to incorporate multiple companies in the same line or similar business with the aim of taking advantage of the zero tax rates for small businesses. Nevertheless, if government is able to efficiently manage possible tax revenues from other areas of taxes such as Value Added Tax, Stamp Duties and inclusion of non-residence companies with significant economic presence, the possible loss of revenue from small businesses could be compensated for. However, for the anticipated likely increase

in revenues from taxes to be economically beneficial, the current excessive cost of governance should be scaled downward and the issue of corruption should be pursued with dexterity without political and tribal colouration in order to save the economy from impending danger that the future may hold for hydrocarbon resource globally.

### Conclusion

In conclusion, with the current deficit of necessary infrastructure for economic development in spite of previous enormous revenue from oil, the finite nature of hydrocarbon resource coupled with the global climate change concerns, environmental pollution, threat to crude oil by America Shale oil, the world quest for a cleaner and efficient energy source like renewable energy and the electric vehicle policy of the developed nations, the future of Nigeria oil is uncertain. Like the Stone Age, Nigeria will be compelled by global demands to move away from her crude oil while the crude oil may still be flowing under the ground.

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