Nigeria's Perennial Petroleum Products Unavailability and Unaffordability amid Resource Abundance: Need to Rejig Legal Framework towards Incentivising Local Refining

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Abstract
The paradox of Nigeria's petroleum product unavailability and unaffordability despite vast crude oil reserves is a painful normal.There are structural, legal, and institutional factors underpinning this persistent challenge. Including inadequate local refining capacity, overdependence on fuel importation, dysfunctional subsidy and pricing regimes, foreign exchange constraints, insecurity in oil-producing regions, and regulatory bottlenecks which have perpetuated vulnerability to global price shocks and domestic supply disruptions. The paper examinedthe fiscal and economic implications of sustained import dependence which has lasted for decades, including the diversion of public resources from essential sectors to finance unsustainable subsidies. Drawing from the Petroleum Industry Act (PIA) 2021 and global best practices in oil-rich jurisdictions such as Saudi Arabia, Angola, and South Africa, the paper found that there are critical gaps in Nigeria's legal and policy framework that hinder private sector participation and public-private partnerships (PPPs) in refining development. It concluded that only targeted legal reforms could strengthen investment incentives, streamline licensing processes, enforce market access guarantees, integrate environmental and social safeguards, and reconfigure subsidies toward infrastructure development rather than consumption. The paper recommended strategic legal tools such as Build-Operate-Transfer (BOT) agreements, special economic zones (SEZs), and transparent governance mechanisms to de-risk investments, attract both domestic and foreign capital, and foster sustainable local refining capacity. The paper further recommended a coherent, investor-friendly, and socially responsible legal framework for repositioning Nigeria's petroleum sector to ensure energy security, price stability, and long-term economic transformation, while simultaneously protecting environmental integrity and community welfare in oil-producing regions.

Keywords: Petroleum unavailability and unaffordability, Refining, Energy Security, Petroleum Subsidy, Legal Reform, Downstream Regulation, Petroleum Incentives

Introduction

Nigeria is Africa's largest producer of crude oil and has some of the largest hydrocarbon reserves in the world, ironically it experiences continual unavailability and un-affordability of refined petroleum products. The country's abundance of resources still leads to extreme reliance on imported refined products to meet over 80% of domestic petroleum consumption needs.[1] This structural dependency on imported refined products, notwithstanding abundant domestic crude oil resources, leaves serious economic implications for Nigeria as it is exposed to global price shocks, scarcity of foreign exchange, and inadequacies in logistics that enable continual interruptions to fuel supply, and now extreme fuel price

1 Adenikinju, A., & Taiwo, O. The political economy of fuel subsidy removal in Nigeria. Oxford Energy Forum,92, (2013), 4-7.

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inflation.[2] The Petroleum Industry Act (PIA) 2021 was intended to deliver a transformative reform to governance, commercialization, and transparency of the petroleum industry, while there are still gaps in the PIA's influences to foster local refining capacity and counter the deep-rooted inefficiencies.[3]

The petroleum industry has historically faced difficulties with bad management, corruption, and regulatory delays, leading to Nigeria's four state-owned refineries being more or less non-operational. This permit reliance on imports has caused a massive public financial burden through fuel subsidies which were meant to ensure affordable fuel, but have led to leakages, smuggling, and rent-seeking.[4] The subsidy regime has distorted domestic petroleum pricing while diverting public money from accountability in infrastructure, education, and health sectors to recurring subsidy payments, often with little result. Lastly, legal and institutional inadequacies have hampered private investment in refining infrastructure as complex licensing schemes, weak fiscal incentives, and opaque regulatory practices stop investors.[5] This has led to the only private refinery recently inaugurated, Dangote Refining Company, driving monopolistic tendencies.

In this light, the paper investigates the relationship among Nigeria's legal framework, its institutional behaviours and the persistent petroleum supply problems to establish a global legal reform agenda which promotes local refining through remediating the fiscal and regulatory environment, facilitates public-private partnership (PPP) project arrangements, and provides environmental and social guarantees in oil-producing communities. Through examples from comparative jurisdictions including Saudi Arabia and Angola, it identifies priorities both in terms of policy stability; improving tracking of approvals; securing ongoing market access and other important considerations for domestic refiners, for Nigeria to be able position its petroleum legal framework to overcome non-availability and unaffordability, and ultimately, take advantage of its hydrocarbon endowment for economic transformation.

1. Legal and Institutional Framework Governing Petroleum Refining in Nigeria

The legal and institutional frameworks governing petroleum refining in Nigeriaincludes the Petroleum Industry Act (PIA) 2021, the various regulations established by the Nigerianmidstream and downstream Petroleum Regulatory Authority. (NMDPRA), Companies and Allied Matters Act 2022 (CAMA), Corporate Affairs Commission (CAC) established by CAMA relating to the establishment of companies among other environmental regulatory institutions.

Petroleum Industry Act (PIA) 2021 lays the legal groundwork for petroleum refining in Nigeria, as it repealed the out- dated Petroleum Act of 1969. The PIA signifies a significant reform to liberalize the governance, administrative, and fiscal regimes of the petroleum industry in Nigeria. The PIA introduced key institutional innovations including the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA) from section 29,[6] and the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) from Section 4. In the case of petroleum refining and distribution,

2 Akinola, B. T., Aliyu, M., Njoku, U. O., Ajeniweni, P. O., Onyibo, O. E., & Adejoh, M. O. (2023). Impact of fuel subsidies on government fiscal deficits in Nigeria. ADSU International Journal of Applied Economics, Finance & Management, 8(1), 24–35. Department of Economics, ADSU, Mubi

3 Ibid.

4 Opeyemi, A., Philip, O. A., Oluseyi, A., Amaghionyeodiwe, L., &Adeyemi, A. O. (2016). Fuel subsidy reform and environmental quality in Nigeria. International Journal of Energy Economics and Policy, 5(2), 540–549.

5 Ibid

6 PIA 2021, S. 29

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NMDPRA is the primary regulatory authority to issue licenses, supervising operations, and enforcement in the midstream and downstream, which includes refineries.[7]

The Act also commercialised the Nigerian National Petroleum Corporation by incorporating the Nigerian National Petroleum Company Limited (NNPC Ltd) under section 53, to operate as a profit-driven entity subject to the Companies and Allied Matters Act (CAMA).[8] This was intended to remove political interference and encourage efficiency in oil sector operations, including refining. However, the refining sub-sector still faces several regulatory and legal hurdles. Sections 174–179 of the PIA deal with licensing and regulation of petroleum refineries, but the licensing process remains slow and bureaucratic. Applicants must go through layers of documentation, environmental approvals, and agency interactions, often plagued by administrative inefficiencies and delays.[9]

Notwithstanding the economic inducements encapsulated in section 317 of the PIA creating a nexus of tax credits, importation license, royalty relief, and recovery of costs, there is still an inconsistency in the application of these incentives and subsidies relating to modular refinery projects.[10] Investors report uncertainty about the duration and enforcement around such incentives, which results in a meaningful disincentive to investing in the refining sector. In practice, these incentives are not automatic or transparent. Many would-be local refiners are at a clear disadvantage compared to their comparatively deregulated counterparts in importation. This is exacerbated by ongoing regime features such as the Petroleum Equalisation Fund (PEF), which, although seemingly repealed by the PIA, is still partially operational.[11]The PEF continues to create artificial parity in pricing whilst indirectly perpetuating the fuel import model. It would seem that the equalisation of costs is preferred by the government rather than encouraging domestic production.[12]

In addition, the implementation gap on environmental governance introduced under the PIA has ramifications for refining. Although Section 101 requires compliance with environmental management plans and fundamental environmental assessments, it does not designate timeframes or accountability for approvals.[13] Delays, in the issuing of Environmental Impact Assessment (EIA) certificates, and ineffectual inter-agency coordination between the Federal Ministry of Environment, National Environmental Standards and Regulations Enforcement Agency (NESREA) and the NMDPRA severely challenge the development of refineries[14]. Hence, while the PIA has prescribed a more formal and structured legal regime for the petroleum sector, its potential to enhance local refining still faces a range of barriers associated with regulatory incoherence, limited enforcement and incomplete disambiguation from previous subsidy arrangements.[15]

2. The Economics of Import Dependency and the Subsidy Regime

Nigeria's dependency on imported refined petroleum products represents profound economic distortions that have been compounded by the fact that Nigeria is one of Africa’s largest oil producers. This situation is

7 Ibid,s. 4
8 Ibid, s. 53
9 Ibid, ss. 174–179
10 Ibid s. 317,
11 Okongwu, C. J., & Imoisi, S. E. (2022). Removal of Petrol Subsidy: Legal Implications for the Nigerian Economy. NAUJILJ, 13(2).
12 Ibid.
13 PIA 2021,s. 101
14 Aminu, A. S., & Ramatu, Y. (2022). Political economy of fuel subsidy removal in Nigeria: Issues, challenges and the way forward. Zamfara Journal of Politics and Development, 3(3).
15 Adenikinju, A., &Taiwo, O. (2013). The political economy of fuel subsidy removal in Nigeria. OxfordEnergy Forum, 92, 4–7.

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largely due to the lack of local refining capacity, establishing an oil economy that exports crude oil and simultaneously imports fuel. These economic distortions are unviable because they leave the domestic economy hostage to external shocks as well as great fiscal strain.[16] Over the exportation of crude oil and importation of fuel, the additional economic burden created by the long-standing subsidy scheme leaves inconsistent strategic factions acting on the economic weight originally reserved for petroleum. Relative to the amount of subsidy in Nigeria's annual national budget report, crucial economic priorities (i.e., education, health and infrastructure) are often not prioritized.[17]

The amount that Nigeria was spending on fuel subsidies exceeded ₦4 trillion in 2022 and was increasing with the rise in crude prices and the depreciation of the naira. The World Bank has characterized fuel subsidies as fiscally irresponsible and socially regressive because higher earners consume more fuel. BudgIT also described this inefficiency in its report, stating that Nigeria's fuel subsidies from 2005 to 2021 cost the nation over ₦13.7 trillion, an amount that could be invested in public services.[18] Dependency on imports has also created supply chain vulnerabilities. Even before COVID-19 decentralized fuel supply systems, imported fuel frequently had irregular delivery timelines, with the potential for delays caused by limited foreign exchange availability or security problems within port terminals. When fuel supplies are delayed, it creates an unforeseen scarcity and drives hoarding behaviour. This hoarding behaviour can drive pump prices higher and lead to a black-market for fuel.[19]

The instability of the global oil markets makes this situation worse. When international crude price spikes, such as when it did during the Russia-Ukraine war, or in the periods after COVID, Nigerian fuel import prices increase, even though that the country is an oil exporter. The domestic economy is exposed to price shocks immediately since it has no buffer mechanisms in place such as strategic reserve, and stockpiled refined products. While it is admirable of the Nigerian government to try to shield consumers by subsidizing products, they only postpone the eventuality such that its fiscal consequences is ultimately allowing inflation to enter the economy after subsidies have the consolidated.[20] It is also important to state that the foreign exchange policy

16 Dauda, R. O. S. (2022). Fuel Subsidy and Implications for Social Spending in Nigeria: A research note. Economic and Policy Review Journal, 20(1), 25-37.

17 Ibid.

18 BudgIT. (2022). Petroleum subsidy removal: Costs, payoffs and in-betweens. BudgIT Foundation.https://budgit.org/petroleum-subsidy-removal-costs-payoffs-and-in-betweens .accessed 8 August, 2025. See also; NEITI. (2022). Cost of fuel subsidy to the nation: Options for policy review. Nigeria Extractive Industries Transparency Initiative. https://neiti.gov.ng/cms/wp-content/uploads/2022/12/Cost-of-Fuel-Subsidy-to-the-Nation-Options-for-Policy-Review.pdf accessed 8 August, 2025

19Bao-We-Wal-Bambe, ChadiBou Habib, Joaquin MarandinoPeregalli(2022). Fuel Subsidy ReformsLessons from the Literature and Assessing the Price Shock for Different Sectors through an Input-OutputTable in the Case of Angola, World Bank Group. https://documents1.worldbank.org/curated/en/099232510022425467/pdf/IDU1d4b66e6c170c6147691aaf4198a48cc7f79f.pdfaccessed 8 August, 2025

20 Adagunodo, M. (2022). The effect of oil receipts and fuel subsidy payment on the current account deficit in Nigeria and Venezuela. Annals of SpiruHaret University, Economic Series, 22(1), 137-152. See also; Blanchard, O., Chouraqui, J. C., Hagemann, R. P., & Sartor, N. (1990). The sustainability of fiscal policy: New answers to an old question. OECD Economic Studies, 15, 7-36.

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liberalisation being enforced by the Central Bank of Nigeria has also summoned its own pricing dilemma. As fuel importers are tasked to use the official window for accessing dollars, any change in the availability of foreign exchange ultimately delays or restricts the supply of fuel, and thus session of scarcity invokes the escalation of prices at the pump.[21]

From a legal perspective, the Petroleum Industry Act (PIA) 2021 was supposed to solve some of these inefficiencies through deregulation of the downstream sector and promotion of local refining activity. The objective of section 205 of the PIA, while not mandating full deregulation, is to permit market-oriented pricing and therefore attract private investment into the sector while eliminating applicable subsidisation, but its uptake and operationalisation is tentative and incomplete.[22] There is an obvious failuretherefore to operate under full, primary, deregulated terms with some degree of support for domestic refiners. The failure to make effective deregulation of pricing, along with the absence of any sort of defined support framework for local refiners, is ensuring the continuation of the status quo of import-dependency and subsidy mismanagement.[23]

The lack of an operative fiscal regime dedicated to refined product subsidies, along with the failures in the unattractive adversarial implications of guaranteeing future subsidy savings towards refining and or any social safety nets, contribute to the lack of private sector confidence to engage in this area.[24] Additionally, without strong legal incentives, such as tax holidays, feedstock guaranteed take or pay, and clear and transparent modular refinery licensing conditions to engage in localised refining, there will continue to be no exporting out of Nigeria in any meaningful sense. Even if the government appears supportive of the ideas of full deregulation or ending subsidization, at a legislative level, the fact that Government has announced a commitment to maintaining the subsidizations, historically, undermines the legal reform process. Ultimately, as Tordo et al. denote from their own global perspective on oil governance, strong legal frameworks and instruments are not enough without the necessary political will to implementation of the policies.[25]

Nigeria's economic and regulatory frameworks for petroleum product supply remain increasingly disconnected. The reliance upon imported petroleum products and their associated subsidizing effect creates potential damages to the fiscal regime of the economy, where all petroleum products and associated services, local refineries and investment are crowded out of the economy. Addressing the current state of the petroleum product supply in Nigeria will require full implementation of the PIA's deregulation provisions, targeted fiscal stimulus to support local refining, and a transparent strategy to transition from current subsidies that support imports to support local refining. Until this occurs, Nigeria will remain in an economic trap of dependence on imported petroleum products that does not account for the energy security of whole population.[26]

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21 Ibid.

22 PIA 2021, s. 205

23 Yusuf, G. M. (2023). Effects of fuel subsidy removal on economy and citizen's welfare in Nigeria. Lapai International Journal of Politics, 9(1).

Victoria, U. O., Esther, C. E., Doris, O. O., & David, M. E. (2017). The political economy of fuel subsidy removal in Nigeria. African Journal of Politics and Administrative Studies, 9(1).

Silvana Tordo with Brandon S. Tracy and NooraArfaa; National Oil Companies and Value Creation, Washington, World Bank Publications, 2011, p. 213

Ovaga, O. H., &Okechukwu, M. E. (2022). Subsidy in the downstream oil sector and the fate of the masses in Nigeria. Kuwait Chapter of Arabian Journal of Business and Management Review, 1(6), 1–20.

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3. Factors Contributing to Petroleum products Unavailability and Unaffordability Amid Resource Abundance in Nigeria

Nigeria, despite its vast endowment in crude oil resources, faces a persistent paradox: frequent unavailability and unaffordability of refined petroleum products. This situation is the result of a complex interplay of structural, legal, economic, and governance-related challenges. The key factors contributing to this contradiction include:

a. Inadequate Local Refining Capacity

A major factor contributing to Nigeria's persistent fuel unavailability and unaffordability is the country's grossly inadequate local refining capacity. Despite being a top crude oil producer, Nigeria has failed to develop a functional domestic refining infrastructure. The four state-owned refineries, two in Port Harcourt, and one each in Warri and Kaduna, have for decades operated either far below capacity or have remained entirely non-operational due to chronic underinvestment, mismanagement, corruption, and lack of political will. As a result, these refineries, with a combined installed capacity of about 445,000 barrels per day, contribute negligibly to the nation's refined petroleum supply. Instead, Nigeria relies heavily on the importation of refined products, which accounts for over 80% of its consumption needs.[27] This dependence not only makes fuel prices vulnerable to global oil price fluctuations and foreign exchange instability but also imposes a massive financial burden on the country's balance of payments. Moreover, the reliance on imports exacerbates supply chain disruptions, such as shipping delays and port congestion, leading to intermittent scarcity, hoarding, and inflated pump prices. The failure to rehabilitate and optimise local refining has also deterred private sector participation, as regulatory uncertainty and lack of incentive structures discourage investment in modular or full-scale refining projects. Until Nigeria addresses these structural inefficiencies in its refining sector, the paradox of being oil-rich yet fuel-poor will persist.[28]

b. Overdependence on Fuel Importation

Another critical factor exacerbating Nigeria's petroleum products scarcity and price volatility is its overdependence on the importation of refined petroleum products. Despite abundant crude oil reserves, Nigeria lacks sufficient local refining capacity and imports over 80% of its refined fuel from foreign markets. This heavy reliance exposes the economy to global supply chain disruptions, including international conflicts, shipping delays, and port congestion, all of which affect timely product delivery. The importation process also involves long procurement cycles, during which global oil prices may fluctuate significantly, impacting the final landing cost.[29] Additionally, Nigeria's dependence on the U.S. dollar for oil trade subjects fuel importers to foreign exchange pressures, especially in times of naira devaluation or restricted forex access from the Central Bank of Nigeria. As a result, fuel marketers often pass on increased costs, such as import duties, freight surcharges, and forex premiums, to consumers through inflated pump prices. This creates a ripple effect on inflation, transportation costs, and overall economic stability. Ultimately, Nigeria's continued dependence on imported fuel not only undermines energy security but also drains scarce foreign reserves and constrains domestic economic growth. The current model is economically unsustainable and highlights the urgent need for local refining capacity and

27 Oladesu, Eniola; How Nigeria lost $25b to NNPCL's refineries TAM; Lagos, The Nation, 2024, p. 1.

28 Ibid.

29 Intelpoint; Over 80% of Nigeria's imports in 2024 came from manufacturing and oil products. https://intelpoint.co/insights/over-80-of-nigerias-imports-in-2024-came-from-manufacturing-and-oil-products/ accessed 7 August, 2025.

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policy reforms that prioritise domestic energy self-sufficiency.[30]

c. Dysfunctional Subsidy and Pricing Regime

A major contributor to Nigeria's recurring fuel scarcity and pricing volatility is the country's longstanding, dysfunctional subsidy and pricing regime. Initially introduced as a means of cushioning citizens against high energy costs, the fuel subsidy system has evolved into a conduit for inefficiency, fiscal waste, and corruption.[31] Rather than ensuring equitable access to affordable fuel, the subsidy regime has often distorted the actual market value of petroleum products, disincentivised investment in domestic refining, and encouraged the proliferation of rent-seeking behaviours within the sector. Subsidised petrol is frequently smuggled across Nigeria's porous borders to neighbouring countries where it fetches higher prices, thereby creating artificial scarcity at home.[32] Moreover, fuel subsidies have imposed enormous burden on public finances, consuming trillions of naira annually, resources that could have been directed toward infrastructure development, education, healthcare, or revitalisation of the country's non-functional refineries. The lack of transparency in the administration of the subsidy scheme has further worsened the situation, as audit reports and investigative panels have frequently exposed massive fraud, duplication of claims, and inflated payment to marketers. Despite legal provisions in the Petroleum Industry Act 2021 supporting market-based pricing, the federal government has often struggled to fully implement deregulation policies due to political pressures and concerns over social unrest. Consequently, Nigeria remains trapped in a cycle where subsidies create economic distortions, discourage private sector participation in refining, and deepen the very inefficiencies they were intended to resolve.[33]

d. Legal and Regulatory Bottlenecks

Despite the enactment of the Petroleum Industry Act (PIA) in 2021, aimed at overhauling Nigeria's oil and gas sector, significant legal and regulatory bottlenecks persist that undermine efforts to boost local refining capacity. One critical issue lies in the bureaucratic and often opaque licensing process for establishing and operating refineries, particularly modular and small-scale facilities, which deters private investors due to long waiting times, excessive documentation requirements, and inconsistent regulatory decisions. The overlapping roles of agencies such as the Nigerian Upstream Petroleum Regulatory Commission (NUPRC), the Nigerian Midstream and Downstream Petroleum Regulatory Authority (NMDPRA), and state-level environmental bodies result in regulatory fragmentation, complicating compliance and investment decisions.[34] Moreover, while environmental impact assessments (EIAs) are legally mandated to ensure ecological safety, their approval processes are frequently delayed or manipulated by corrupt actors seeking rent or leverage, further discouraging genuine investors. The lack of transparency in the application of legal provisions, combined with

30 Aminu, A. S., &Ramatu, Y. (2022). Political economy of fuel subsidy removal in Nigeria: Issues, Challenges and the Way Forward. Zamfara Journal of Politics and Development, 3(3). 45.

Ogunleye, E. O., & Ogundipe, A. A. (2017). Fuel subsidy and economic growth in Nigeria: Evidence from a vector error correction model. Nigerian Journal of Economic and Social Studies, 59(2), 145–166.

Henry, E. I., Emmanuel, I., Eseosa, O., & Abiola, A. (2020). Petroleum subsidy withdrawal, fuel price hikes and the Nigerian economy. International Journal of Energy Economics and Policy, 258-265.

33 PIA 2021, s. 205

34 Ogbodo, S. G.; 'Environmental Protection in Nigeria: Two Decades After the Koko Incident'; Annual Survey of International & Comparative Law, 15(1), 2009, pp. 1-19.

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the absence of a clear framework for tax holidays or investment guarantees, also weakens the incentives that the PIA ostensibly provides for local refining ventures. Consequently, legal uncertainty and administrative inefficiencies continue to act as disincentives for both local and foreign investors who might otherwise bridge the domestic refining gap.[35]

e. Insecurity in Oil-Producing Regions

Persistent insecurity in Nigeria's oil-producing regions, particularly the Niger Delta, has long undermined the stability and efficiency of the petroleum sector. Acts of pipeline vandalism, illegal crude oil bunkering, and armed militancy routinely disrupt the flow of crude oil to refineries and export terminals, resulting in significant production losses and supply bottlenecks. These attacks not only damage infrastructure but also increase the operational costs borne by oil companies, which are often passed down to consumers through higher fuel prices.[36] The resulting uncertainty discourages potential investors from committing to long-term projects in both the upstream and downstream segments of the industry. Furthermore, the Nigerian state often responds to these security threats with militarised interventions rather than sustainable development strategies, thereby perpetuating a cycle of conflict, underdevelopment, and sabotage.[37] The net effect is a fragile oil economy where local refining is frequently stalled due to security-related supply disruptions, exacerbating the unavailability and unaffordability of petroleum products in a country otherwise rich in hydrocarbon resources.[38]

f. Foreign Exchange Constraints and Macroeconomic Instability

The import-dependent nature of Nigeria's petroleum downstream sector places immense pressure on the nation's foreign exchange reserves. Since refined petroleum products must be purchased in foreign currencies, especially U.S. dollars, marketers and importers rely heavily on the Central Bank of Nigeria (CBN) to supply forex. However, Nigeria's forex market is characterised by volatility, frequent devaluation of the naira, and limited dollar availability. These constraints lead to delays in product importation, create uncertainty in pricing, and force importers to source forex at higher rates from parallel markets, ultimately inflating pump prices.[39] The devaluation of the naira further aggravates the situation, as each unit of fuel costs more in local currency, contributing to unaffordability for consumers. The result is a pricing regime that is highly sensitive to macroeconomic instability, with the burden of currency risk shifted to end-users. Thus, petroleum product availability and affordability in Nigeria are not just technical or infrastructural challenges, but also deeply tied to the broader health of the economy and effectiveness of monetary policy.[40]

35 Ibid.

36 Joshua, S., &Jegede, A. E. (2013). Domestic terrorism, official response and the politics of black gold in Niger-Delta, Nigeria. IFE PsychologIA: An International Journal, 21(1), 114- 126.

Joshua, S., &Jegede, A. E. (2013). Domestic terrorism, official response and the politics of black gold in Niger-Delta, Nigeria. IFE PsychologIA: An International Journal, 21(1), 114- 126.

38 S.E.C Nwosu, Inclusion of Host Communities Stakeholder ship and Right to Pension into Petroleum Prospection Business as Panaceas Against Conflicts and Oloibirinization, Port Harcourt Law Journal, Volume 8 No 2, 2029, Pp. 107 - 118

39 Drama, B. G. H., &Ange-Patrick, Y. K. (2018). Oil price, budget deficit, money supply and inflation in WAEMU countries. Asian Journal of Economic Modelling, 6(3), 317-326.

40 Drama, B. G. H., &Ange-Patrick, Y. K. (2018). Oil price, budget deficit, money supply and inflation in WAEMU countries.

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g. Inefficient Distribution and Infrastructure Gaps

Nigeria's petroleum products distribution network suffers from deep-rooted inefficiencies that significantly impact availability and affordability across the country. Despite the existence of pipelines and depots, decades of neglect, vandalism, and underinvestment have rendered much of these infrastructure obsolete or dysfunctional. As a result, the system is overly dependent on road transport, which is more costly, less secure, and subject to frequent disruptions due to poor road conditions and insecurity. Long haulage routes increase delivery times and operational expenses, which marketers transfer to consumers through higher pump prices.[41] Moreover, the concentration of functioning depots and tank farms in select regions creates unequal access, with some areas experiencing periodic scarcity or inflated prices due to logistical challenges. This inefficiency not only undermines the goal of nationwide energy equity but also discourages private sector participation in downstream activities, thereby perpetuating the cycle of product unavailability and unaffordability.[42]

h. Policy Inconsistencies and Investor Uncertainty

Nigeria's downstream petroleum sector has long suffered from a lack of coherent and predictable policy direction, which has severely impacted investor confidence. Successive governments have implemented contradictory policies, including sudden removal or reintroduction of fuel subsidies, fluctuating deregulation timelines, and changing forex policies affecting fuel imports.[43] These inconsistencies send mixed signals to potential investors, particularly those considering long-term investments in refining infrastructure or petroleum marketing.[44]Legislative delays, unclear implementation frameworks, and political interference in regulatory agencies have further entrenched uncertainty. Investors typically seek stable, transparent, and enforceable policy environments to mitigate risk, especially in capital-intensive industries like petroleum refining. Nigeria's track record in this regard, especially before the Petroleum Industry Act (PIA) 2021, has historically discouraged both foreign direct investment and local capital mobilisation in the sector. Even with the PIA, concerns about implementation fidelity and regulatory independence persist.[45]

i. **Corruption and Rent-Seeking Practices**

Corruption remains a deeply entrenched challenge in Nigeria's petroleum sector, manifesting at every level of the value chain, from licensing and crude allocation to subsidy payments, product distribution, and regulatory oversight. These corrupt practices distort market dynamics, encouraging hoarding, smuggling, and preferential treatment in the allocation of fuel. Rather than serving the public interest, the system often benefits a few

Asian Journal of Economic Modelling, 6(3), 317-326.

41 Adetunji, A. T. (2016). Deregulation policies in theory, privatization in practice: a case of Nigerian universities. International Research Journal of Management, IT and social sciences, 3(3), 34-39.

42 Ibid.

43 Gberevbie, D. E., Ibietan, J., Abasilim, U. D., & Excellence-Oluye, N. (2015). Deregulation policy anddevelopment in Nigeria: The petroleum sector experience, 1999-2014. Journal of Social Development in Africa, 30(2), 129-152

44 Gberevbie, D. E., Ibietan, J., Abasilim, U. D., & Excellence-Oluye, N. (2015). Deregulation policy and development in Nigeria: The petroleum sector experience, 1999-2014. Journal of Social Development inAfrica, 30(2), 129-152. See also; Ibietan, J., Abasilim, U. D., &Olobio, T. (2018). An evaluation of deregulation policy of the downstream petroleum sector and Nigeria's economy. Pertanika J. Soc. Sci. & Hum, 26(3), 1843-1864.

45 Ibid.

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well-connected individuals or cartels.[46] The subsidy regime, in particular, has historically served as a conduit for rent-seeking, with reports of inflated subsidy claims, phantom deliveries, and multiple claims for the same consignment. Regulatory agencies, sometimes captured by political or private interests, also contribute to inefficiencies by selectively enforcing rules or granting undue waivers. These practices erode public trust, drive up costs, and create artificial scarcity, ultimately making petroleum products less affordable and less accessible to ordinary Nigerians.[47]

4. The Role of Private Sector Participation and Public-Private Partnerships (PPPs) in Refining Development

Nigeria's petroleum refining sector has long suffered from underinvestment, inefficiency, and near-total dependence on public refineries, which have failed to meet domestic demands. The entry of private capital through Public-Private Partnerships (PPPs) presents a viable pathway to revamp the refining landscape. By leveraging private capital, technology, and operational expertise, PPPs can bridge the infrastructure gap, reduce import dependency, and stabilize fuel prices. Legal reform is pivotal to this transformation. A robust legal framework can help de-risk private investment by ensuring predictable returns, clear dispute resolution mechanisms, and stable regulatory conditions.[48]

Currently, the Petroleum Industry Act (PIA) 2021 provides an improved legislative foundation for attracting private players, but gaps remain. Although it streamlines licensing and encourages investment, bureaucratic delays and opaque decision-making still deter many investors. To foster confidence, laws must better support investment frameworks like Build-Operate-Transfer (BOT) models and Production Sharing Contracts (PSCs), ensuring clarity in duration, cost recovery, and profit-sharing. Additionally, clear fiscal incentives—such as tax holidays, duty waivers, and access to credit, are necessary to stimulate investor interest in modular and large-scale refineries alike.[49]

Strategic alliances and joint ventures between local and foreign firms can also help reduce investment risks and bring in technological know-how. Legal tools should facilitate such partnerships through simplified contracting processes and protections for intellectual property, foreign exchange repatriation, and minority investor rights. Further, PPP contracts must include enforceable performance metrics, risk-sharing arrangements, and mechanisms for renegotiation to adjust to economic changes over long project lifespans.[50]

Special Economic Zones (SEZs) offer another legal and commercial incentive to attract refining investments. By designating refinery-friendly zones with streamlined regulation, tax incentives, and guaranteed utility access, Nigeria can create low-risk environments conducive to industrial growth. Countries such as China and Singapore have used SEZs effectively to accelerate refinery development. For Nigeria, integrating SEZs with legal reforms under the PIA can make the country a refining hub for West Africa, encouraging regional energy security and job creation.[51]

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46 Ijewereme, O. B. (2015). Anatomy of Corruption in the Nigerian Public Sector: Theoretical Perspectives and Some Empirical Explanations. Sage Open, 5(2), 1-16.

47 Ibid.

48 Madu, ITU. &Kenigua, W.T. (2021). The role of public-private partnership (PPP) on infrastructural development in Nigeria. Journal of Global Social Sciences, 2(5), 23-43.

49 Kwaghbo, T.M., Okwori, A. &Agbe, J.I. (2019). Public-private partnership initiative and the management of security in the federal government unity colleges in North-central Nigeria. BSUJEM, I(1), 165-175.

50 Nwangwu, G. (2021).Public-private partnerships in Nigeria: the journey so far. Journal of Commercial and Property Law, NnamdiAzikiwe University, Awka.8(3), 97-119

51 Ibid.

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WhilePPPs and private sector involvement are not a panacea, they are essential tools for solving Nigeria's refining inefficiencies. A well-structured legal and regulatory regime, backed by enforceable contracts, fiscal incentives, and transparent processes,can attract sustainable investments in the downstream sector. The government must provide legal certainty and political stability, while the private sector brings innovation and capital. Together, they can build a refinery system that meets national demand, reduces foreign exchange pressure, and supports inclusive economic development.[52]

5. Environmental, Social, and Community Impacts of Local Refining Expansion

While the expansion of local refining capacity is crucial for achieving energy security in Nigeria, it must not compromise environmental sustainability or community wellbeing. Historically, petroleum activities, particularly in the Niger Delta, have caused extensive ecological degradation, health hazards, and social dislocation due to weak enforcement of environmental and human rights laws. Therefore, any legal framework supporting refining development must also mandate strong safeguards for environmental protection, enforceable community benefit obligations, and mechanisms for redress and accountability.[53]

Environmental Impact Assessments (EIAs) are a foundational legal tool in this regard. The Environmental Impact Assessment Act[54] mandates that all major industrial projects, including refineries, undergo rigorous environmental scrutiny before commencement. However, implementation has been inconsistent due to corruption, weak regulatory capacity, and political interference. Legal reforms should strengthen the independence of regulatory agencies like the National Environmental Standards and Regulations Enforcement Agency (NESREA) and mandate periodic EIA audits and community participation in the process. This would ensure that ecological concerns are not sacrificed on the altar of economic development.[55]

Corporate Social Responsibility (CSR) and Community Development Agreements (CDAs) must also be legally enforced to safeguard the interests of host communities. The Petroleum Industry Act (PIA) 2021 made significant progress by mandating the establishment of Host Community Development Trusts (HCDTs), which require oil companies and refiners to allocate a portion of their operating expenses for community projects. However, the success of these mechanisms depends on transparent fund management, inclusive governance, and strong penalties for default. Legal reforms should clarify the scope of CSR obligations, define penalties for breach, and ensure community ownership of the development process.[56]

52 Nwangwu, G. (2021).Public-private partnerships in Nigeria: the journey so far. Journal of Commercial and Property Law, NnamdiAzikiwe University, Awka.8(3), 97-119

Nwosu, S.E.C and Obanu, C.J, Assessing the Impact of Nigeria's Upstream Petroleum Prospection on Host Communities: A Legal Angle,Veritas University Law Journal (VULJ) Volume 1 No 1, 2025, Pp 262-297;Ite A.E., Ibok U.J., Ite M.U., Petters S.W. Petroleum exploration and production: past and presentenvironmental issues in the Nigeria's Niger Delta. Am. J. Environ. Protect. 2013;1(4):78–90.

54 Cap E12 LFN 2004

55 Bebeteidoh, O. L., Kometa, S., Pazouki, K., & Norman, R. (2020). Sustained impact of the activities of local crude oil refiners on their host communities in Nigeria. Heliyon, 6(6),

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Compensation frameworks for environmental damage or displacement remain underdeveloped and highly contentious. Existing laws such as the Oil Pipelines Act and the Land Use Act often favour operators over local populations. There is a need to harmonize these laws with global best practices that provide for fair, timely, and adequate compensation. Judicial decisions have been inconsistent, and many communities lack access to legal remedies.The case of OrontoDauglas v. Shell Petroleum Development Company of Nigeria Ltd highlighted the challenges face by individuals and communities in seeking redress for environmental damage caused by oil pollution. The court emphasized the need for the plaintiffs to demonstrate sufficient connection to the issue in question. Similarly, in Environmental Rights Action/Friends of the Earth Nigeria &Anor. v. Nigeria National Petroleum Corporation[57] the court held that the plaintiffs lacked the locus standi to challenge the issuance of an oil prospecting licence as they failed to demonstrate any special injury of damage different from the public. The court also ruled in Shell Petroleum Development Company of Nigeria Ltd v. Chief Gbemre&Ors[58] that the plaintiffs lacked locusandi to bring an action against SPDC for environmental damage caused by exploitation activities hence could not show any special damage different from the public. However, the Supreme Court has ruled in the case of the Center for Oil Pollution Watch v. Nigerian National Petroleum Corporation (NNPC)[59] that a Non Governmental Organization (NGO) has locus standi to sue on issues of public nuisance injurious to human lives. As a result of these conflicting decisionsa specialized environmental court or tribunal could be established to provide speedy and expert adjudication of such claims. Moreover, legal aid provisions should be expanded to support indigent claimants in oil-producing regions.[60]

Promoting local refining must be matched with a legal commitment to environmental justice and community rights. Strengthened legal frameworks for EIAs, enforceable CSR obligations, transparent compensation systems, and community empowerment structures are essential to achieving sustainable refining development. Without these safeguards, Nigeria risks repeating the extractive injustices of the past, deepening ecological destruction, and fueling socio-economic grievances. A legally grounded, environmentally conscious refining policy is therefore not only desirable but imperative for inclusive national development.[61]

6. Comparative Jurisdictions and Best Practices

The experience of other oil-producing countries offers valuable lessons for Nigeria as it seeks to reform its legal framework to support local refining. Countries like Saudi Arabia, the United Arab Emirates (UAE), and Angola have successfully used legal and policy instruments to encourage private sector participation in domestic refining, reduce reliance on petroleum imports, and shield their economies from global price volatility. These jurisdictions have demonstrated that coherent legal regimes, backed by political will, transparent regulatory structures, and stable fiscal frameworks, are essential for attracting both domestic and foreign investment into the refining sector.[62]

In Saudi Arabia, the integrated operations of Saudi Aramco illustrate the benefits of vertical

Quality Status of Niger Delta. Adv. Environ. Waste Manage. Recycl. 2018;1(1):1–8.

57 6 NWNR (Pt 1299) 368

58 FHC/B/CS/53/05 (2005)

59 (2019) 5 NWLR (Pt) 585

60 Bebeteidoh, O. L., Kometa, S., Pazouki, K., & Norman, R. (2020). Sustained impact of the activities of local crude oil refiners on their host communities in Nigeria. Heliyon, 6(6),

61 Ibid.

62 Al-Fattah, Saud and Al-Fattah, Saud, The Role of National and International Oil Companies in thePetroleum Industry (January 27, 2013). USAEE Working Paper No. 13-137.

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integration within a well-structured legal and regulatory framework. The government provides legal incentives such as guaranteed crude oil feedstock supply, tax reliefs, and investment guarantees, thereby ensuring predictability and long-term returns for investors. Aramco's success is also supported by minimal regulatory red tape and policies that encourage joint ventures with foreign partners for knowledge and technology transfer. This model underscores the importance of legal certainty and economic incentives in fostering refining development, factors Nigeria must replicate through reforms that de-risk the investment climate and promote refining autonomy.[63]

The UAE has adopted a similar approach through the Abu Dhabi National Oil Company (ADNOC), using special economic zones (SEZs) such as the Ruwais Industrial Complex to create an enabling legal and infrastructural environment. SEZs offer targeted legal benefits, including tax holidays, simplified business registration, and investment protection, which have made them attractive to refining and petrochemical investors. Angola, on its part, has focused on reducing bureaucratic bottlenecks through legislative clarity in its oil and gas code, while entering into strategic refining partnerships with China and other nations. Nigeria's policy framework can draw from these practices to develop a more investment-friendly and competitive refining sector.[64]

South Africa offers a particularly useful example outside the conventional oil economy. Its Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) provides a legal template that balances investor confidence with public interest. The programme uses competitive bidding, transparent procurement processes, and legally enforceable guarantees such as Power Purchase Agreements (PPAs) to ensure investor returns. A similar legal mechanism could be adopted in Nigeria's refining sector, where access to crude supply and offtake agreements are guaranteed by law. By adopting such best practices and tailoring them to its own context, Nigeria can transform its refining industry into a resilient and sustainable driver of economic development.[65]

7. **Lessons for Nigeria**

Nigeria can draw critical lessons from oil-rich countries that have successfully enhanced their local refining capacities through supportive legal frameworks and investment-friendly policies. One of the foremost lessons is the need for predictable and stable legal regimes that incentivise both local and foreign investors. Saudi Arabia's example through Saudi Aramco demonstrates that when investors are assured of long-term policy consistency, access to feedstock, and favourable fiscal terms, they are more willing to commit resources to refining infrastructure. Nigeria must therefore revise its Petroleum Industry Act and other investment laws to clearly define investor rights, eliminate bureaucratic ambiguity, and provide enforceable guarantees for feedstock supply and offtake agreements.

Secondly, the use of Special Economic Zones (SEZs) and Public-Private Partnership (PPP) models, as seen in the UAE and Angola, offers Nigeria a viable path for attracting refinery investments without solely relying on government expenditure. SEZs provide an avenue to cluster refinery-related investments in well-serviced industrial zones with targeted legal incentives, such as tax exemptions, simplified permitting, and protection against expropriation. Angola's legislative clarity and reduced bureaucratic bottlenecks in its oil sector also suggest the need for Nigeria to streamline its refinery licensing processes, reduce corruption risks, and decentralise

63 Ibid.

64 Oxford Business Group; ADNOC downstream expansion to boost UAE's petrochemicals output; London, Oxford Business Group, 2019, p. 1.

65 World Bank; South Africa's Renewable Energy IPP Procurement Programme, Johannesburg, Baker McKenzie, 2016.

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regulatory authority to foster efficiency and transparency in project approvals.

Finally, South Africa's REIPPPP model underscores the importance of competitive and transparent legal mechanisms to enhance investor confidence. Nigeria can replicate this approach by establishing a Refining Investment Procurement Framework, whereby refining projects are subjected to open bidding processes with clear legal benchmarks, such as guaranteed offtake, land access, and environmental compliance standards. These lessons collectively show that Nigeria's refining sector reform must go beyond physical infrastructure; it must embed clear, enforceable, and investor-friendly legal rules that promote sustainability, transparency, and socio-economic value creation.

8. Conclusion

In conclusion, addressing Nigeria's perennial petroleum products unavailability and unaffordability amid its resource abundance requires a decisive overhaul of the legal and regulatory framework governing the oil and gas sector. A multifaceted reform strategy, anchored on incentivising local refining, eliminating policy inconsistencies, combating corruption, and fostering public-private partnerships, must be legally institutionalised to attract long-term investments and ensure energy security. Lessons from comparative jurisdictions reveal that clear legal incentives, streamlined processes, and guaranteed market mechanisms are essential for unlocking refining potential. At the same time, reforms must uphold environmental and community safeguards, particularly in the Niger Delta, through enforceable legal tools such as EIAs, community development agreements, and CSR obligations. If Nigeria can recalibrate its laws to support efficient, transparent, and inclusive local refining, the country will not only reduce dependence on imports but also achieve broader economic resilience and social equity.

9. Recommendations

To effectively reposition Nigeria's petroleum refining sector, comprehensive legal reforms must be enacted to provide a conducive investment climate, enhance regulatory efficiency, and promote domestic value addition. First, the Petroleum Industry Act (PIA) should be amended to embed specific fiscal incentives for local refining, such as tax holidays, customs waivers on refining equipment, and legal guarantees for preferential feedstock allocation. These reforms would not only reduce the cost of refinery development but also attract both local and foreign investors. In addition, licensing procedures should be streamlined by establishing a unified regulatory window with statutorily defined timeframes for approvals, thereby eliminating unnecessary bureaucratic delays. Further, government must enact legally binding offtake agreements to guarantee market access for locally refined petroleum products at fair and transparent prices, ensuring sustainability and profitability for investors.

Moreover, legal frameworks must incorporate enforceable provisions for environmental and social accountability. Environmental Impact Assessments (EIA) should be legally mandated for all refinery projects, with simplified procedures that maintain rigour without encouraging rent-seeking. Transparency mechanisms should also be codified in law, requiring open publication of refinery licensing criteria, project status updates, and performance benchmarks, to foster accountability and boost investor confidence. Additionally, reforming the fuel subsidy regime is essential, rather than subsidising fuel consumption, legislation should redirect such subsidies toward supporting refinery infrastructure and offering targeted social protection to vulnerable sectors like transportation and agriculture. These integrated legal reforms would de-risk the refining environment, promote sustainable development, and align Nigeria's petroleum industry with international best practices.

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