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Fuel Subsidy Removal and Its Effect on the Price of Cement in Bida, Niger-State – A Trend Analysis

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Abstract

The removal of fuel subsidies is a sensitive issue that many Nigerians care deeply about because it affects the economy. In January 2012, the government attempted to de-regulate gasoline prices, more than doubling them at retail. Following the price increase, trade unions staged an eight-day strike, estimated to cost the economy over US$1 billion. The government reduced gasoline prices to ₦97 (US$0.60) per litre within two weeks. On May 29, 2023, the Nigerian government announced the complete elimination of fuel subsidies, thus causing the most immediate negative impact in inflation caused by the sharp rise in transportation costs. The increase in transportation costs has clearly influenced the price of building materials. The purpose of this study was to asess the trend of cement prices following the removal of fuel subsidies in Bida town, Niger State. The data for this research was gotten from archival data (sales record book) of some cement sellers in Bida Town and was analysed using microsoft line analysis to shiow the trends. The study found out that the price of cement always increase with little steady amount over the months with December having the highest amount in the study period. Cement price decrease after December in the pre- subsidy removal era while it increased steadily and significantly in the subsidy removal era with the highest amount being N8850 in March 2024. The study concluded that the steady increase in the price of cement in the fuel subsidy removal era could not completely be linked to the removal of fuel subsidy only. The study recommends that government should take the enforcement of price control policies seriously as

this is very important to be able to keep the price of cement within the most reasonable range possible.

Keywords: Cement, fuel subsidy, removal, Trend, government

Introduction

Nigeria is Africa's largest oil producer, and the world's sixth largest (Nigerian Upstream Petroleum Regulatory Comission (NUPRC), 2024). Sasu (2024) asserted that prior to the COVID-19 pandemic, Nigeria's oil sector accounted for approximately 9% of the country's GDP. Between October and December 2020, the oil industry contributed 5.9 percent of total real GDP, down roughly three percentage points from the previous quarter. In the third quarter of 2023, the contribution of the oil sector to the country's GDP reached 5.48 percent (Sasu, 2024) . The oil sector has had a significant impact on Nigeria's economic policies, growth, and related activities over the last 50 years (Olayungbo, 2019). It would be an understatement to say that the oil industry is vital to Nigeria's economy (Obasi *et al*., 2017). According to Adelabu (2012), petroleum product pricing in Nigeria has always been a sensitive issue that must be handled with care. People are vulnerable to increases in the price of petroleum products due to low income levels and inadequate infrastructure development, particularly in the areas of transportation, communication, and electric power systems.

Since oil was discovered in Nigeria. Over the last 50 years, this has generated billions of dollars in cash (Elwerfelli & Benhin, 2018). However, as in the majority of emerging nations, this has not resulted in improved living conditions for the population. Rather, the country's supply of refined crude oil products has nearly collapsed due to inefficiency, corruption, abuse of national monopoly powers, poor management, smuggling, bureaucratic bottlenecks, and excessive subsidies (Ibanga, 2011; Balouga, 2012). As a result of the collapse, subsidies for petroleum products began to be paid. Onyeizugbe & Onwuka (2012) reffered to fuel subsidy as the government covering a portion of the cost of using petroleum products to alleviate financial burdens for customers. Imam *et al*. (2023) found that developing countries are more vulnerable to the negative consequences of subsidizing energy, agriculture, and medicine.

Despite the benefits of subsidies, governments that continue to funnel revenue into them minimize the amount of resources available for other public spending priorities, such as health, education, infrastructure, long-term

investment, and social welfare programs (Imam *et al*., 2023).

The removal of fuel subsidies is a sensitive issue that many Nigerians care deeply about because it affects the economy. Nigerians are irritated that the administration is still pushing the proposal, even though they disagree with it. The argument that the economy will collapse if subsidies are not eliminated has been used repeatedly to persuade Nigerians to support subsidy elimination (Onyishi, 2012). In January 2012, the government attempted to de-regulate gasoline prices, more than doubling them at retail. Following the price increase, trade unions staged an eight-day strike, estimated to cost the economy over US$1 billion (Reuters, 2012). The government reduced gasoline prices to ₦97 (US$0.60) per litre within two weeks. The price remained at that level until January 2015, when the price in US dollars fell to $0.52 per litre. The government reduced gasoline prices to ₦87 (US$0.47) per litre in January, possibly due to the postponement of the presidential elections from February 2015 to March (Kojima, 2016).

According to Shagali and Yusuf (2022), some government officials' rationale for removing fuel subsidies is that the cost of the subsidies has continued to rise exponentially. This is due in part to rising fuel costs, which forced the government to spend even more to keep domestic prices low, as well as Nigeria's growing population, which resulted in increased fuel consumption; combined, these pressures made the cost of the fuel subsidy unsustainable. In contrast, subsidy reform would generate government revenue, which could be spent on public goods and services or redistributed as direct payments to low-income households.

On May 29, 2023, the Nigerian government announced the complete elimination of fuel subsidies, claiming that the rates citizens were paying were lower than what they should have been paying based on global market pricing. Apart from other reasons, the removal of fuel subsidies has had a significant impact on prices in the Nigerian market, resulting in severe inflation. The most immediate negative impact has been a rapid increase in inflation caused by the sharp rise in transportation costs (Ojeabulu, 2024). The increase in transportation costs has clearly influenced the price of building materials. Due to these facts, the purpose of this study was to asess the trend of cement prices following the removal of fuel subsidies in Bida town, Niger State.

STATEMENT OF RESEARCH PROBLEM

Subsidies were thought to be a drain on public finances, costing the government US$10 billion by 2022; fuel subsidies however, accounted for approximately 40% of Nigeria's revenue in 2022 (Onyeiwu, 2024). According to Omoniji (2012), the fuel subsidy policy has been blamed for a variety of unintended consequences and practices, including the smuggling of petroleum products outside the country. The federal government claimed that the fuel subsidy policy had prevented it from

addressing infrastructure issues such as roads, building construction, electricity, agriculture, and refineries (Kojima, 2016).

According to Onanuga (2011), economists believe that gasoline subsidies are extremely corrupt, wasteful, and divert funds from public coffers into the personal accounts of wealthy fuel importers, despite the fact that the majority of Nigerians have not benefited from them. According to the Centre for Public Policy Alternatives (2012), the removal of fuel subsidies is highly sensitive to the country's economic structure, political system, and level of development. Onyeiwu (2024) argued that fuel subsidies were detrimental to the Nigerian economy. They exacerbated budget deficits and the country's debt profile, promoted corruption, and diverted resources away from critical sectors of the economy. They were also inequitable, transferring national wealth to the elites. The country's unprecedented inflation, which was caused in part by the removal of fuel subsidies, has made it clear that the abrupt removal of the subsidy was not the best strategy (Onyeiwu, 2024). Against these backdrops, this study examined the trend in cement prices in Nigeria since the removal of fuel subsidies, with a focus on Bida town.

Literature review

History of Fuel Subsidy in Nigeria.

A subsidy is any measure that keeps the price of a good or product below the market level for consumers or producers. Subsidies can take many forms, including grants, tax breaks or exemptions, and price controls (Alozie, 2009). According to Bakare (2012), subsidizing means selling a product for less than its production cost. According to Onyeiwu (2024), fuel subsidies have been in place since the 1970s, when the government sold petrol to Nigerians at a lower cost (even though most consumers were unaware of this).

The 1977 Price Control Act made it illegal to sell certain products (including gasoline) above the regulated price. The Olusegun Obasanjo regime enacted this law to mitigate the effects of inflation caused by a global increase in energy prices (Onyeiwu, 2024). The government partially removed the fuel subsidy in 1986(Ozili & Obiora, 2023), but it was restored until 2012, when it was removed again under the Goodluck Jonathan administration, resulting in massive protests calling on the government to reinstate it, which they eventually did(Campbell, 2012). Since then, fuel subsidy payments have increased significantly, reaching N4 trillion in 2022, accounting for 23% of the national budget of N17.126 trillion(Ozili & Obiora, 2023). As a result, Nigeria determined that the fuel subsidy was unsustainable, and it will be phased out entirely in June 2023 (Ojeabulu, 2024).

The fuel subsidy was removed following President Bola Ahmed Tinubu's announcement during his inauguration on May 29th, 2023, resulting in a more than

200% increase in Premium Motor Spirit (PMS), from N190/litre ($0.25/litre) in May 2023 to N600/litre ($0.8/litre) (Steadman *et al.*, 2024). Earlier in 2022, subsidies for Automotive Gas Oil (AGO) - also known as "Diesel" - were removed, resulting in a more than 200% increase in price and a direct impact on businesses that rely heavily on diesel. With the elimination of fuel subsidies in Nigeria, the cost of construction materials and equipment is expected to rise dramatically due to the change in trnsportation cost. The Nigerian construction industry relies heavily on fuel to transport materials, machinery, and equipment to job sites throughout the country. Without fuel subsidies, transportation costs will rise, increasing the cost of construction materials and equipment (List property, 2023).

CEMENT IN THE CONSTRUCTION INDUSTRY

Cement is an essential component of modern construction, shaping the structures in which we live and work. From skyscrapers to bridges and homes, cement is the glue that holds our built environment together (John *et al*., 2005). Cement's role in modern construction is indispensable. From its ancient origins to its evolution into a long-lasting building material, cement has stood the test of time. Its structural integrity, versatility, cost-effectiveness, and commitment to sustainability make it an indispensable part of the construction industry (Mehta & Monteiro, 2014).

In May 2023, the inflation rate was 22.42%; by April 2024, it had risen to 33.69% (Obiowo, 2024). This dramatic increase has had a direct impact on the prices of essential building materials. A market survey of Lagos dealers was conducted to determine the extent of the increase in costs for selected building materials, including cement. The findings revealed a 13% average increase in building material costs between May 2023 and May 2024 (Obiowo, 2024).

Furthermore, in May 2023, the average cement price in Lagos was N4,300 per bag. By May 2024, the price had risen to between N7,500 and N8, 000 per bag, depending on the brand, representing a 74.42% to 86.05% increase (Obiowo, 2024). It was noted that the increase had caused a significant slowdown in construction projects across the country, resulting in many abandoned projects and a negative impact on contractor employment. Adegoke (in Obiowo, 2024) also stated that due to rising building material costs, contractors are requesting additional funds from clients to complete projects. This frequently leads to disputes, as clients expect project completion based on initial payments, which can result in legal action for breach of contract.

Current Price of cement

Cement prices have dropped significantly since February 2024, when they rose to between N11,000 and N15,000 per bag(Obiowo, 2024). In February 2024, the price of cement skyrocketed in most parts of the country. This was attributed to the factors of demand and supply, in which demand outweighed supply. Some sellers had excess

stock and decided to hoard it, inflating the price. The government quickly intervened and imposed price controls. Despite all of this, the price of cement in Bida town has never risen so high. This was due to the wholesalers claiming to have stock but refusing to raise the price of goods already on the ground. The price only changed, on receipt of new stock.

Methods and Results

The data for this research was gotten from archived Document (sales record book) of some cement sellers in Bida Town. Blaxter *et al*. (2006) stated sing documents can be a relatively unobtrusive form of research that does not require you to approach respondents directly. You can trace their steps using the documents they left behind.The data retrieved was tabulated and the line analysis in Microsoft excel was used to analyse the data to show the pattern of the changes in price. The result of the trend was then discussed.

Table 1: Prices of Cement between May 2022 and May 2024

Month and year	Price in Naira
Jun-22	4200
Jul-22	4250
Aug-22	4300
Sep-22	4300
Oct-22	4400
Nov-22	4500
Dec-22	4600
Jan-23	4500
Feb-23	4450
Mar-23	4300
Apr-23	4400
May-23	4450

Table 2: Prices of Cement between June 2023 and May 2024

Month and year	Price in Naira
Jun-23	4500
Jul-23	4500
Aug-23	4600
Sep-23	4700
Oct-23	4800
Nov-23	4900
Dec-23	5850
Jan-24	6200
Feb-24	8300
Mar-24	8850
Apr-24	7600
May-24	7400

Source: Researcher's Data collection

The trend analysis of prices of cement between June 2022 and May 2023 (pre subsidy removal Era)

The price of cement only rose by N50 each month from June 2022- August 2022 having the price of N4, 200, N4, 250 and N4, 300 there was no price change in September 2022 the price was maintained at N4300. Between October 2022 and December 2022, there was constant increase of N100 monthly; from N4400 to N4500 and N4600 (Fig. 1). In January 2023, there was a slight drop in price of cement from N4600 to N4500; in February 2023, there was a further reduction by N50 putting the price of cement at N4450, a further decrease was also achieved in March 2023 where

the price was at N4300 but in April 2023, there was a rise in price putting the price at N4400 and a further increase to N4450 in May 2023.

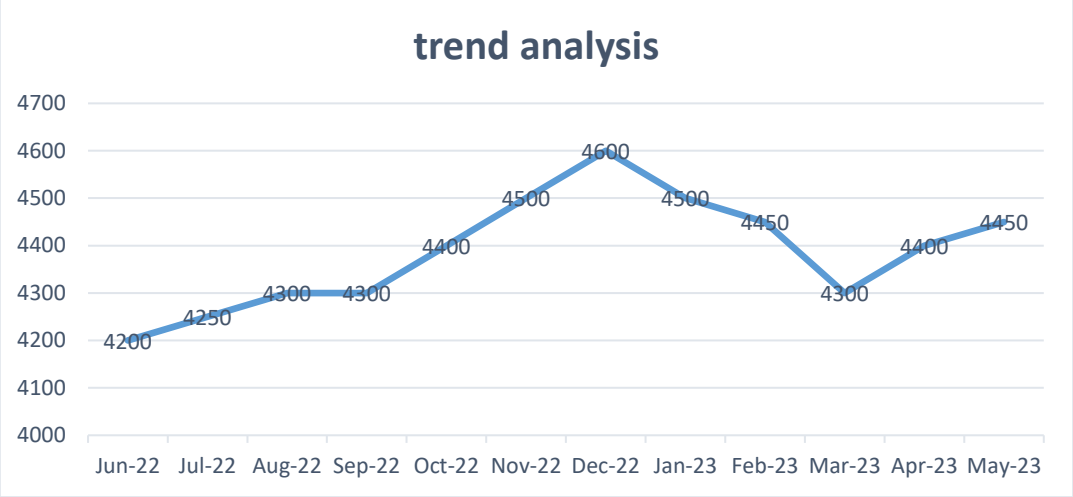


Fig1: The trend analysis of prices of cement between June 2022 and May 2023

The trend analysis of prices of cement between June 2023 and May 2024

The price of cement (see fig. 2) was stable in June and July 2023 with a price of N4500, between August and November 2023, there was a monthly increase of N100 monthly which was negligible. In December 2023, the price of cement increased to N5850 from N4900 recording an increase of N950. In January 2024 the price changed to N6200, in February 2024, the price increased to N8300, in March 2024 it increased to N8850 (the highest so far), in April 2024, it dropped to N7600 and it further reduced to N7400 in May 2024 (Fig. 2)

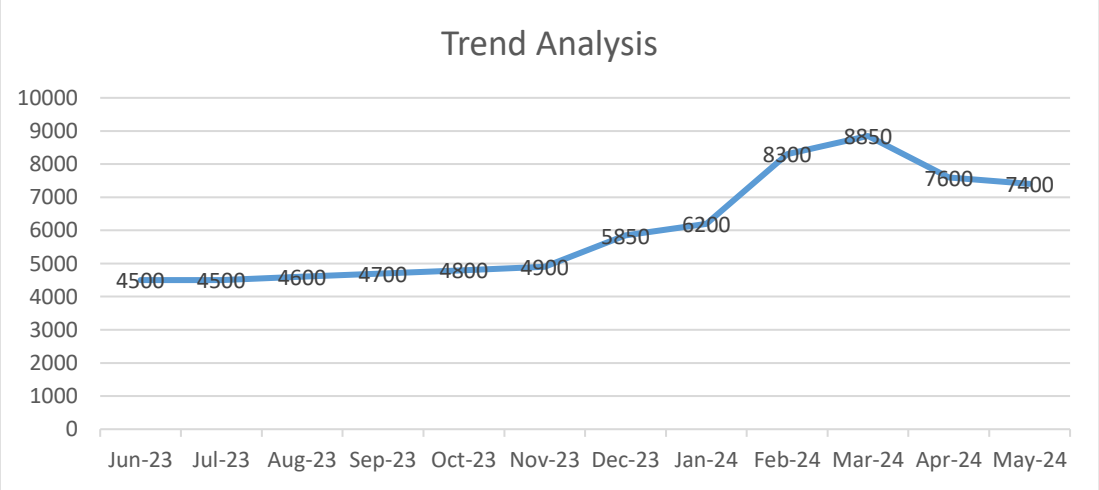


Fig2: The trend analysis of prices of cement between June 2023 and May 2024 (subsidy removal era)

Comparism of the trend of prices of cement pre subsidy removal and subsidy removal era

Figure 3 and 4 shows pattern of price of cement in the subsidy era and the non-subsidy era. Looking at Figure 3, it can be seen that prices of cemeent during the subsidy era were more stable and even when they increased, the increase was minimal and such price was stable. The highest price was recorded in December 2022 at N4600.in January 2023, it began to reduce until it reached N4300 in March 2023.the price increased again in April 2023 to N4400 and subsequently N4450 in May 2023. On the 29th of May 2023, President Bola Ahmed Tinubu announced the total removal of fuel subsidy because provision was not made for it in the budget. As a result of this, things began to take a new turn not only in the construction industry but in all sectors due to the effect of subsidy removal.

The price of cement began to increase with an insignificant figure from June 2023-November 2023. In December 2023, there was a significant increase in the price of cement from N4900 to N5850 in December 2023 and subsequently to N6, 200 in January 2024. In February 2024, the price rose to N8300 and subsequently to N8850 in March 2024, in April 2024, there was a decline from N8850 to N7600 and further to N7400 in May 2024.

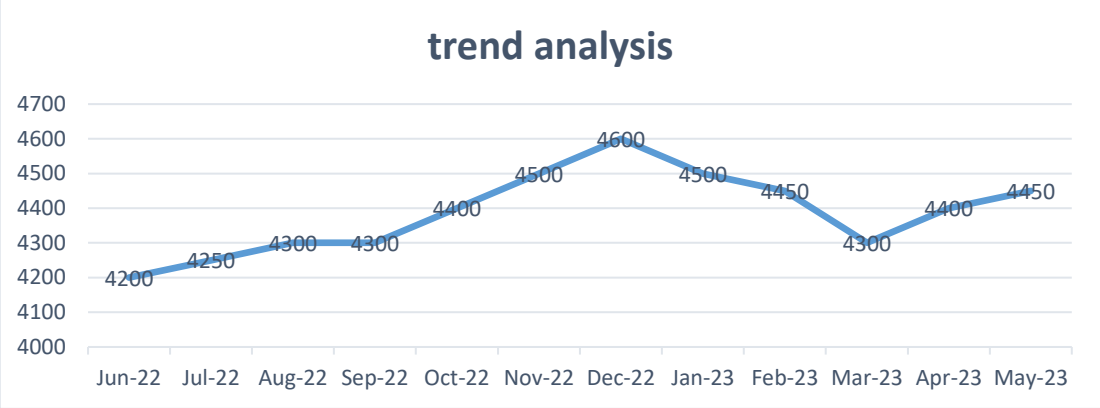


Fig3: Trend of price of cement before subsidy removal in Bida

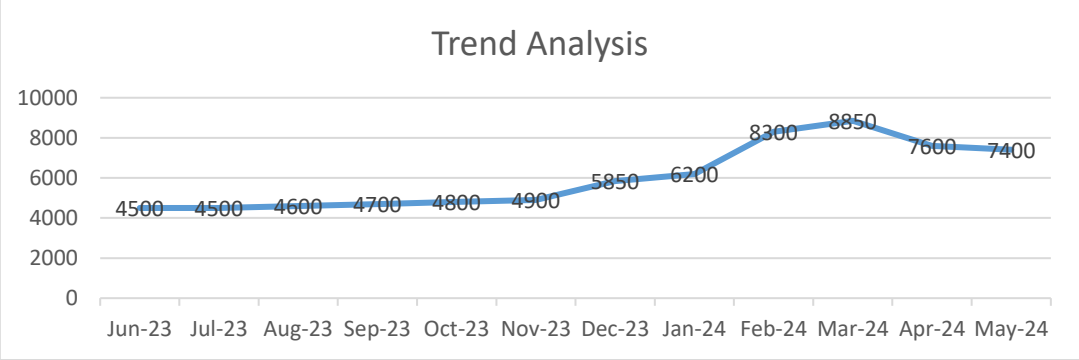


Fig4: Trend of price of cement after subsidy removal in Bida

DISCUSSION

This section discusses the result of the study carried out. The study was carried out to assess the trend of the price of cement due to fuel subsidy removal in Bida, Niger state. The first objective was to show the trend of prices of cement between June 2022 and May 2023 (pre-subsidy removal Era). The study made it evident that the price of cement in the pre-subsidy removal era was quite stable with minimal and negligible increase between June-December 2022 (increase between N50 to N100) with December having the highest price of N4600. After December 2022, the price started depreciating until it got to its lowest of N4300in March 2023. The price then began to rise again in April with a N100 increase in April and May 2023.

The Second objective was to show the trend of prices of cement between June 2023 and May 2024 (subsidy removal Era). The trend analysis made it evident that price of cement from June 2023 when fuel subsidy was completely removed, to November 2023 only increased steadily by N100 monthly but in December 2023, there was a significant increase from N4900 to N5850. It further increased in January through March 2024. The highest price was in March 2024 which was N8850 but declined to N7600 in April and then N7400 in May.

The third objective was to compare the trend in both pre-subsidy removal era and subsidy removal era. It was visible from the analysis that prices of cement was high in both Decembers but declined subsequently in the pre-subsidy removal era; the decline trend was maintained for a while. In the subsidy removal era, after December, the price of cement increased and maintained that trend of increase until April 2024 when it began decreasing. The highest price of cement was recorded in March 2024. This contradicted the report of the Naira Metrics Survey (2024) which stated that the price range of cement marked a notable decrease in February 2024 when cement price rose to as high as N15,000 per bag. The dreadful increase was said to be as a result of factors of demand and supply.

Conclusion

The study assessed the trend of price of cement in the pre- subsidy removal era, the subsidy removal era and also compared the trends of both eras. the concluded that the price of cement increased significantly in December for both Eras, the price decreased in subsequent months for for the pre-subsidy removal era while it kept increasing after December in the subsidy removal era.

Price of cement in the subsidy removal era recorded its highest in Bida at N8850 in March 2024. This hike in price could not be completely linked to the effect of fuel subsidy removal alone as other factor could also be responsible.

Recommendation

The study recommends that price control policies by the Government should be taken seriously as this is very important to be able to keep the price of cement within the most reasonable range possible.

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