

The Recession Is In Your Head

The ongoing "correction" in crude oil price can be an opportunity

Whenever I listen to some of Nigeria's charismatic economic analysts making the point that the country is caught up in the global economic meltdown, I regret not paying enough attention in Economics class at school.

A lot of superbly intelligent people are referring to this period as a period of low crude oil prices and talking about how Nigeria is ensnared in the web of the credit crunch. I struggle with their conclusions.

They are giving an otherwise incompetent government more ammunition for inertia.

The country has an exchange to the dollar of 1: 180 (real, market prices, not fake bank indications) at a time of \$60 a barrel, whereas, when crude oil was selling at \$22 a barrel, we bought the dollar on the streets of Lagos for 99 naira. Note: the dollar didn't depreciate relative to the naira when crude oil prices shot to \$147.

Nigeria makes far more money from oil sales in 2009 than it did in 2003 and yet everyone is despondent. People keep talking "low prices". Even when it was \$40 a barrel late last year, it wasn't a low price!

The current price regime is a higher price than the price commanded in the Gulf War of 1990-91 and is only slightly less than the price during the Arab oil embargo of 1973. (That is even when you bring it to 2008 prices, after adjusting for inflation over the course of the 36 years. For indeed, if my memory serves me, the price of oil in 1973 was about \$40).

What the ongoing national debate suggests is that we have come to hold the \$100-\$147 as "standard". The truth is, the price of \$147, which a barrel of the premium crude oil blends commanded in September 2008, is extremely

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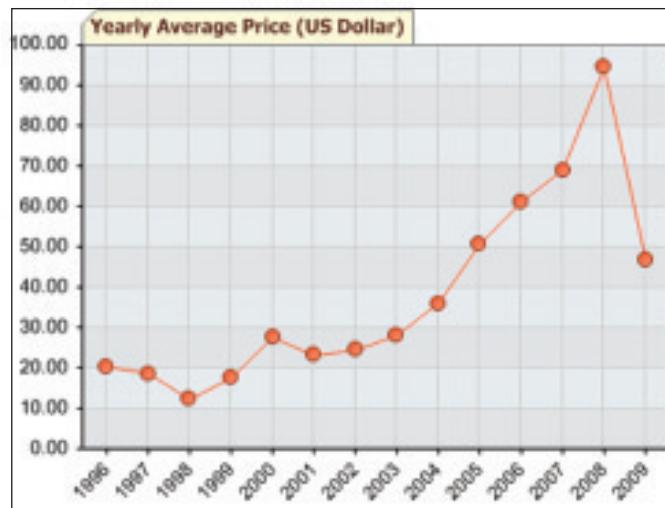
bad data when you put it on the oil price curve in the last 35 years. That figure is fiction. And when we reached the price, we should have known that it wasn't real. Indeed, we should have given a long sigh, when the price of crude started racing from \$70 at the end of 2007 and went straight to \$100 by April 2008. This was the period of the great mismatch between global production growth and the cost of energy. Europe and America weren't doing fashionably well in economic terms by end of 2007 and China was already cooling.

The description of the current price regime as "low price" by analysts has helped the Nigerian government, at all levels, to declare itself broke. And the big multinationals who deliver over 90% of Nigerian crude oil production have been slashing budgets, probably even in areas that weren't touched when the price averaged \$36 in 2004. Projects are being reviewed even

when the prices of steel have fallen.

I can understand that companies face enormous pressure from shareholders who complain of not receiving as much gratification this year as they did last year. And this may drive heads of oil companies into cutting costs her and there, but countries exist for the much longer term and need more careful planning.

What has happened in Nigeria in the last 10 months of crude oil price correction from the fictional \$147 to the more normal \$60 has far less to do with crude oil receipts than the attitude of government. The crash of the Nigerian stock exchange, for example, was self induced; and in the last two years, there has been no clear investment policy direction. Plus: the raft of reversals of policies, including the spectacular foot dragging in power delivery, are far more responsible for our moaning than the



bankruptcy of Lehman Brothers.

There was a lament, recently, that Nigeria's foreign reserves had dropped to \$45 billion. It's a huge drop from the \$64 billion in August 2008, I agree, but it's not the tragedy that the manner of announcement portrayed. Egypt's foreign exchange reserves also dipped to \$29.8 billion, down from \$32.2 billion at the end of 2008. South Africa's gold and foreign exchange reserves dropped in April 2009, to \$34.047 billion. These African countries, the only ones on the continent with

larger economic sizes than Nigeria, don't have as much foreign reserves as we have. But they have significant manufacturing and more diversified export, so as cash is going out to pay for imported goods, cash is coming in from export of goods and services. They don't need to be counting wads of dollar notes, in some bank in Europe, as security. What's important is investment and production.

A country in desperate need of infrastructure uses money it has in the bank to leverage with partners on projects that turn the economy around. A businessman with a billion dollars should have the confidence to build a 10 billion dollar factory because he can



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attract investors with comparable size of fortune. It's not so much about spending the entire billion dollars as about devising a sound project development plan that ensures that the project can pay for itself and the businessman's money will still be available for other investment. But the Nigerian lamentation about drop in foreign reserves, is in order only because Nigeria has never put rigour in thinking through and implementing an investment policy and devising a framework for project development and sustainability.

The current adjustment in crude oil prices and the so called global meltdown is a many sided currency and depending on the quality of governance, you can either take advantage of it or let it drown you.

Just the other day, PetroSA, the South African state hydrocarbon company, announced that its 400,000 Barrels of Oil Per Day refinery project will take advantage of the crunch. Suddenly, a project that was originally estimated at \$11 billion was now likely to cost between 9.5 and 10 billion dollars. As projects are now being delayed all over the world, PetroSA's management reasons, the refinery project will be able to tap into a global skills base that was, until recently, under severe strain.

When the country talks about lack of money, it is in terms of money to spend, not money to invest. Our quality of spending guarantees that we are, essentially, always broke. That's why 60 dollar per barrel crude oil regime becomes a mourning period for a country that was earning \$20 per barrel in 2002.

Nigeria in the last two years has used every excuse to discard the sort of investment opportunities that could really ignite its economy. It threw out a policy to encourage those who were keen on building world class size cement manufacturing plants, when it handed out import licences to those who just want to import cement. It threw open its gates to all sort of importers of cassava products after scores of businessmen had brought in money and equipment to manufacture cassava products in the country, based on an earlier policy. This is a country where the government returned \$700 Million to investors who were primed to buy up inefficient refineries, and handed over the refineries to the state company that had run the refineries aground in the first instance.

Nigeria is being forced into a so called recession by an elite political class that is not interested in its growth. An otherwise enterprising people are being harassed to "admit" that some crunch that has taken place thousands of kilometers away is the reason for their poor quality of life. ■