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NIGERIAN OIL ECONOMY: SOME LESSONS FOR CYPRUS*

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Abstract: Oil/hydrocarbons is still the greatest source of energy in the world. Although its importance is diminishing with the development of alternative/environment-friendly sources of energy such as wind-power and solar energy, it is the case that the pre-eminent position of oil as a source of energy will remain so for some time to come. For most oil-producing countries, oil revenue is a significant source of income. For instance, this is the case in Nigeria, whose economy depends heavily on oil revenue. Even so, oil can also be a curse as it may cause poverty in the country, breed corruption, precipitate human rights abuses and other contradictions. This is the experience of some oil-producing countries such as Nigeria, Libya, Ecuador, and Algeria. The recent discovery of hydrocarbons in Cyprus is surely an important development for the country. However, given the negative experience of other oil-rich countries it is important to explore the possible lessons Cyprus may learn from such experience that could help her maintain a healthy economy when oil revenue starts rolling in as projected, in 2022. This is the central objective of this paper and will be pursued using Nigeria as a case-study. Importantly, the Cyprus economy without oil revenue is strong and healthy; income is derived from diverse sources such as tourism, services and agriculture. This article suggests that Cyprus should learn from the experience of Nigeria and avoid abandoning other sources of revenue when oil revenue starts rolling in so that it would not suffer 'Dutch Disease'. Moreover, from the experience of Nigeria, Cyprus should take precautionary steps to check oil industry related corruption, internal conflicts and other paradox which hydrocarbon could bring about. In the end, the article recommends that the Cyprus economy should remain diversified in order to ensure sustainable prosperity

Key words: Cyprus, Nigeria, oil, oil revenue, oil curse, rescission, diversified economy
Research Area: Sociology
Paper Type: Conceptual Paper

1. INTRODUCTION

Oil is still the greatest source of energy in the world today, and this has been so for well over 60 years and would probably remain so in the medium to long term, despite the increasing use of alternative/renewable energy sources such as solar energy and wind-power. Importantly, most modern machineries, facilities and vehicles upon which development and human comfort heavily depend are powered by oil/hydrocarbons or other by-products of petroleum. This underscores the domineering importance of oil in the world. For oil producing countries in particular, oil revenue is undoubtedly a veritable source of revenue to the national economy. On the contrary, oil can also become a curse or a paradox – for example, resulting in poverty, human rights abuses and conflicts. In fact, the struggle for the control of oil has caused internal conflicts, civil wars, international and proxy wars in some parts of the world. A good case in point is the US invasion of Iraq in 2003 which is widely regarded as a war to control the vast oil resources of the country (Bassil, 2012; Amin, 2014).

A major development in Cyprus in recent times was the discovery of hydrocarbons in its Exclusive Economic Zone (EEZ). This raises a great hope for a new and potentially significant source of revenue in the country. However, given the experience of oil-producing countries – particularly in less developed countries, such as Nigeria,[1] Libya, Ecuador, and Algeria – it is important to explore from the outset what lessons Cyprus can learn so as to take proper precautions and/or appropriate steps or actions to ensure its economy remains healthy and sustainable. This is the central objective of this article, using the Nigerian experience.

This article is divided into several sections for ease of presentation. It commences in section I with a background information which demonstrates that the choice of Nigeria is a fitting one in order to achieve the set objective of the article. The next section outlines the history of discovery of oil in Nigeria and in Cyprus. This is immediately followed by section III which considers the question of ownership of oil in Nigeria and in Cyprus under extant Constitution and laws. The question of ownership is important because of its potential far-reaching impact on oil production and the national economy. Section IV examines the status of the Nigerian economy before the discovery and exploitation of oil. This is followed in section V by an elaboration of the place of oil in the Nigerian economy from 1970 to 2017. Importantly, this section will make clear the huge contributions of oil to the Nigerian economy since 1970s. In section VI, the article will explore the problems associated with oil wealth in Nigeria and explain what lessons the Republic of Cyprus may derive from that. The last section of the article, section VII, will summarize the lessons for Cyprus and make appropriate recommendation(s).

2. BACKGROUND

It is well-known that Nigeria is the 8th largest oil-producing and exporting country in the world, and Africa's leading oil-producing and exporting country. Moreover, she is a key member of the Organization of Petroleum and Exporting Countries (OPEC) (Ebeku, 2006). It is also common knowledge that in 2011 hydrocarbons reserve - specifically natural gas - was discovered in commercial quantities in Cyprus, within her Exclusive Economic Zone (EEZ) (Lakes, 2012: 81). For two main reasons, the announcement of that discovery by Noble Energy International Ltd (Noble Energy) of the USA was certainly good news for Cyprus (Haynes, 2015). Firstly, because of the promise of a new and important source of revenue. Secondly, it was like a soothing balm on a country that has just gone into recession.

Certainly, oil can be a veritable source of revenue to oil-producing and exporting countries. Nigeria is a good case in point. It is a notorious fact that the Nigerian economy runs on oil. However, there is no gain-saying that it is a sweet-sour experience. Hence, it is important to interrogate the Nigerian oil economy and explore the lessons for the Republic of Cyprus.

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[1] The Nigerian experience shares a lot in common with other oil producing countries in the world, particularly oil producing less developed countries. However, for the purposes of this article it is sufficient to consider the Nigerian experience alone.

It is also important to note from the outset that the choice of Nigeria is appropriate, as it shares a lot in common with Cyprus. For present purposes, it is sufficient to identify the following:

a) *Colonial Experience:* Both countries suffered colonial rule under Britain and attained independence on the same day – October 1, 1960. At various times, both Nigeria and Cyprus were ruled by other colonial powers before Britain.
b) *Diversity of the People:* Nigeria is a multi-ethnic country, with over 250 ethnic groups. This gathering was the result of colonial decisions which forcefully brought hitherto disparate nations into one country. There are three main ethnic groups in Nigeria – namely, Hausa/Fulani, Yoruba, and Igbo. Similarly, Cyprus is not a homogenous country, although, unlike Nigeria, she is populated mainly by two major ethnic groups – namely, the Greek Cypriots and the Turkish Cypriots. Importantly, for both countries, this was the product of colonialism.
c) *Less Developed Countries:* Both Nigeria and Cyprus are still categorized as less developed countries. Placed in context, both countries, although endowed with natural resources, do not have the capital and technology needed to exploit their natural resources and need the capital and technology of international oil companies based in advanced countries.
d) *Location of Oil and Gas Deposits:* In Nigeria, oil and gas deposits are presently found only in the southern part of the country – particularly, in the Niger Delta region of the country which is the homeland of minority ethnic groups in the country. Remarkably, oil and gas deposits in Nigeria are found both on land (onshore) and in waters (offshore). In the case of Cyprus, hydrocarbon deposits are presently found only offshore in the southern part of the country – within the Exclusive Economic Zone (EEZ) of the country. In the Nigerian experience, offshore oil deposits are arguably the most controversial and Cyprus may well have this experience. However, unlike the case in Nigeria, southern Cyprus is populated by the majority ethnic group of the country.
e) *Insurgency and Conflicts*: In both Nigeria and Cyprus pockets of insurgency and conflicts exist with the potential of adversely affecting the economy. For example, in Nigeria Boko Haram religious insurgency is still festering in the north-eastern part of the country. Although the Nigerian army has largely displaced the insurgent group in many of their strongholds, continuing attacks belie the claim that the group has been completely defeated. More seriously, in the Niger Delta area of the country struggle for 'resource control' (i.e. greater benefit from oil wealth) results in conflicts between local nationalists (derisively called militants by critics) and the federal government as well as oil majors operating in the area. In the case of Cyprus, the seizure of the northern part of the country by the Republic of Turkey on behalf of Turkish Cypriots poses continuing security threats to the country.

3. DISCOVERY OF OIL IN NIGERIA AND IN CYPRUS

The search for oil started in 1908 in the British colonial possession now comprised in the Republic of Nigeria. In other words, the search for oil in Nigeria started before the formal creation of the country by amalgamation of southern and northern Nigeria in 1914 by the British colonialists. The search has not yielded any result until 1914 when the First World War broke out. The German company which was undertaking the search – called Nigerian Bitumen Company – was forced to abandon the search as a result of hostilities (Schatzal, 1969: 1-4;

Ajomo, 1987: 84; Ebeku, 2006: 67-71). This reality can be found in a long line of studies on the history of the Nigerian oil wealth (Ajomo, 1972: Chapter 8; Etikerense, 1985: Chapter 1; Kassim-Momodu, 1986/87: 69; Omoregbe, 1987: 273).

Initially, the search for oil was not statutorily regulated. However, this changed at the outbreak of the First World War (essentially between Germany and Great Britain) by the promulgation of the Mineral Oils Ordinance 1914 (No. 7). In section 3 thereof it provided:

> It shall not be lawful for any person to search or drill for or work mineral oils within or under any lands in Nigeria except under a license or lease granted by the Minister under this Ordinance.

Importantly, the 1914 Ordinance contained a discriminatory provision designed to exclude German companies from continuing their search for oil in Nigeria after the war. The discriminatory provision was couched thus:

> No lease or license shall be granted except to a British subject or to a British company registered in Great Britain or in a British colony, and having its principal place of business within Her Majesty's dominions, the Chairman and the Managing Director (if any) and the majority of the other directors of which are British subjects (See Ebeku, 2006: 68).

As adumbrated above, this provision effectively excluded the Nigerian Bitumen Company, apparently regarded as an enemy company, from returning to Nigeria at the end of the First World War in 1918 to continue the search for oil. Undoubtedly, the provision caused delay in the discovery of oil in Nigeria, as the search for oil resumed later in 1938 when Shell D'arcy Petroleum Development Company – an Anglo-Dutch company – was 'granted exploration license to prospect for oil throughout Nigeria'. Between 1938 and 1939 the company made fruitless search for oil in Nigeria, and had to abandon further search in 1939 at the outbreak of the Second World War. The company resumed the search for oil in 1946, after the Second World War ended in 1945. However, it was not until 1956 that the company struck oil in commercial quantities at a place called Oloibiri in the then Eastern Region of Nigeria (an area now comprised in a Nigerian constituent State called Bayelsa, located within the Niger Delta region).

Further discoveries of oil deposits were made the same year in other parts of the Eastern region (specifically, in the area now popularly known as the Niger Delta region). To date, the search for oil and gas reserves is still continuing in different parts of Nigeria and new discoveries are being made. Importantly, the Nigerian oil finds of 1956 were rapidly exploited and by 1958 oil production has reached 5,100 barrels per day and the first shipment of crude oil to Europe was made, thus 'launching Nigeria into the club of oil producing and exporting countries (Pearson, 1969: 15; Ebeku, 2006: 70).

In the case of Cyprus, the history of exploration and discovery of hydrocarbons is quite recent. The legal regime regulating the search for hydrocarbons in the country is the Hydrocarbons (Prospection, Exploration and Exploitation) Law (No. 4(1)), 2007, and the Regulations made thereunder (i.e. the Hydrocarbons (Prospection, Exploration and Exploitation) Regulations 2007 and 2009). Under the 2007 Law, 'hydrocarbons' is defined under section 2 to include crude oil and natural hydrocarbon gases. The long title of this Law describes it as a 'law to provide for the prospection, exploration and exploitation of Hydrocarbons'. According to its preamble, the Law 'was made for the purpose of harmonization with the European Community Act 'with the title – "Directive 94/22/EC of the European Parliament and of the Council of 30 May 1994 on the conditions for granting and using authorizations for the prospection, exploration and production of hydrocarbons".' It should be noted that this Law repealed an earlier Law on the subject made in 2004 (section 34).

As at mid-2017, 13 exploration blocks 'have been drawn up south of the Island, the rights to six of which have been awarded during the course of two licensing rounds in 2007 and 2011 respectively' (Haynes, 2015). Noble Energy was the first International Oil Company (IOC) to receive authorization/license to search for hydrocarbons in the Exclusive Economic Zone (EEZ) of Cyprus. Before granting the license, Cyprus had made agreements with Egypt and Israel on the delimitation of its EEZ, although Turkey objects to such agreements.

In late 2011, the company announced that its operations in Block 12 (also known as Aphrodite prospect) have led to discovery of substantial gas reserves, estimated to be between 3.6 tcf (trillion cubic feet) and 4.54 tcf. Importantly, there is hope that more discoveries will be made in the near future as aggressive search is ongoing by different international oil companies. According to one source, the US geo-seismic survey estimates 'possible total gas reserves in the Levantine and Nile Delta basins at 122 tcf and 223 tcf respectively, not to mention oil deposits equivalent to some 3.4 billion bbl' (Haynes, 2015). Presently, Cyprus depends on imported energy for its domestic purposes. Hence, the discovery of such quantity of natural gas, which is estimated as been capable of serving the domestic gas needs of the country for about 100 years, is indeed an important development in the country.

More importantly, Cyprus cannot use all the already discovered gas reserves domestically; not to talk of the potential discoveries of oil and gas. This means that Cyprus may soon be exporting some of its natural gas and oil and thus join the league of oil-producing and exporting countries. No doubt, the foreign exchange earnings from hydrocarbon export will provide a new source of revenue to the country. Even so, based on the experience of Nigeria, the way the hydrocarbon/oil revenue is managed and the policy choices of successive governments of the country may have some repercussions on the Cyprus economy. Thus, as already stated above, the central objective of this article is to interrogate the experience of Nigeria's oil-based economy with a view to extracting timely lessons which could help Cyprus economy avoid oil-related economic problems in the future.

4. OWNERSHIP OF OIL IN NIGERIA AND IN CYPRUS

In general, it is well-known that there are three different approaches to the ownership of natural resources, namely: (1) private ownership; or (2) state ownership; or (3) state-private ownership. Under Nigerian and Cypriot laws, the ownership of natural resources, including oil and gas, is vested in the State. In the case of Nigeria, section 1(1) of the 1969 Petroleum Act provides that 'the entire ownership and control of all petroleum in, under or upon any lands to which this section applies shall vest in the State'. In more elaborate and authoritative terms, section 44(3) of the Constitution of the Federal Republic of Nigeria 1999 (as amended) provides as follows:

> … the entire property in and control of all minerals, mineral oils and natural gas, in, under, or upon any land in Nigeria or in, under or upon the territorial waters and the Exclusive Economic Zone of Nigeria shall vest in the government of the Federation [the State].

Similar provision can be found in section 3 of the Cypriot Hydrocarbons (Prospection, Exploration and Exploitation), Law 2007 which states as follows:

> 3. – (1) The ownership of hydrocarbons wherever they are found in Cyprus, including the Territorial Waters, the Continental Shelve and the Exclusive Economic Zone of the Republic, shall be deemed to be and always to have been vested in the Republic [the State].
>
> (2) The ownership rights of the hydrocarbons situated in the Zone of offshore jurisdiction of the Republic, as determined in the Exclusive Economic Zone Law, shall be exercised in conjunction with the rights in the continental shelf as determined in the Convention.

With specific regard to offshore oil, the right to state ownership is further grounded in the international law of the sea. For present purposes, it is sufficient to refer to a few provisions of the international law of the sea. Firstly, Article 56(1)(a) of the United Nations Convention on the Law of the Sea 1982 (UNCLOS III) outlines the rights of coastal States to the natural resources within its Exclusive Economic Zone:

> In the exclusive economic zone, the coastal State has:
>
> (a) sovereign rights for the purpose of exploring and exploiting, conserving and managing the natural resources, whether living or non-living, of the waters superjacent to the seabed and of the seabed and its subsoil, and with regard to other activities for the economic exploitation and exploration of the zone, such as the production of energy from the water, currents and winds…

Furthermore, with specific regard to natural resources located in the 'continental shelf' (defined under Article 76(1), in part, as comprising 'the seabed and subsoil of the submarine areas that extend beyond its territorial sea throughout the natural prolongation of its land territory to the outer edge of the continental margin, or to a distance of 200 nautical miles from the baselines from which the breadth of the territorial sea is measured where the outer edge of the continental margin does not extend up to that distance') Article 77 of the 1982 Law of the Sea Convention provides:

> 1. The coastal State exercises over the continental shelf sovereign rights for the purpose of exploring it and exploiting its natural resources.
> 2. The rights referred to in paragraph 1 are exclusive in the sense that if the coastal State does not explore the continental shelf or exploit its natural resources, no one may undertake these activities without the express consent of the coastal State.
> 3. The rights of the coastal State over the continental shelf do not depend on occupation, effective or notional, or on any express proclamation.
> 4. The natural resources referred to in this Part consist of the mineral and other non-living resources of the seabed and subsoil together with living organisms belonging to sedentary species, that is to say, organisms which, at the harvestable stage, either are immobile on or under the seabed or are unable to move except in constant physical contact with the seabed or the subsoil.

Both Nigeria and Cyprus are State Parties to UNCLOS III, and are therefore bound by its provisions and are entitled to the rights therein provided. As can be seen above, under extant international law offshore oil and other natural resources are vested in the State. The Nigerian Supreme Court affirmed this position clearly in the case of *Attorney-General, Federation* v.

Attorney-General, Abia State and 35 Ors. (No. 2) [2002] 6 NWLR (Pt. 764) 542, where the issue of ownership of offshore oil for the purposes of calculating the entitlements of littoral states under the 13 percent derivation principle provided in the Nigerian Constitution arose for determination.

5. NIGERIAN ECONOMY BEFORE THE DISCOVERY AND EXPLOITATION OF OIL

As already indicated, Nigeria was a British creation through a piecemeal process that culminated in the amalgamation of the southern and northern part of the present-day country in 1914 (Hatch, 1971; Ebeku, 2006: 14-18). Before formal colonisation, Britain and other European powers were attracted to the area now constituting Nigeria by the prospect of trade (Niven, 1952: 136-142). In the words of a leading Nigerian historian, 'commerce was the fundamental relationship that bound Africa to Europe' (Dike, 1956: 1). In the main, the peoples of the area now called Nigeria traded their agricultural products with visiting European traders. As one author puts it, 'during the colonial period…Nigeria was exploited for its agricultural products' (Robinson, 1996: 9).

The British colonial rule in Nigeria lasted from about 1861 to 1960 when Nigeria was granted independence by the colonisers, after years of agitation by Nigerian nationalists. At independence in 1960 and up till the early 1970s the Nigerian economy was agrarian or 'agro-based'. The major agricultural products were Cocoa (produced in the West), groundnut and cotton (produced in the North), and palm oil (produced in the East). To be sure, although oil was discovered in Nigeria in 1956 and oil exports reached 5,100 barrels in 1958, oil revenue did not play a major role in the Nigerian economy until the early 1970s. From statistical records, 'in the early 1960s, revenue from oil accounted for less than 10 per cent of Nigeria's revenue base' (Robinson, 1996: 9). More specifically, in 1963 and 1964 oil revenue was only 4.1 per cent and 5.9 per cent, respectively of the total revenue of the country (Graf, 1988: 218; Robinson, 1996: 8).

To sum up, before the oil boom of the 1970s the bulk of Nigeria's revenue was from agriculture (Iwaloye and Ibeanu, 1997: 62-63). Notably, the Nigerian economy at that time was strong and healthy and its currency exchanged favourably as against the British Pounds Sterling and the US Dollars. Moreover, many citizens were gainfully employed in agriculture and the level of official corruption was low compared to the situation under the contemporary oil-economy.

6. THE PLACE OF OIL IN THE NIGERIAN ECONOMY: 1970s TO 2017

International oil prices escalated in the early 1970s, resulting in what was popularly known in oil producing and exporting countries as 'oil boom'. That development immediately led to a significant increase in the contribution of oil revenue to the Nigerian economy (Odularu, 2008). The following statistical records demonstrate this point:

Table A: Contribution of oil to Nigerian Federal Government Revenue, 1970 - 1979

Year	**Oil Revenue as % of Total Revenue**
1970	25.9%
1971	52.5%
1972	41.5%
1973	67.3%
1974	80.8%
1975	78.7%
1976	78.5%
1977	70.6%
1978	63.1%
1979	81.4%

Source: *Graf (1988: 219); Ebeku (2006: 73). Central Bank of Nigeria Annual Reports, 1973-79*

Table B: Contribution of Oil Revenue to Foreign Exchange Earnings

Year	**Oil Revenue as % of Foreign Exchange**
1960s	2.5%
1970	58.1
1975	93.6
1980s	98% +

Source: *Graf (1988: 219); Ebeku (2006: 73); Central Bank of Nigeria Annual Reports, 1973-83*

As can be seen from Table A, the contribution of oil revenue to the Federal Government revenue maintained a steady high from 1971 to 1979. Similarly, Table B shows that the contribution of oil revenue as a percentage of Nigeria's foreign exchange earnings 'escalated from 2.5 per cent of all such earnings in [1960s] to 93.6 per cent in 1975, and to 98 per cent and more through the first half of the 1980s' (Graf, 1988: 219).

More recent statistics showing the place of oil revenue in Nigeria's economy can be found below in Table C, extracted from the Central Bank of Nigeria Statistical Bulletin 2015:

Table C: Contribution of oil to Nigerian Federal Government Revenue, 1980 - 2015

Year	Total Revenue	Oil Revenue	Non-Oil Revenue	Real GDP	Oil Revenue as %age of Total Revenue	Non-Oil Revenue as %age of Total Revenue	Total Revenue as %age of Real GDP	Oil Revenue as %age of Real GDP	Non-Oil Revenue as %age of Real GDP
1980	15.23	12.35	2.88	6501.83	81.09	18.91	0.23	0.19	0.04
1981	13.29	8.56	4.73	15258.00	64.41	35.59	0.09	0.06	0.03
1982	11.43	7.81	3.62	14985.08	68.33	31.67	0.08	0.05	0.02
1983	10.51	7.25	3.26	13849.73	68.98	31.02	0.08	0.05	0.02
1984	11.25	8.27	2.98	13779.26	73.51	26.49	0.08	0.06	0.02
1985	15.05	10.92	4.13	14953.91	72.56	27.44	0.10	0.07	0.03
1986	12.60	8.11	4.49	15237.99	64.37	35.63	0.08	0.05	0.03
1987	25.38	19.03	6.35	15263.93	74.98	25.02	0.17	0.12	0.04
1988	27.60	19.83	7.77	16215.37	71.85	28.15	0.17	0.12	0.05
1989	53.87	39.13	14.74	17294.68	72.64	27.36	0.31	0.23	0.09
1990	98.10	71.89	26.22	19305.63	73.28	26.73	0.51	0.37	0.14
1991	100.99	82.67	18.33	19199.06	81.86	18.15	0.53	0.43	0.10
1992	190.45	164.08	26.38	19620.19	86.15	13.85	0.97	0.84	0.13
1993	192.77	162.10	30.67	19927.99	84.09	15.91	0.97	0.81	0.15
1994	201.91	160.19	41.72	19979.12	79.34	20.66	1.01	0.80	0.21
1995	459.99	324.55	135.44	20353.20	70.56	29.44	2.26	1.59	0.67
1996	523.60	408.78	114.81	21177.92	78.07	21.93	2.47	1.93	0.54
1997	582.81	416.81	166.00	21789.10	71.52	28.48	2.67	1.91	0.76
1998	463.61	324.31	139.30	22332.87	69.95	30.05	2.08	1.45	0.62
1999	949.19	724.42	224.77	22449.41	76.32	23.68	4.23	3.23	1.00
2000	1906.16	1591.68	314.48	23688.28	83.50	16.50	8.05	6.72	1.33
2001	2231.60	1707.56	903.46	25267.54	76.52	40.48	8.83	6.76	3.58
2002	1731.84	1230.85	500.99	28957.71	71.07	28.93	5.98	4.25	1.73
2003	2575.10	2074.28	500.82	31709.45	80.55	19.45	8.12	6.54	1.58
2004	3920.50	3354.80	565.70	35020.55	85.57	14.43	11.19	9.58	1.62
2005	5547.50	4762.40	785.10	37474.95	85.85	14.15	14.80	12.71	2.09
2006	5965.10	5287.57	677.54	39995.50	88.64	11.36	14.91	13.22	1.69
2007	5727.50	4462.91	1264.60	42922.41	77.92	22.08	13.34	10.40	2.95
2008	7866.59	6530.60	1336.00	46012.52	83.02	16.98	17.10	14.19	2.90
2009	4844.59	3191.94	1652.65	49856.10	65.89	34.11	9.72	6.40	3.31
2010	7303.67	5396.09	1907.58	54612.26	73.88	26.12	13.37	9.88	3.49
2011	11116.90	8878.97	2237.88	57511.04	79.87	20.13	19.33	15.44	3.89
2012	10654.75	8025.97	2628.78	59929.89	75.33	24.67	17.78	13.39	4.39
2013	9759.79	6809.23	2950.56	63218.72	69.77	30.23	15.44	10.77	4.67
2014	10068.85	6793.82	3275.03	67152.79	67.47	32.53	14.99	10.12	4.88
2015	6912.50	3830.10	3082.41	69023.93	55.41	44.59	10.01	5.55	4.47

Source: Central Bank of Nigeria Statistical Bulletin, 2015

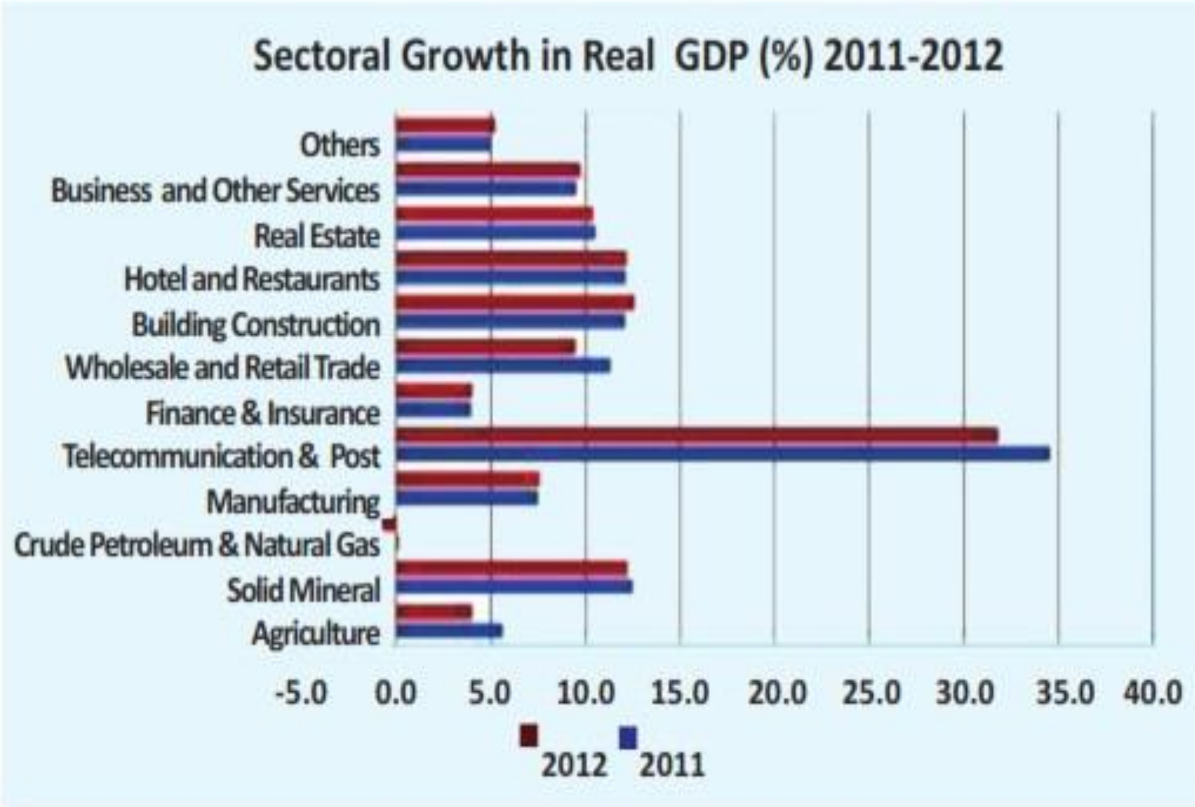
From Table C above, the position of oil as the dominant source of revenue in Nigeria from 1980 to as recently as 2015 cannot be in doubt. As could be observed, this is consistent with the position earlier noted in the 1970s. In its 1981 Annual Report, the Central Bank of Nigeria summed up the significant contribution of oil to the Nigerian economy as follows: 'Oil which was first discovered in 1956 and first exported in 1958 accounted for more than 90% of Nigerian exports by value and about 80% of government revenue as at December 31, 1981…. the overall contribution of the oil sector to the national economy also grew from an insignificant 0.1% in 1959 to 87% in 1976.' The 2003 budget speech of President Obasanjo further underscores this point in few words: 'Oil will continue to be the major source of government revenue in the near term'. Even researchers have found that oil is the backbone of Nigeria's economy, as the following finding shows:

> The Nigerian government… earned Naira 209.2 billion (Euro 1.3 billion) in excess [oil] revenue between January and May 2004… Nigeria's Central Bank further announced that the country's economy had grown at a record rate of 10.2 per cent in 2003. *Growth is mostly driven by the oil sector and record oil prices are producing more excess revenues*… The Bank Governor was also optimistic about further strong growth in 2004 (emphasis added) (Afrol News, 2004).

Even so, Figure 1 below shows that the oil sector performs poorly in the context of gross domestic product (GDP) compared to other sectors such as telecommunication, services, manufacturing and agriculture. This is a real concern which shows the down side of the oil industry.

Figure 1: Sectoral Growth in Real GDP (%)

i



Source: NBS

As can be seen from Figure 1, the oil and gas sector shows the least sectoral growth in real GDP in the period 2011-2012 (Baghebo and Atima, 2013). This is still the case as at 2017. On the contrary, the West African Institute of Financial and Economic Management statistics shows that in developed countries where the real sectors are thriving, manufacturing contributes as much as between 35% and 40% to the GDP. For instance, in Malaysia, the manufacturing sector contributes about 45% to the GDP

Overall, it is important to note that oil revenue is unpredictable, and could sharply fall as a result of external or internal shock. External shock is mainly due to low international oil prices whereas internal shock may be due to militancy which leads to the destruction of oil facilities/installations and a significant drop in oil production (Enyaribe, 2004).

7. PROBLEMS OF NIGERIA'S OIL-BASED ECONOMY AND LESSONS FOR CYPRUS

There is no doubt that for over 50 years Nigerian oil revenue (derived mainly from sale of crude oil, royalties and taxation of oil companies) has helped to fund rapid infrastructural developments in many Nigerian cities. For example, Lagos (Nigeria's former federal capital city) as well as the present federal capital city, Abuja, were constructed with 'petrodollars'. In fact, all major infrastructure/institutions – e.g. roads, bridges, schools, and universities – have been financed by oil revenue. Moreover, in 2014 oil revenue helped Nigeria to leap to the position of largest economy in Africa, overtaking South Africa. All this and more may be regarded as the benefits of Nigeria's oil wealth.

Never-the-less, there are still a lot of problems associated with the discovery and exploitation of oil in Nigeria. In other words, oil has not brought only blessings to Nigeria; it has also occasioned woes. In fact, Nigeria's over-dependence on oil revenue is ill-advised on account of many reasons which are briefly explicated below.

As at the time of writing in 2017, Cyprus economy was strong and healthy, based mainly on tourism, services and agriculture. As could be noted, this is similar to the position in Nigeria before the oil boom of the 1970s. As Cyprus looks forward to hydrocarbons/oil revenue from around 2022, it is important to explore the experience of Nigeria and extract some lessons that could help to maintain the country as a viable and heathy economy. For present purposes, it is sufficient to discuss some of the problems associated with oil wealth in Nigeria which hold some lessons for Cyprus – namely, oil curse, the 'Dutch Disease', instability of international oil prices, conflicts, corruption, etc. These will be discussed in turn.

(a) OIL CURSE

In spite of the wealth and infrastructural developments that oil revenues have brought to Nigeria, it is a contradiction to note that the people of the country are still among the poorest peoples in the world. As one observer puts it, 'in spite of oil revenues estimated at some $350 billion over three decades, it seems that the average Nigerian was actually worse off in relative terms' (Belinksi, 2015). In fact, statistical records show that over 60% of Nigerians live on less than USD2 per day (Essia, 2012).

This situation is even more acute in the Niger Delta region of Nigeria from where the country derives enormous oil revenues (Essia, 2012). In a recent article, Osaghae (2015) explored the developmental outcome of resource abundance 'when the analytical focus shifts from the macro (national) to the micro (subnational) level, especially to areas where resource abundance is expected to have its greatest impact'. He found that in the Niger Delta region the resource curse includes 'environmental devastation, relative deprivation, resource distribution injustices, political marginalization and material underdevelopment'. He blames the subnational governments especially for this situation (See also Baghebo and Atima, 2013: 104-5).

This is a classic example of 'oil curse'. The theory of 'oil curse' (also known as 'resource curse' or the 'paradox of plenty') essentially states that countries with abundant natural resources, such as oil or other minerals, tend to have less economic growth, more conflict or war, and high-level of individual poverty compared to countries with fewer natural resources. (Wenar, 2016: xv; Ross, 2004; Ross, 2004a; Hausmann and Rigobon 2002). As Basedau and Lay (2009) have noted:

> The growing literature on the 'resource curse' (Sachs & Warner, 1995; Auty, 2001) and the 'paradox of plenty' (Karl, 1997) has been linking the extraction of natural resources to corruption, authoritarianism, economic decline and civil war. In the study of peace and war, natural resources are said to provide both finance and motive for armed conflict and to create indirect economic and institutional causes of violence (Ross, 2006; Humphreys, 2005; Fearon, 2005). Numerous empirical studies have provided evidence that natural-resource dependent and rich countries indeed seem to be more likely to lapse into violence…

In a recently published book entitled *Blood Oil: Tyrants, Violence and the Rules That Run the World*, Leif Wenar (2016: xv) reported similar findings thus:

> For forty years, oil states have been noisy distractions to the quiet successes of the developing world. While non-oil states have generally been getting richer, freer, and more peaceful, the oil states are no richer, no more free, and no more peaceful than they were in 1980. Many oil states have even gotten worse – Gabon's average income fell by almost half over the quarter century from 1980; Iraq's fell by a full 85 percent. Long internal conflicts have ravaged countries like Algeria, Angola, Columbia, and Nigeria…These figures show what political scientists call the ''resource curse''.

Although the theory of 'resource curse' has been doubted and criticized by some authors (e.g. Basedau and Lay, 2009), there are undisputable examples of oil-rich countries, such as Nigeria and the Sudan where the citizens are among the poorest people in the world (Ebeku, 2006: 282-291; Rolandsen, 2012). The reason for this includes corruption, concentration of funds in the hands of a few, mismanagement of oil revenues by successive governments and lack of good governance. For Cyprus, the lesson to learn here is that while hydrocarbons could provide mega revenues for the economy it may also be a curse as the experience of Nigeria and many other resource-rich countries has shown, and this needs to be avoided. To achieve this, Cyprus must take institutional and other measures to check the factors that brought about 'oil curse' in Nigeria and elsewhere, as mentioned above. Some resource-rich countries, such as the US and the UK, have eventually managed to avoid the paradox of plenty.

(b) THE DUTCH DISEASE SYNDROME

It is well-known that since the 1970s when Nigeria began earning increasing income from the export of crude oil, other sectors of the economy – particularly agriculture and manufacturing - have been neglected (Ebeku, 2006: 72). This situation illustrates what economists call the 'Dutch Disease' syndrome. In development economics literature, 'Dutch Disease' essentially means the impediments of oil revenue to economic growth and development of oil-dependent states (Otawa, 2001:111). As Otaha (2012: 83-84) explains:

> The enormous influx of cash resulting from oil tends to foster wasteful, overzealous and imprudent expenditure. High oil revenue raises exchange rates, promote [sic] adverse balance of payment as the cost of imports rises. In short, it kills incentive to risk investment in non-oil sectors, the competitiveness of all non-oil sectors such as agriculture and manufacturing industries have been crowded out. The employment of both labour and other resources has been exchanged for unemployment as the government and private expenditure multipliers have been exported abroad. Together, these forces constitute what Michael Ross (2001:114) calls the rentier effect, oil states being rentier states.

Belinksi (2015) has admirably described the debilitating effect of 'Dutch Disease' on an economy and the people affected, and suggested that the disease is better prevented than cured. Using Nigeria as a case-study, he explained how 'Dutch Disease' and falling international oil prices combined to lead Nigeria into recession in 2016. In summary, he stated the painful effects of 'Dutch Disease' in the following words:

> Time again, studies have confirmed that resource-poor countries outperform commodity exporters in terms of economic growth by a considerable margin. What's more, developing countries stricken with the Dutch disease tend to perform worse than their non-exporting counterparts in rule of law, income distribution and overall good governance. Populations concentrated around resource-rich areas develop rent-seeking behavior … Oxford University Professor Paul Collier even argues that oil rich countries have higher chances of being engulfed in wars than their resource poor counterparts.

With specific regard to the experience of Nigeria, he blames wrong policy choices of successive governments for the country's economic woes. In his words: 'Nigeria, which clocks in at 2 million barrels a day and is Africa's largest exporter, clearly displays the damaging effects policy myopia can have on a resource rich country' (Belinksi, 2015). He was right. Nigeria abandoned agriculture and other sources of revenue pre-oil wealth revenue. This resulted in a mono-product economy with all the associated risks. Besides, Nigeria also exemplifies lawlessness, bad governance, and inequity in income distribution (Ebeku, 2006).

Having analysed the Nigerian case of 'Dutch Disease', Belinksi (2015) concluded that 'the case for Nigeria to move away from its reliance on oil is quite compelling, as the country is almost a textbook case of the Dutch disease…' According to him, '[over] dependence on natural resources makes the economy vulnerable to commodity prices' (Belinksi, 2015). Undoubtedly, Nigeria over depends on oil revenue and lacks product diversity. In other words, the Nigerian economy relies only on the export of a primary commodity - namely, oil. This situation predisposes it to recession when international oil prices fall. Interestingly, this was also the experience of the US in Post-Second World War. As Mathew has rightly noted, a sharp decline in oil prices 'have been identified as a major cause in seven out of eight post WW II recessions in the US' (Mathew, undated).

Obviously, there is a lesson that Cyprus should learn from the outset in order to avoid the experience of Nigeria – avoid over-dependence on income from any natural resource in the country; maintain a diversified economy. Presently, Nigeria seems to have understood the need to move away from over-dependence on oil revenue and is striving to revive and promote the agricultural sector. In fact, from about September 2017 some Nigerian agricultural products are being exported to other African countries, Europe and America. By this development, Nigeria is beginning to return to its original sources of wealth.

(c) INSTABILITY OR UNCERATINTY OF INTERNATIONAL OIL PRICES

There is no gain-saying that international oil prices are notoriously unstable or uncertain. The instability/uncertainty of international oil prices is another important reason why resource-rich countries should ensure that they maintain real diversified economy and avoid over-dependence on natural resource revenue. The experience of Nigeria and other oil-rich countries which overly depend on oil revenues has shown that over-dependence on revenue from natural resources is not only foolish but also a recipe for economic troubles in times of low international oil prices, as happens from time to time. A recent example can be found in Nigeria. With decreasing international oil prices since 2014, the Nigerian oil economy was hard hit and slipped into recession in 2016. In other words, low international oil prices caused external shock on the economy.

Related to the foregoing, another cause of the recent recession was the failure of Nigeria's oil wealth to add value to the economy as a result of certain practices and policies

(Baghebo and Atima, 2013: 105). For example, crude oil is exported and refined products are imported for domestic needs. The problem in this situation lies in the fact that much of the 'petrodollars' earned by Nigeria is virtually 'recycled' to importing countries when she imports refined oil products and other commodities from crude oil importing countries. Mathew makes this point well when he said:

> … [O]il revenues earned by producers are to a large extent ''recycled'' back to consumers in imports of all types of goods and services. In this way, oil-importing nations earn back much of the petrodollars they originally spend on oil purchases... (Mathew, undated).

Ogochukwu (2016: 84) lists the adverse effects of recession in Nigeria as escalating price of goods and commodities, massive job loss, and depreciation of the Nigerian currency, among others. The sad reality is that the recession is inflicting avoidable sufferings on the masses of the people, which would not have been the case had the government made the right policy decisions. For example, ensuring that existing oil refineries are optimally functional and building more oil refineries if need be. This would have significantly reduced the recycling of petrodollars.

To sum up, several studies on the Nigerian oil economy have rightly concluded that the most recent recession would have been avoided if her economy were diversified and not over-dependent on oil revenues (Belinksi, 2015; Ogochukwu, 2016: 84). Chatting the way forward, Ogochukwu (2016: 84) argues that 'there is a need for the Nigeria state to look inwards amidst the abundance of its untapped natural resources to diversify the economy of the nation, and increase export with a view to checkmating the insidious impact of the oil price fall on the economy'. In fact, apart from exploiting its other natural resources many commentators have rightly suggested that Nigeria should develop other sectors of its economy, particularly agriculture, manufacturing, and services.

Now, the lesson for Cyprus here is that international oil/hydrocarbons prices are unstable or uncertain and a fall in prices could introduce external shock on the economy. To check this likelihood Cyprus must ensure that its economy remains diversified even with the coming of oil/hydrocarbons revenues.

(d) CONFLICT, OIL PRODUCTION AND THE ECONOMY

There is hardly any country in the world without one form of conflict or the other. However, this is more so in the case of resource-rich countries. In fact, it has been found that oil-rich countries are prone to conflicts (Collier, 2010). Nigeria and the Sudan illustrate this point (Belinksi, 2015; Rolandsen, 2012). Between 1967 and 1970 Nigeria was embroiled in a civil war, widely regarded as a struggle for the control of the oil endowments in the then Eastern Region of Nigeria. In the case of the Sudans (Sudan and Southern Sudan), it was also the case that distribution of oil revenue caused and fuelled the civil war in the country and led to the eventual breakup of the country. The point to note here is that during wars oil production activities are slowed and oil facilities may be attacked. The natural result of such eventuality is a cut in oil production and the consequent effect of drop in oil revenues. This was the experience of Nigeria and the Sudan during their civil wars.

Over the past 50 years of oil production, particularly since the 1990s, Nigeria experiences low oil production from time to time as a result of conflict situation in the oil-producing region. At various times, militant youths in the Niger Delta region agitating for greater participation in oil exploitation and the sharing of oil revenue disrupt oil production by damaging oil production pipelines and/or blowing-up oil facilities. This situation could immediately introduce internal shock on the economy, which could lead to rescission, particularly if this combines with external shock due to international oil prices.

It is important to emphasise that the agitators in the Niger Delta maintain that they are fighting against inequity in the management and distribution of oil revenues and are demanding equitable distribution. The reason notwithstanding, the critical point here is that the activities of the militia groups occasion adverse consequences on the Nigerian economy.

The likelihood of disruption of resource production facilities by militants should be a serious concern for Cyprus because of the long-standing hostilities between the Greek and Turkish Cypriots. Since 1974, the country has been divided between the Greek Cypriots in the south and the Turkish Cypriots in the north – a situation created, encouraged and sustained by the Republic of Turkey on the ground of protecting the Turkish Cypriots.

Already, Turkey and Turkish Cypriots (occupying the unrecognized Turkish Republic of Northern Cyprus in the north of Cyprus) have threatened to disrupt oil exploration in the Exclusive Economic Zone (EEZ) of Cyprus (Energy Boardroom 2015: 21). The fact that they have not carried out the threat does not indicate that they would not seek to disrupt hydrocarbons production in the future. Although the President of Cyprus has declared that hydrocarbons/oil revenues would be shared by both the Greek and the Turkish Cypriots, there remains a possibility that the question of equitable distribution or fair sharing formula may well arise in the future – especially if the separation between the two communities endures. In that case, the country could face cut in resource production from time to time as happens in Nigeria.

In fact, the basis for disagreement already exists. Some Greek Cypriots disagree with the position of the President and this may become a political/electoral issue as long as the 'Cyprus problem' – an expression used to describe the separation of the Greek and Turkish Cypriots and the occupation of Northern Cyprus by the Turkish military since 1974 – remains unresolved.

(e) CORRUPTION

One of the critical problems that beset oil-producing and exporting countries, especially in less developed countries, is mammoth corruption by state officials and the personnel of state oil-related institutions. In Nigeria, one of such oil-related institutions is the Nigerian National Petroleum Corporation (NNPC). Similar institution exists in Cyprus and is called Cyprus Hydrocarbons Company (CHC). The sad reality is that much of Nigeria's oil revenue disappears into the private pockets/offshore accounts of corrupt officials of the oil-related institutions and some privileged government officers in charge of such institutions as well as some privileged elites (Baghebo and Atima, 2013: 112). In fact, corrupt practices bring about a situation where Nigeria does not know the accurate volume of daily oil production, notwithstanding the existence of the Nigerian Extractive Industries Transparency Initiative (NEITI) whose vision is to have a country 'whose extractive sector is transparent, accountable, and beneficial to all Nigerians'.[2]

In the 1990s, successive military governments stashed away millions of 'petrodollars' in private accounts in Europe, America and other parts of the world. This is a notorious fact. Also well-known is that some Nigerian officials have been convicted and some are wanted or

[2] The Mission of NEITI is 'to institutionalise accountability mechanisms and processes aimed at instilling a culture of transparency in Nigeria's extractive sector for the benefit of all'.

are standing trials in various countries on charges related to corruption and money laundering.[3] One of the most recent examples is Nigeria's former petroleum Minister Mrs. Diezani Alison-Madueke whose trial on charges of corruption in a British court in London was still pending as at November 2017. The notoriety and extent of corruption in Nigeria probably led Nigeria's President Buhari to admit to the suggestion of British Prime Minister David Cameron that Nigeria is 'fantastically corrupt'.

To check the endemic corruption in Nigeria, particularly in the oil sector, the country has established two main anti-corruption agencies, namely, (1) the Independent Corrupt Practices Commission (ICPC), and (2) the Economic and Financial Crimes Commission (EFCC). Of this two, the latter is the more active though not effective because it is more of an instrument in the hands of the federal government to fight and witch-hunt political enemies. This is hardly surprising as the agency is an appendage to the Office of the President. Especially under the present administration of President Buhari, the agency has lost credibility because it is obvious that its assignment is to pursue people in political parties other than the ruling party at the centre. Manifestly or suspected corrupt elements in the ruling party are not investigated and prosecuted even when several petitions have been sent to EFCC. In fact, the trend nowadays is for persons being investigated or prosecuted by EFCC to dump their political party and join the ruling party as a defense for the investigation or prosecution, and this has proved time and again as an absolute defense. This is a mockery of an otherwise noble idea.

In light of the forgoing Nigerian experience, Cyprus must brace up to the fact that hydrocarbons revenue may breed corruption in the country and must begin now to plan how to checkmate the evil. To be effective, she must allow any established anti-corruption agency to be truly independent and not an appendage to any office of government. Importantly, this will not only help to curb the incidence of corruption, but will also help to control inflation and stabilise the economy for the general good of the people.

(f) OIL 'BUNKERING'/OIL THEFT

Oil 'bunkering' is the unauthorized loading and sale of crude oil offshore to foreign countries or foreign businessmen. This is an illegal practice. It is theft. Yet it is a booming and lucrative underground business in Nigeria. The high and the low are involved in this business which causes enormous loss of oil revenue to the country. The involvement of 'timber and calibre' personalities in the oil bunkering business largely explains why the Nigerian Navy has been unable to checkmate the illegal business over the years. Apart from loss of revenue, oil bunkering also causes pollution and environmental damage. Such damage further imposes remediation costs on the government with its attendant economic consequences.

In summary, oil bunkering is an evil that should not be allowed to thrive. It hurts the economy by reducing oil/hydrocarbons revenue. Nevertheless, it seems that Nigeria is helpless in dealing with this scourge; probably because of the network of operations and the cartel involved. The proposal of late President Musa Ya'Adua for certification of crude oil export in order to checkmate illegal sales was not pursued by successive governments. In any case, there are indications to suggest that such an approach was unlikely to get the cooperation of powerful consumer countries which may be benefitting from such illegal trade. The lesson for Cyprus here is that hydrocarbons may be targeted by thieves and their activities could reduce hydrocarbons revenue. To control this, Cyprus must strengthen its Navy to effectively police

[3] Some of the countries listed as holding such corrupt money include Switzerland, the United Kingdom, the US, St. Vincent, Malta and Cyprus.

the water ways and ensure that the illegal business of hydrocarbons thieves do no thrive. Moreover, appropriate measures should be taken to ensure that the Navy would not be corrupt.

(g) ENVIRONMNETAL PROBLEMS

It is platitudinous to say that exploitation of natural resources naturally involves environmental pollution. This is why measures to ensure sustainable development are important. In general, the environment is our natural abode, and consists of air, water and land. Although there are so many definitions of environmental pollution/pollution, for present purposes it is sufficient to rely on the definition of the Council of the European Union in the *Directive Concerning Integrated Pollution Prevention and Control 1996*, where ‘pollution’ is defined as follows:

> The direct or indirect introduction as a result of human activity, of substances, vibrations, heat or noise into the air, water or land which may be harmful to health or the quality of the environment, result in damage to material, property, or impair or interfere with amenities and other legitimate uses of the environment (E.C. Council Directive 96/61, 24 September 1996).

The environment provides the resource base for extraction of natural resources and the process of exploration, exploitation, production and transportation can have far-reaching impacts on the environment (Puvimanasinghe, 2000: 38). In other words, as O’Faaircheallaigh (1991: 251) has rightly pointed out, ‘modern mining projects have the potential to create enormous environmental damage’. Young (1995: 157) categorically makes the point that ‘environmentally, modern mining operations have been destructive. The removal of a non-renewable resource [such as oil or hydrocarbons] usually causes some environmental damage’. Hence, Josephs (1967) was right to conclude that ‘the threats of pollution are real. Their economic [environmental, social and cultural] consequences are real. Their health consequences are real. There are sufficient data to make strong cases based on facts’ (Quoted in Ebeku, 2006: 135).

In Nigeria, environmental pollution is a blight on the Nigerian oil industry. Frequent oil spillages and intensive gas flaring have devastated the environment in great measure and caused incalculable environmental, socio-economic and cultural damage (Ebeku 2006: Chapter 4). Despite denials by oil multinationals operating in the country, there is no doubt that the Nigerian environment – specifically, the Niger Delta area where oil operations are taking place – has been devastated in the course of over 50 years of oil exploration and exploitation in Nigeria. The report of the United Nations Environment Programme (UNEP) on Ogoni-land published on August 4, 2011, eloquently attests to this (UNEP, 2011). Sadly, this is the case in spite of the fact that Nigeria has a satisfactory body of laws on environmental protection. The truth is that, because of the importance of oil to the Nigerian economy successive governments and relevant government agencies do not enforce the extant laws even where oil operations manifestly violate relevant environment protection laws.

In accordance with international industry best practices and in compliance to Cypriot law and EU regulations, Noble Energy has already conducted ‘Environmental Impact Assessment for Exploratory Drilling of Block 12, Offshore Cyprus’, and this was published in September 2011. Despite the shortcomings of the report, it is important to note the acknowledgment of potential environmental damage in the course of hydrocarbons operations:

> The probability of a significant hydrocarbon release during the project is very small, especially since gas is the target hydrocarbon. An accidental release of diesel fuel, e.g. from the rupture of the fuel tank on the drilling vessel or a release during the fuelling operations offshore, is more likely than a crude hydrocarbon release ... *If a large diesel release did occur, it could affect marine life, such as plankton, fishes, marine mammals, sea turtles and birds, and possibly affect socioeconomic resources. If the hydrocarbon reached the shoreline, it could affect coastal habitats, including beaches and seagrass beds, rocky shores and associated wildlife*... (emphasis added).

This frank acknowledgment puts Cyprus on notice that hydrocarbons exploration and exploitation (more so where oil is the target hydrocarbon) could bring much money, but could also bring much environmental problems that may inevitably damage the economy. The UNEP Report on Ogoni reveals mammoth environmental damage with reverberating consequences on the people and the economy, and this was due partly to the refusal of Nigerian administrative and judicial authorities to enforce relevant oil-related environmental protection laws in deference to the importance of oil revenue to the Nigerian economy (UNEP, 2011).

As is the case in Nigeria, Cyprus has a body of domestic laws (harmonised with relevant EU laws/regulations on environment) that could protect the Cypriot environment from hydrocarbon-related environmental pollution. Even so, she should learn from the Nigerian experience that privileging hydrocarbons revenue over enforcement of extant laws and/or not making necessary environmental protection laws could spell doom on the Cyprus economy.

(h) MANAGEMENT AND SHARING OF OIL REVENUE

The management and sharing of oi/hydrocarbons revenue is of crucial importance because any disagreement could be the source of conflict, which could hurt oil/hydrocarbons production and destabilise the economy. In Nigeria, the sharing of oil revenue has been a source of long-standing disputes and this has adverse effects on the economy. The central complaint of agitators for equity is that the management of oil revenue is firmly in the hands of the majority ethnic groups in the country who have no oil in their homeland, and that the people of the minority ethnic groups where the oil operations take place are not allowed to participate in the oil industry. Moreover, the distribution of oil revenue is inequitable in the sense that while oil exploitation takes place in the homeland of minority ethnic groups in the Niger Delta region and the people suffer adverse environmental, socio-economic and cultural costs, oil revenue is majorly used to develop the homeland of the majority ethnic groups and benefit their people (Ebeku 2006: Chapter 6).

Over the years, it has not been possible to find an acceptable revenue sharing formula in Nigeria, particularly with regard to the sharing of oil revenue (Ebeku, 2006: 291-300). The proviso to section 162(2) of the 1999 Constitution of Nigeria (as amended) entrenches 'the principle of derivation in any formula the National Assembly may come up with'. More importantly, 'by this principle ''not less than thirteen per cent'' of the revenue accruing to the Federation Account directly from any natural resource shall be payable to a State of the Federation from which such natural resources are derived' (*Attorney of the Federation* v. *Attorney-General of Abia State & 35 Ors*. (No. 2) [2002] 6 NWLR (Pt. 764) 542). The proviso has been implemented since the year 2000. However, the Niger Delta people want it to be increased to at least 50% while some people of the other States of the Federation want it reduced to 10 % or below.

In the Republic of Cyprus, populated by two main ethnic and antagonistic communities (Greek and Turkish Cypriots), which have been living in separation since 1974, the management and distribution of oil/hydrocarbons revenue may well be controversial as is the case in Nigeria. At the time of writing this article, there was ongoing debate in the country on the issue. In fact, this was one of the issues debated at a one-day conference held on November 26, 2011 in the Nicosia Buffer Zone on the theme 'Cyprus Offshore Hydrocarbons: Wealth Distribution and Regional Politics' (Faustmann, Gurel and Reichberg, 2012: 6).[4] An indication of the controversial nature of this issue can be found in the contribution of Leventis (2012: 10) at the conference:

> … we equally witness an all too compromising stance of the Cyprus government: the Christofias administration, despite the internal opposition criticism that he comes up with premature offers to the Turkish side, has pledged that any prospective proceeds out of the natural resources exploitation are guaranteed to be used for the interests of both Cypriot communities – a promise, it should be noted, that comes on top of a raft of post-2004 measures in favour of the Turkish Cypriot community.

This controversial position can also be found in an interview granted in 2011 by Michalis Sarris, former Finance Minister of the Republic of Cyprus and Member of the Working Group on Economic Matters in the Cyprus reunification talks. His words:

> … I think we need to be honest about this. The Turkish Cypriot side … has always insisted on separate institutions. The only time that they talk about doing something together is when they talk about the redistribution of taxes raised on the Greek side, and when we talk about the gas. So, one has to be consistent: do you want to be together, or do you want to be separate except when it comes to revenue transfer from one side to the other? (Hazou, 2012: 90).

Learning from the Nigerian experience, Cyprus needs to handle the issue of management and distribution of hydrocarbons revenue from the outset in a manner that will be fair to all. Both sides must not insist on fixed positions.

8. CONCLUSIONS

This article has amply demonstrated that the Nigerian oil-based economy is a mixed bag of blessings and curse. In fact, it may well be more of curse than blessings considering the problems associated with oil wealth as discussed in this article. Basically, some problems associated with the exploitation of oil and over-dependence on oil revenue in Nigeria were identified and analysed and the lessons for Cyprus clearly pointed out.

Specifically, this article shows that Cyprus should learn from Nigeria, among others, that oil/hydrocarbons wealth may become a curse – resulting in poverty and human rights abuses, for example – except proper precautions are taken. A second lesson is that oil/hydrocarbons may lead the country to 'Dutch disease'' if other sectors of the economy are abandoned as a result of oil-boom. Thirdly, oil may breed corruption in Cyprus except

[4] The conference was jointly organised by Friedrich Ebert Foundation (FES) and the Peace Research Institute Oslo (PRIO) Cyprus Centre.

conscious efforts are made to check this likelihood. Fourthly, oil/hydrocarbons may generate internal conflict which could cause low production and thereby introduce internal shock to the economy as a result of reduced revenue. Moreover, oil/hydrocarbons may be targeted by thieves and saboteurs which may lead to reduction in production with attendant consequences on oil/hydrocarbons production, revenue and the economy. Fifthly, there could also be external shock on the economy as a result of low international oil/hydrocarbons prices which prevails from time to time. Sixthly, the management and distribution of oil revenue may raise problems of fairness or equity. Lastly, oil/hydrocarbons exploitation may result in serious environmental damage unless appropriate environment protection laws are in place and are effectively enforced.

On the whole, the central message is that Cyprus should not be starry-eyed about the discovery of hydrocarbons within its EEZ and the prospect of future discoveries, exploitation and oil/hydrocarbons mega revenue. Indisputably, the discovery of hydrocarbons in Cyprus is a welcome development but it did not and should not signal the end of hard work in the country. The existing Cyprus diversified economy – i.e. an economy whose revenue derives from different sources, including tourism, services and agriculture – is strong and healthy and should be maintained. Importantly, the country must not make the mistake of Nigeria and suffer 'Dutch disease' by abandoning other sources of revenue when oil/hydrocarbons revenue start entering the economy. A diversified economy is the sure way to sustainable prosperity. In summary, the problems associated with the Nigerian oil wealth as discussed in this article clearly hold useful lessons for Cyprus, and eloquently make a case for a diversified and sustainable economy.

Another reason why Cyprus should ensure that its economy remains diversified lie in the fact that the importance of oil in the world is diminishing as alternative sources of energy are being developed and concern for the environment continues to increase and compel the use of alternative/renewable energy which causes less damage to the environment (Helm, 2016). In fact, it is now the case that electric-powered cars are increasingly being manufactured to replace petrol or diesel engine cars. As it is well-known, carbons produced by the burning of petroleum products, such as premium motor spirits (PMS) or diesel in vehicles, contribute greatly to global warming and climate change which are arguably the greatest environmental concerns of mankind in the present-day. In view of the diminishing importance of non-renewable energy, the likelihood is that Cyprus hydrocarbons/oil revenue – expected from 2022 – may not be as great as the present case in Nigeria as well as in the other existing oil producing and exporting countries.

In the end, a fitting summary of the message conveyed by this article can be found in the following well-crafted and evergreen words of Kapucinski (1982: 34-35):[5]

> Oil [hydrocarbons] kindles extraordinary emotions and hopes, since oil is above all a great temptation. It is temptation of ease, wealth, fortune, power. [But] oil, though powerful, has its defects…Oil is a resource that anesthetizes thought, blurs vision, corrupts…Look at the Ministers from oil countries… [Above all] …oil creates the illusion of a completely changed life, life without work, life for free…. The concept of oil expresses perfectly the eternal human dream of wealth achieved through lucky accident…. In this sense oil is a fairy tale and like every fairy tale a bit of a lie.

[5] Quoted in Peluso, N. L. and Watts, M. (2001).

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