

## Impact of Fuel Subsidy Removal on Trading and Marketing Activities in Takum LGA of Taraba State, Nigeria

Geoffrey Nanbal Shipurut<sup>1</sup>, Nwanma Gloria Onyedikachi<sup>2</sup>, Ali Abubakar<sup>3</sup>

Federal University Wukari, Taraba State, Nigeria

geoffreynanbee@gmail.com; onyedikachig178@gmail.com

### Article Info:

Submitted:	Revised:	Accepted:	Published:
Nov 15, 2024	Dec 1, 2024	Dec 10, 2024	Dec 15, 2024

### Abstract

The removal of fuel subsidies led to a rise in the price of fuel. These rapid changes hurt the activities of many Nigerians as nearly all homes and businesses use subsidised petrol to power their generators due to the problems with the nation's electrical supply. This paper looks into the impact of fuel subsidy removal on trading/marketing activities in Takum LGA. The study used a descriptive, cross-sectional survey research design. A sample size of 400 respondents was selected from the total population of 211,700 using the Tare Yamane formula. Questionnaires were distributed to 400 respondents who were randomly selected across the wards in Takum LGA. Responses from the questionnaire were analysed using the descriptive statistics of frequency counts and percentages, and Pearson Correlation. The Pearson Correlation was used to test the stated hypotheses at a 0.05 level of significance with the use of SPSS (Statistical Package for Social Sciences). The study revealed that the removal of petroleum subsidies had its most severe impact on trading and marketing activities during May–August 2023, as businesses were unprepared for the sudden fuel price spike, leading to disrupted supply chains and reduced profits. Although the impact slightly moderated in September–December 2023, it persisted into January–March 2024, indicating prolonged economic stress. The study recommended that a targeted measure, like financial assistance for small

firms, transportation subsidies for necessities, and infrastructure investments to stabilise supply chains, should be implemented with subsidy removal policies.

**Keywords:** Fuel, Subsidy, Trading, Marketing

## INTRODUCTION

The removal of petroleum subsidies has been a matter of significant interest and debate in various countries across the globe. Generally, subsidy is an economic policy usually embarked on to make essential goods and services affordable for citizens to improve their standard of living and promote the general well-being of the people (Popoola, 2020). The effectiveness of such policy is expected to reflect on the socio-economic activities of the people in the country. Ovaga and Okechukwu (2022) were of the view that fuel subsidy is particularly popular in oil-producing countries, such as Venezuela, Iran, Saudi Arabia, Egypt, Burma, Malaysia, Kuwait, China, Taiwan, South Korea, Trinidad and Tobago, and Nigeria, and some non-oil producing countries, such as Chad, Cameroon, Niger, etc. Similarly, some countries in Asia such as Indonesia, India, Turkey, Pakistan and Australia have successfully removed petroleum subsidies by more than 90% saving about \$15.6 for the expansion and development of other sensitive institutions such as education and health (Ovaga & Okechukwu, 2022).

Okonkwo (2023) believed that Nigerian presidents have attempted multiple times to do away with fuel subsidies in prior administrations because of alleged corrupt activities. Goodluck Ebele Jonathan administration's 2012 attempt to partially deregulate the country's downstream oil sector or remove fuel subsidies but it was not unsuccessful. Attempts to abolish subsidies were also made by the Buhari administration in 2019, but the COVID-19 pandemic prevented this. The recently elected presidents, under the leadership of Chief Bola Ahmed Tinubu, promised to eliminate all petrol subsidies in the nation or fully liberalise the downstream oil industry. Transportation, food, and manufacturing costs all automatically increase within 30 minutes of the president's speech, in addition to the price of fuel (Niyi & Aregbesola, 2023).

Given the ongoing problems with the nation's electrical supply, it is crucial to remember that the majority of Nigerians, both in urban and rural areas, rely significantly on gasoline as a necessary resource for their economic operations. Unreliable electrical systems and

power outages have regrettably become the norm, forcing people and businesses to look for alternate ways to generate electricity. Because of this, fuel-powered generators are now widely used to meet basic energy needs. The cost of life and business operations in Nigeria is greatly impacted by the price of petroleum products because of this dependency on generators. Fluctuations in fuel prices directly influence the operational expenses of businesses, as fuel is a critical input for various sectors, including transportation, manufacturing, agriculture, and other services. Entrepreneurs and small-scale business owners, in particular, face the brunt of these price changes, as their profit margins are tightly affected by rising fuel costs (Harun, 2018).

It is also important to note that the delivery of inexpensive petroleum products has been the focal point of Nigeria's economic strategy for many years. In Nigeria, the typical family relies on subsidised crude oil byproducts like kerosene and petrol for both personal and business use. Given the epileptic nature of the public electrical supply, this reliance can also be detrimental. Nearly all homes and businesses use subsidised petrol to power their generators. Subsidised gasoline was essential to a few small-scale enterprises, including hotels, barbers, welders, hairdressers, paper dealers, food vendors, government and private hospitals, etc. The removal of fuel subsidy led to a rise in the price of petrol from a subsidized price of ₦190 in May 2023 to an unsubsidized price of ₦537 in June 2023 and ₦617 in July 2023 in Abuja (Ozili & Obiora 2023). These rapid changes might hurt the trading/marketing activities of the people of Takum LGA as little information is available on its effect on the activities of the people, thereby eliciting this empirical investigation.

### **Review of Literature**

A fuel subsidy is a government assistance program that lowers the price of a commodity for customers. Subsidies are implemented in Nigeria to make the product accessible and affordable while also improving the quality of life for the populace. Government resources are employed to make up for the disparities, maintain citizen well-being, and close the gap between individual expenses and social gains. Nigeria has had fuel subsidies since the 1970s, and the government has been increasing the disparity between the price consumers pay for Premium Motor Spirit (PMS) and the price at which the product is imported. The benefit of a subsidy is that it lowers the cost of products and living costs. However, it financially burdens the government (Adegoke, 2023)

According to Olajeji and Akinlabi (2022), the removal of fuel subsidies indicates that the government has made the conscious decision to remove all restrictions and control over the price of crude oil or its derivatives. Through this subvention, the government lowers the amount of crude oil and its derivatives purchased. Nevertheless, the nation's subsidisation of crude oil products greatly impacts the economy. Significant financial strain is placed on the system as a result, taking funds away from other crucial areas like infrastructure, healthcare, and education. Because of its subsidised price, petrol has become scarce and has hurt the general public as a result of its constant price increases over the years.

Houeland (2020) believed that the elimination of fuel subsidies would result in higher costs for necessities. A set national minimum wage, stagnant earnings, and rising prices would all contribute to a reduction in the amount of disposable money available to small enterprises and individuals. This would operate as a drag on aggregate demand and result in a decrease in consumption spending. This would result in a decline in customer demand for the products and services that businesses produce. The gross domestic product and economic output may therefore decline, and the rate of economic growth may be slowed.

In the words of Mohammed, Ahmed, and Adedeji (2020), the elimination of fuel subsidies will also result in a rise in inflation. When the fuel subsidy was removed, the price of petrol in Abuja increased from 190 in May 2023 to 537 in June 2023 and 617 in July 2023, when it was no longer subsidised. The high cost of transportation in the far north, like Borno State, might cause the price of petrol to surpass 600 naira. This implies that the majority of consumer and industrial items that are made or transported using petrol will see a significant price increase. Bread prices will rise in tandem with local travel costs, making it costlier for low-income earners and the impoverished to afford. Both the rich and the poor will be impacted, but as usual, the poor will incur the greatest hardship due to a sharp decline in their purchasing power. The Federal Government's delayed implementation of palliatives to assist the impoverished and households impacted by the increase in the cost of necessities when fuel subsidies are removed could exacerbate the inflation effect even more (Mohammed et al., 2020).

As stated by Raji (2018), the elimination of fuel subsidies will temporarily worsen poverty. Families will experience hunger and agony right away. In many areas of the nation, particularly in Northern Nigeria, the elimination of fuel subsidies and the lack of palliatives

may result in lower disposable income, less food available for consumption, less medication for the ill, and an inability to pay for basic schooling on an individual basis. More children will cry because they are hungry, more families will be hungry, and more parents will weep because of their kids' misery.

Middle-class and lower-class customers' purchasing power will decline, and small enterprises' profit margins will be stretched due to decreased sales volumes and increased expenses. Additionally, low business patronage may result from consumers refusing to buy or reducing the quantity they buy if they try to pass on the cost to them. In addition, if there are no social assistance programs or economic safety nets to lessen the financial hardship brought on by the loss of gasoline subsidies, they may disproportionately affect vulnerable and impoverished people. Job losses in the informal sector, which mostly depends on PMS or petrol, will result from the elimination of fuel subsidies (Houeland, 2022). For their operations, the official sector primarily uses diesel, whilst the informal sector primarily uses petrol. Small enterprises whose profit margins have been destroyed by the loss of gasoline subsidies in the formal sector and who are unable to pay the increased cost of petrol will have to close as a result of the price increase.

## **Theoretical Framework**

### **Social Exchange Theory**

Social exchange theory, developed by Blau (1964), posits that human interactions and decisions are based on a cost-benefit analysis where individuals seek to maximize rewards while minimizing costs. This theory is relevant in explaining the impact of fuel subsidy removal on trading and marketing activities in Takum LGA, as it underscores the relational dynamics between traders, consumers, and the broader economic environment (Blau, 1964).

The cost of petroleum products rose as a result of the elimination of fuel subsidies, increasing traders' transportation costs. The "rewards" in terms of profitability were diminished by this increase, which constituted a substantial "cost" for corporate operations. The high costs compelled traders to either absorb the costs, which reduced their profits or raise prices, which passed the burden on to customers. Social exchange theory states that these negative trades cause discontent and strained relationships inside the market system. For example, traders' diminished capacity to offer goods as a result of high operating costs

caused intercommunity trade to be disrupted, as consumers began to perceive the exchanges as unsustainable or unfair.

Furthermore, the theory indicates that traders rationally responded to the temporary closure of shops and decreased trading activity during the period of subsidy removal by weighing the low returns against the high operational expenses. The apparent imbalance in this trade, in particular, caused small enterprises to temporarily withdraw from the market to limit additional losses.

From the standpoint of the customer, the drastic price increases and decreased supply of goods upset the equilibrium of perceived value. As prices increased, consumers made fewer purchases, which further decreased market activity. The economic decline in the local trading environment was exacerbated by this feedback cycle.

The necessity of policies that bring economic exchanges back to equilibrium is highlighted by the lessons from social exchange theory. To ensure that the perceived costs and rewards are balanced and to promote stability in trading and marketing activities in Takum LGA, for example, offering financial incentives or subsidies to small businesses can reduce operating costs and boost market confidence.

Social exchange theory is especially helpful for economic contexts like trading and marketing since it is adaptable and efficient in describing cost-benefit-based rational decision-making. It emphasises how interactions are dynamic and how changes are made to keep exchanges balanced. Nevertheless, the theory's emphasis on reason ignores cultural, emotional, and altruistic elements that frequently affect how people behave. Additionally, its assumption of self-interest can oversimplify complex social interactions, especially in contexts where intangible rewards like trust and social approval play a significant role.

## METHODS

The study used a descriptive, cross-sectional survey research design. A sample size of 400 respondents was selected from the total population of 211,700 using the Tare Yamane formula. Questionnaires were distributed to 400 respondents who were randomly selected across the wards in Takum LGA. Responses from the questionnaire were analysed using the descriptive statistics of frequency counts and percentages, and Pearson Correlation.

The Pearson Correlation was used to test the stated hypotheses at a 0.05 level of significance with the use of SPSS (Statistical Package for Social Sciences).

## RESULTS AND DISCUSSION

This part of the study discusses the findings generated from the study using the data obtained from the questionnaire. The findings are logically addressed as follows:

**Table 1: Respondents' ratings of the duration of Petroleum Subsidy Removal in terms of Severity on Trading and Marketing Activities**

Duration	SA	A	U	D	SD	Mean	STD. Dev.
May-August 2023	256	117	19	0	0	4.60	.580
September-December 2023	197	166	14	9	6	4.38	.793
January-March 2024	248	120	18	1	5	4.54	.714

**Source: Field Survey, 2024**

Table 1 shows respondents' ratings of the duration in which petroleum subsidy removal had the most lethal effects. Given the Likert scale of 5 points, all the durations adversely affected marketing/trading activities. However, marketing/trading activities were mostly hard hit in May-August, 2023 given the high mean score of 4.60. Also, events that unfolded following subsidy removal in September-December, 2023 (Mean=4.38, std=.793) were particularly devastating on marketing/trading activities. Marketing/trading activities on the eve of the new year, January-March, 2024 were disrupted given (Mean=4.54, std=.714). This shows that the earlier period of petroleum subsidy removal exerted a toll on marketing/trading activities. It could be that, most business owners were not prepared for the sudden change in premium motor spirit following the removal of petroleum subsidy.

**Table 2: Respondents Ratings of the Effect of Petroleum Subsidy Removal on marketing/Trading activities**

Effects	SA	A	U	D	SD	Mean	STD. Dev.
Price hike	266	121	0	4	1	4.65	.566
Reduced Inter-community Trading	194	165	10	18	5	4.34	.840
Reduced Profit	219	10	11	152	0	3.76	1.443
Temporary closure of Shops	243	9	16	124	0	3.95	1.389
Affected supply of goods And services	248	0	7	137	0	4.61	.523

**Source: Field Survey, 2024**

Table 2 shows the respondents' rating of the effect of petroleum subsidy removal on marketing/trading activities in Takum LGA. Given a Likert scale of 5 points, all the effects were considerably disturbing because they were above the average mean (2.5). However, the price hike (Mean=4.65, std=.566) ranked higher and was the most worrisome among other effects. Disrupted supply of goods and services (Mean=4.61, std=.523) ranked second. Reduction in inter-community trading (Mean=4.34, std=.840) ranked third. The presence of low standard deviation suggested that there was a convergence of opinion among the respondents. Very disturbing was the reduction of profit of businessmen and women (Mean=3.76, std=1.443) and temporary closure of shops (Mean=3.95, std=1.389) respectively though with high variability of opinion.

Therefore, further reductions in the supply of goods and services will affect intercommunity trading and price hikes in the long run. In economic terms, a reduction in supply will invariably trigger a price hike. If this goes unchecked, some traders may have no option but to temporarily close up their shops.

**Table 3 Respondents ratings of goods and services affected by Petroleum Subsidy Removal in Takum LGA**

Goods/services	SA	A	U	D	SD	Mean	STD. Dev.
Trading/Marketing Of Tubers like yam	258	116	15	3	0	4.60	.602
Trading/marketing of Cereals	233	146	7	1	5	4.53	.674
Trading/marketing of Computer Accessories	223	143	12	7	7	4.45	.795
Haircut Services	257	121	6	6	2	4.59	.653

**Source: Field Survey, 2024**

Table 3 revealed respondents' ratings of goods and services affected by petroleum subsidy removal in Takum. All the aforementioned goods and services were affected given that they were rated above the average mean (2.5) on a Likert scale of 5 points. Trading and marketing of tubers like yam were most affected (Mean=4.60, std=.602). Haircut services (Mean=4.59, std=.653) ranked second, while trading/marketing of cereals like rice, maize and sorghum (Mean=4.53, std=.674) ranked third. Trading/marketing of computer accessories (Mean=4.45, std=.795) was a cause for concern. However, all the associated standard deviations were less than one suggesting the convergence of opinion among the respondents in respect of trading/marketing of goods and services affected by petroleum subsidy removal.

### Test of Hypotheses

**Table 4: Pearson Correlation Matrix of Petroleum subsidy Removal and trading/marketing activities**

	1	2	3	4	5	6	7	8
1. Petroleum subsidy removal May-August, 2023	1							
2. Petroleum subsidy removal Sept-Dec., 2023	.028	1						
3. Petroleum subsidy removal Jan-March, 2024	.162**		1					

4. Price hike	.045	-.032	.034	1	.019	.071	.070	.093
5. Reduced intercommunity trading	-.028	.123*	-.133**	.019	1	.118*	.100*	-.041
6. Affected supply of goods/services	.078	.121*	-.020	.071	.118*	1	.048	.123*
7. Reduced profits	.080	.114*	.013	.070	.100*	.048	1	.075
8. Temporary closure of shops	.116*	.000	.011	.093	-.041	.123*	.075	1

\*\*Correlation is significant at 0.01 levels (2 tailed)

\*Correlation is significant at 0.05 levels (2 tailed)

Table 4 revealed the correlation matrix of petroleum subsidy removal and trading/marketing activities. As seen in the matrix, there was a low positive relationship among the various periods of subsidy removal. The first phase of petroleum subsidy removal May-August, 2023 had a low positive relationship with petroleum subsidy removal September-December, 2023 ( $r=.028$ ). The earlier phase of petroleum subsidy removal, May-August, 2023 had a low positive but significant relationship with the later phase of petroleum subsidy removal, January-March, 2024 ( $r=.162$ ,  $P<.01$ ).

However, the earlier phase of Petroleum subsidy removal, May August 2023 had a low positive but significant relationship with the temporary closure of shops ( $r=.116$ ,  $P<.05$ ). There was a low positive relationship between the earlier phase and hike in price ( $r=.045$ ), supply of goods and services ( $r=.078$ ) and reduction in profit of businessmen and women ( $r=.080$ ). Nevertheless, the relationship between the earlier phase of petroleum subsidy removal May-August, 2023 and intercommunity trading was low and negative ( $r=-.028$ ).

Furthermore, petroleum subsidy removal that spanned from September 2023 had a low positive but significant relationship with intercommunity trading ( $r=.123$ ,  $P<.05$ ), supply of goods and services ( $r=.121$ ,  $P<.05$ ) and reduced profits of businessmen and women ( $r=.114$ ,  $P<.05$ ). Only price hike ( $r=-.032$ ) and temporary closure shops ( $r=-.000$ ) had low positive relation with petroleum subsidy removal, September-December, 2023.

Also, only intercommunity trading ( $r=-.133$ ,  $P<.01$ ) had a low negative but significant relationship with petroleum subsidy removal, January-March, 2024. But it had a low positive relationship with price hike ( $r=.034$ ), reduction in profit ( $r=.013$ ), and temporary closure of shops ( $r=.011$ ). Only the supply of goods and services ( $r=-.020$ ) had a low negative relationship with petroleum subsidy removal spanning January-March, 2024. This

suggests that the null hypothesis is rejected hence; there is a significant relationship between petroleum subsidy removal and trading/marketing activities.

It is important to reflect the inter-correlation among the variables. The relationship between reduction in inter-community trading and supply of goods and services as well as reduction in profit was low positive but significant ( $r=.118$ ,  $P<.05$ ;  $r=.100$ ,  $P<.05$  respectively). Also, the supply of goods and services was significantly related to reduction in intercommunity trading ( $r=.118$ ,  $P<.05$ ) and temporary closure of shops ( $r=.123$ ,  $P<.05$ ). Reduction in profit was also significantly related to reduction in intercommunity trading ( $r=.100$ ,  $P<.05$ ). Meanwhile, temporary closure of shops was significantly related to supply of goods and services ( $r=.123$ ,  $P<.05$ ).

## CONCLUSION

The removal of petroleum subsidies had its most severe impact on trading and marketing activities during May–August 2023, as businesses were unprepared for the sudden fuel price spike, leading to disrupted supply chains and reduced profits. Although the impact slightly moderated in September–December 2023, it persisted into January–March 2024, indicating prolonged economic stress.

The main consequences, which were ascribed to rising transportation costs, were abrupt price increases and a disruption in the supply of products and services. The vulnerability of small enterprises to economic shocks was brought to light by decreased profitability, temporary shop closures, and decreased intercommunity trading. Non-essential services like haircutting and agricultural products like grains and yams were most impacted.

The correlation analysis revealed significant relationships between subsidy removal and disruptions in trading, including temporary shop closures and inter-community trade. These results are consistent with the research by Onuoha and Ugwuanyi (2023), who found that abrupt spikes in fuel prices in Nigeria cause disruptions to trade networks, lower market efficiency, and disproportionately affect small companies because of increased operating and transportation expenses. These results emphasise how crucial it is to adopt policies gradually and provide support mechanisms, such as better trade infrastructure, financial aid for firms, and transportation subsidies, to lessen economic shocks and stabilise supply chains.

The study concluded that the elimination of petroleum subsidies had a significant and complex effect on marketing and trading operations, emphasising the value of stakeholder participation and strategic planning in the execution of policies. The economic effects will probably continue to erode livelihoods and economic growth if these issues are not sufficiently addressed.

### **Recommendations**

Having considered the findings from the study, the following measures are recommended:

- i. The study revealed that there is a strong dependence on petroleum as an energy source, which results in overuse. As a result, the researcher suggests that the government embrace other energy sources, such as electric vehicles and renewable energy. If this is done, people will have different ways to obtain energy.
- ii. Targeted measures, like financial assistance for small firms, transportation subsidies for necessities, and infrastructure investments to stabilise supply chains, should be implemented in conjunction with subsidy removal policies. Some of the long-term effects can also be lessened by promoting inter-community trade through enhanced transportation and security.

### **REFERENCES**

Adegoke, A. (2023). The impact of subsidies on economic development. *Journal of Economic Studies*, 50(1), 1–12.

Blau, P. M. (1964). *Exchange and power in social life*. New York: Wiley.

Harun, M., Mat, C., Fadzim, R., Khan, S., & Noor, Z. (2018). The effects of fuel subsidy removal on input costs of production: Leontief input-output price model. *International Journal of Supply Chain Management*, 7(5), 529–534.

Houeland, M. (2020). The impact of fuel subsidy removal on transportation costs in Europe. *America Journal of Economic Policy*, 9(1), 45–64.

Mohammed, A. B., Ahmed, F. F., & Adedeji, A. N. (2020). Assessment of the impact of fuel subsidy removal on socio-economic characteristics: A survey of households in Maiduguri, Borno State, Nigeria. *Journal of Business and Economic Development*, 5(1), 10.

Okonkwo, S. (2023). Oil price volatility and business cycles in Nigeria. *Journal of Studies in Business and Economics*, 13(2), 31–40.

Oladeji, S. O., & Akinlabi, H. N. (2022). Fuel subsidy removal and economic growth in Nigeria: A Granger causality approach. *Journal of Energy Economics and Policy*, 12(2), 1–12.

Onuoha, J. E., & Ugwuanyi, C. C. (2023). The economic consequences of fuel subsidy removal in developing economies: Evidence from Nigeria. *Journal of African Economic Policy and Development*, 15(3), 67–89.

Ozili, Z., & Obiora, M. (2023). Fuel subsidy removal is imperative for enhancing business development in Nigeria. *VSRD International Journal of Business & Management Research*, 2(9), 13–29.

Popoola, O. (2020). Petroleum products pricing reform in Nigeria: Welfare effects analysis from the household budget survey. *International Journal of Energy Economics and Policy*, 3(4), 459–472.

Raji, A. (2018). Fuel subsidy removal and the lives of rural dwellers in Nigeria (Doctoral dissertation). Department of Sociology, Faculty of Social Sciences, University of Ilorin, Ilorin Printing Press, Nigeria.