

### **Abstract**

*Nigeria is a country heavily dependent on its oil and gas industry. The sector has historically been the mainstay of the economy, accounting for a significant portion of the country's GDP and foreign exchange earnings. However, despite its importance, the oil and gas industry in Nigeria has been plagued by a number of challenges, including corruption, inefficiency, and underinvestment. As a result, there is a need for significant reforms in the sector. In carrying out this research, the researcher employed the doctrinal method of research wherein the comparative, descriptive and analytical approaches were adopted. Also the primary sources of legislation, books and judicial authorities as well as secondary sources of journal articles, publications etc were used. This paper explored the need for oil and gas sector reforms in Nigeria and the role of taxation in facilitating these reforms. The paper began by examining the current state of the oil and gas industry in Nigeria, including its strengths and weaknesses. It then discussed the need for reforms in the sector and outlined the various challenges that must be addressed to achieve these reforms. The paper then explored the role that taxation plays in facilitating these reforms, including the use of tax incentives to attract investment and the use of tax compliance measures to reduce corruption and increase transparency. This paper found out that significant reforms are needed in the Nigerian oil and gas sector, and that taxation can play a critical role in facilitating these reforms. By implementing appropriate tax policies, the government can encourage investment, reduce corruption, and increase efficiency in the sector. The researcher concluded that these reforms will be essential for Nigeria to maintain its position as a leading oil and gas producer and to ensure sustainable economic growth and development. Recommendations were made which suits the different phases of the challenges and inefficiencies.*

**Keywords:** Reforms, Oil and Gas, Role of Taxation, Nigeria

### **1. Introduction**

The Nigerian oil and gas sector is a significant contributor to the country's economy, accounting for over 90% of its export earnings and about 70% of its government revenue<sup>1</sup>. Nigeria is the largest oil producer in Africa and the 12<sup>th</sup> largest in the world<sup>2</sup>, with proven oil reserves estimated at 37 billion barrels and gas reserves estimated at 206.53 trillion cubic feet<sup>3</sup>. The Nigerian oil and gas sector is dominated by multinational companies such as Royal Dutch Shell, ExxonMobil, Chevron, Total, and Eni. These companies operate in partnership with the Nigerian National Petroleum Corporation (NNPC) through joint ventures or production sharing contracts. The Nigerian government has implemented various policies and reforms aimed at promoting transparency, accountability, and local content development in the oil and gas sector. These policies include the Nigerian Content Act<sup>4</sup>, which requires oil and gas companies to give priority to Nigerian companies and workers in their operations. However, the Nigerian oil and gas sector has also been plagued by challenges such as corruption, pipeline vandalism, and environmental degradation<sup>5</sup>. These challenges have led to a loss of revenue, environmental damage, and social unrest in the Niger Delta region. To address these challenges, the Nigerian government has implemented various initiatives, including the Ogoni Clean-Up Project, aimed at cleaning up the polluted environment in the Niger Delta region, and the Petroleum Industry Act<sup>6</sup>, which sought to reform the oil and gas sector and address some of the challenges facing the sector.

The Nigerian oil and gas sector is a significant contributor to the country's economy, but it faces challenges such as corruption, environmental degradation, and social unrest. The Nigerian government has implemented various policies and reforms aimed at addressing these challenges and promoting transparency, accountability, and local content development in the sector.

### **2. The Need for Oil and Gas Reforms in Nigeria**

There are several reasons why oil and gas sector reforms are necessary in Nigeria. Some of the key reasons include:

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<sup>1</sup> Retrieved online from [www.chat.openai.com/the-nigerian-oil-and-gas-sector](http://www.chat.openai.com/the-nigerian-oil-and-gas-sector). Accessed on 25<sup>th</sup> March, 2023.

<sup>2</sup> Ibid.

<sup>3</sup> Ibid.

<sup>4</sup> Cap N138, Laws of the Federation of Nigeria, 2004.

<sup>5</sup> Retrieved online from [www.chat.openai.com/challenges-of-the-oil-and-gas-sector-in-nigeria](http://www.chat.openai.com/challenges-of-the-oil-and-gas-sector-in-nigeria). Accessed on 25<sup>th</sup> March, 2023.

<sup>6</sup> Retrieved online from [www.chat.openai.com/the-need-for-oil-and-gas-reforms-in-nigeria](http://www.chat.openai.com/the-need-for-oil-and-gas-reforms-in-nigeria). Accessed on 25<sup>th</sup> March, 2023.

**Diversification of the Economy:** Nigeria's economy is heavily dependent on oil and gas exports, which account for over 90% of the country's total export earnings. This makes the country vulnerable to fluctuations in global oil prices and exposes it to economic instability. Reforming the oil and gas sector is essential for diversifying the economy and reducing the country's dependence on oil and gas<sup>7</sup>.

**Transparency and Accountability:** The oil and gas sector in Nigeria has been plagued by corruption, mismanagement, and lack of transparency. Reforms are necessary to promote transparency, accountability, and good governance in the sector, which will help to reduce corruption and ensure that the country's natural resources are used for the benefit of all Nigerians<sup>8</sup>.

**Investment Attraction:** Nigeria has huge potential for oil and gas exploration and production, but the country's investment climate has been negatively affected by the perception of corruption and instability in the sector. Reforms that promote transparency, good governance, and a favorable investment climate will attract more investment to the sector and create jobs and economic growth<sup>9</sup>.

**Environmental Sustainability:** The oil and gas sector in Nigeria has had a significant impact on the environment, including air and water pollution, soil degradation, and deforestation. Reforms that promote environmental sustainability and reduce the impact of oil and gas operations on the environment are necessary to protect the country's natural resources and ensure a sustainable future<sup>10</sup>.

**Local Content Development:** The Nigerian government has recognized the importance of developing local content in the oil and gas sector to create jobs and promote economic growth. Reforms that promote local content development and increase the participation of Nigerian companies and workers in the sector are essential to achieve this goal. The need for oil and gas sector reforms in Nigeria is critical for economic diversification, transparency and accountability, investment attraction, environmental sustainability, and local content development. This article shall now proceed to discuss in details the various challenges that are plaguing the Nigerian oil and gas sector<sup>11</sup>.

### **3. Challenges Plaguing the Oil and Gas Industry in Nigeria**

Without a doubt, the oil and gas sector in Nigeria faces several challenges that hinder its growth and development. Some of the key challenges include:

#### **Corruption in the Government**

The oil and gas industry has been plagued with corruption at different levels, from management of the NNPC, the federal government, state governments, in terms of allocation of contracts, appropriation of petroleum revenue, diversion of petroleum tax bonuses and a myriad of other practices. As noted by an author, the forms of endogenous corruption in the industry include overpricing, inventory recycling, syndicated bidding, connivance, espionage, collusion and fraud<sup>12</sup>. Corruption in the oil and gas industry has been going on almost from the onset of the discovery of oil in commercial quantities.

#### **Tax Evasion**

Generally, the incidence of tax evasion in any country reduces the revenue needed by the government for the provision of public goods for citizens<sup>13</sup>. In May 2014, a diagnostic study of Nigeria's tax system revealed that sixty-five per cent (65%) of eligible corporate taxpayers in Nigeria do not pay taxes to the federal government as required by tax laws<sup>14</sup>. This conduct was reported to have contributed to an eight percent (8%) decline in tax revenue contribution to Nigeria's Gross Domestic Product (GDP) for the period under consideration. Multinational oil companies have been identified as being responsible for a high percentage of the tax evasion incidents in the petroleum industry<sup>15</sup>. Despite the fact that these multinational oil companies earn huge profits from their commercial activities in Nigeria, Adegbe and Adeniran noted that tax evasion and tax avoidance are

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<sup>7</sup> Ibid.

<sup>8</sup> Ibid.

<sup>9</sup> Ibid.

<sup>10</sup> Ibid.

<sup>11</sup> Ibid.

<sup>12</sup> PC Nwakanma, The Influence of Corruption on the Value of the Manufacturing Concern, *International Research Journal for Development*, 5(1), 2003, pp. 5 - 12.

<sup>13</sup> OJ Otusanya, The Role of Multinational Companies in Tax Evasion and Tax Avoidance: The Case of Nigeria, 22:3 *Critical Perspectives on Accounting*, 2011, pp. 316 at 316.

<sup>14</sup>Friday Atufe, 65% of Corporate Citizens Don't Pay Tax – Okonjo-Iweala, *Leadership Newspaper*, 16 May 2013. Retrieved from <http://leadership.ng>. Accessed on 22<sup>nd</sup> December, 2022.

<sup>15</sup> OJ Otusanya, op cit.

unnecessary evils being practiced by the oil exploring and extraction companies<sup>16</sup>. In some cases, corporate taxpayers prefer to give bribes amounting to a (substantial) fraction of their tax liability to tax officials rather than paying their applicable tax liability<sup>17</sup>. Similarly, the failure of tax officials to remit taxes collected from compliant corporate taxpayers to the federal government also contributes to the high incidence of tax leakage in the oil and gas sector of Nigeria's economy<sup>18</sup>. In August 2013, Nigeria's Minister of Finance confirmed that Nigeria loses over N80 billion monthly from tax dodgers<sup>19</sup>. In order to fully realize the financial benefits of being an oil producing country, there is a desperate need for Nigeria to address the issue of tax evasion, especially in its petroleum sector.

### **Inadequate Technology and Qualified Personnel in Tax Administration**

Lack of qualified personnel and the slow pace of technology are additional factors limiting the growth of Nigeria's oil and gas industry. According to Okonjo Iweala, Nigeria's former Finance Minister, the automation of Nigeria's tax administrative system is very fundamental to efficient revenue collection and prevention of tax leakages for the government<sup>20</sup>. A 2010 study conducted on tax administration in Nigeria reveals that the slow pace of technology in tax administration is a contributing factor to the high rate of tax evasion in Nigeria<sup>21</sup>. Currently, the majority of tax filings and tax remittances in Nigeria are done manually through the submission of hard copies of relevant documents. Such manual tax filing system has the tendency to increase human errors and processing times as tax officials may be required to sort through unrelated paperwork in order to find relevant data needed for any verification exercise. In addition to the need for advanced technology in tax administration, Nigeria's National Tax Policy report indicates that a major factor limiting the development of tax administration in Nigeria is shortage of qualified personnel<sup>22</sup>. This shortage of skilled workers has been attributed to poor funding of tax administrative agencies as the agencies do not have the financial capacity to attract the required personnel<sup>23</sup>.

### **Poor Refineries Status**

At present, the combined output of gasoline otherwise known as petrol or PMS, from the four existing refineries still fall short of the total national demand. The government had attempted to meet the shortfall by importing fuel. But it has now assumed a national pastime since operators at the NNPC and oil marketers have now seen how lucrative it is to import than to refine the products. To make matters worse, bad management and poor maintenance have cut refining output considerably below the installed capacity to as low as 32 per cent on the basis of weighted average<sup>24</sup>.

### **Environmental Pollution caused by Oil Spillage and Gas Flaring**

Oil spills are common occurrences in Nigeria; they occur due to a number of causes including corrosion of pipeline and tanker. It has a major impact on the ecosystem. Oil spills in populated areas often spread over a wide range, destroying crops and aquacultures through contamination of the ground water and soils. The consumption of dissolved oxygen by bacteria feeding on the hydrocarbons also contributes to death of fish. The largest contributor of oil spills is the rupturing or leakage of production infrastructures that are old and lack regular inspection and maintenance. Damaged pipeline may go unnoticed for days and repair of the damaged pipes takes even longer. More gas is flared in Nigeria than anywhere else in the world. Nigeria regulation of the oil industry is weak and enforcement is rear allowing in essence, the industry to self-regulate<sup>25</sup>. The provision and legal statutory obligation

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<sup>16</sup> Folajimi Festus Adegbe & Samuel Adeniran Fakile, 'Petroleum Profit Tax and Nigeria Economic Development', 1:1 *IJRCM*, 2011, pp. 11 at 17.

<sup>17</sup> Sesan Olufowobi, Chukwudi Akasike & Temitayo Famutimi, 'Four Britons Arraigned for Bribing Lagos and Rivers Officials', 22<sup>nd</sup> December 2012, *Bribe Nigeria (Blog)*. Retrieved online from <http://www.bribenigeria.com>. Accessed on 24<sup>th</sup> January, 2023.

<sup>18</sup> Jude Okwe, FIRS: Corruption, Enemy of Tax Administration, *This Day Live*, 13<sup>th</sup> May 2013. Retrieved online from <http://www.thisdaylive.com>. Accessed on 24<sup>th</sup> January, 2023.

<sup>19</sup> The Leader News, Nigerians Don't Like To Pay Tax – Finance Minister, *Editorial, The Leader News*, 18<sup>th</sup> August 2013. Retrieved online from <http://theleaderassumpta.com>. Accessed on 24<sup>th</sup> January, 2023.

<sup>20</sup> Agency Report, FG Urges FIRS to Deploy Technology to Boost Its Operation, *Leadership Newspaper*, 24 June 2014. Retrieved online from <http://leadership.ng>. Accessed on 24<sup>th</sup> January, 2023.

<sup>21</sup> See generally, James Abiola & Moses Asiweh, Impact of Tax Administration on Government Revenue in a Developing Economy - A Case Study of Nigeria, 2012 3:8 *Int'l J Bus & Soc Sci*, p. 99; PricewaterhouseCoopers, *Nigeria @ 50: Top 50 Tax Issues*, October 2010, PricewaterhouseCoopers. Retrieved online from <http://www.pwc.com>. Accessed on 24<sup>th</sup> January, 2023.

<sup>22</sup> Nigeria Leadership Initiative (NLI), *The NLI White Papers*, Volume 2, p. 47. Retrieved online from [www.nli-global.org](http://www.nli-global.org). Accessed on 24<sup>th</sup> January, 2023. The NLI White Papers were generated to identify critical issues in the Nigerian tax system in relation to policy, legislation and tax administration.

<sup>23</sup> *Ibid*.

<sup>24</sup> Dan Amor, *Why Our Refineries are not Working*. Retrieved online from <http://sunnewsonline.com/new/why-our-refineries-are-not-working/>. Accessed on 22<sup>nd</sup> December, 2022.

<sup>25</sup> Pagaebi Beragha, 'Environment Issues in Nigeria: Oil Spillage in Nigeria', November 19 2013. Retrieved from <http://thelawyerschronicle.com/environmental-issues-in-nigeria-oil-spillage-in-nigeria/>. Accessed on 22<sup>nd</sup> January, 2023..

to prevent environmental pollution and punishment for contravention of the provisions are laughable and impracticable<sup>26</sup>. Oil spillage and gas flaring causes land, air, water, and noise pollution and the results of these pollutions are; Health Issues such as perinatal disorder, infant mortality, respiratory disorder, allergy, malignancies, cardiovascular disorder, increase in stress oxidative, endothelial dysfunction, mental disorder, and various other harmful effects<sup>27</sup>; Global warming; Ozone layer depletion and Destruction of marine life and depletion of fish populations

#### **Oil Theft and Pipeline Vandalization**

Oil theft and pipeline vandalization can be seen to be one of the major oil and gas problems in Nigeria as it reduces the revenue needed for the country, and affects the image of the country internationally. Nigeria can be seen as a country that depends solely on petroleum as a means of economics development, and oil can also be seen to be the basis of economic life and the act of oil theft and pipeline vandalization can be seen to be major threat to the survival of Nigeria as a country. Oil theft and pipeline vandalization can be seen to be encouraged due to a thriving black market, high rate of bribery and corruption, foreign buyers of stolen crude and inadequate funding and resources to combat oil theft and pipeline vandalization<sup>28</sup>. The effects of oil theft and pipeline vandalization includes; huge economics losses from pipeline and plant shutdown, environmental pollution, fire outbreaks which usually results in loss of life or major injuries, scarcity and shortage of petroleum products, decrease in electricity supply and destruction of the reputation of the country<sup>29</sup>.

#### **Frequent Changes of Management of the NNPC**

A former Minister of State for Petroleum Chief Odein Ajumogobia stated that the frequent changes in the leadership of the NNPC have hampered the growth of the nation's downstream oil industry<sup>30</sup>. Since 1977, the federal government has appointed 18 different group managing directors of the NNPC, which in turn causes delays and irregular project executions. Such changes are inconsistent and incoherent with policies of government. An industry observer also noted that the changes in the top management cadre of the NNPC affects the investment drive in the oil and gas sector because no investor would want to put money in a sector that the government can unilaterally decide to change the drivers of the reforms and policies that can grow such sector, and it also endangers the continuity of development policies, as each of the newly appointed GMD's comes with their governance style and discontinues previous administrations growth policies<sup>31</sup>.

#### **Government Underfunding**

A recurring problem in the Nigerian oil and gas industry is the inability of the government through the national oil company, the Nigerian National Petroleum Corporation (NNPC) to meet its funding obligations, especially to its Joint Venture operations. The Federal government participation, through the Nigerian National Petroleum Corporation has over the years demonstrated lack of financial capacity to fund the Joint Venture projects between the NNPC and the International Oil Companies. The Federal Government, through the Nigerian National Petroleum Corporation is facing funding challenges which is inhibiting the sector's growth; the Joint Venture arrangements between NNPC and the international oil companies presently account for more than 60 per cent of Nigeria's crude oil production but the NNPC has always defaulted in payment of its counterpart funding obligations. Indeed, the oil sector activities have been greatly hampered and almost being grounded completely by the challenges of funding by the Nigerian Government<sup>32</sup>.

#### **4. The Role of Taxation in Oil and Gas Sector Reforms in Nigeria**

Taxation plays a crucial role in oil and gas sector reforms in Nigeria. The Nigerian government has implemented various tax policies and reforms in the oil and gas sector to increase revenue, attract investment, and promote transparency and accountability. One of the major tax policies in the Nigerian oil and gas sector is the Petroleum Profit Tax (PPT), which is a tax on the profits made by companies engaged in petroleum operations. The PPT is levied at a rate of 85%<sup>33</sup> for Joint Venture (JV) companies and 65.75%<sup>34</sup> for Production Sharing Contract (PSC) companies. The PPT has been a major source of revenue for the Nigerian government, and it has helped to fund various infrastructure projects in the country.

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<sup>26</sup> Yinka Omoregbe, *Environment Issues*, (Nigeria: Malthouse Press Limited, 2001) pp. 136 & 137.

<sup>27</sup> Roya Kelishadi, Environmental Pollution: Health Effects and Operational Implications for Pollutant Removal, *Journal of Environmental and Public Health*, Vol. 2012, Article ID 341637, 4<sup>th</sup> March 2012, p. 2. Retrieved from <http://www.hindawi.com/journals/jep/2012/341637/>. Accessed on 22<sup>nd</sup> January, 2023.

<sup>28</sup> 'No Crude Oil Theft'. Retrieved online from <http://www.cot.navy.mil.ng>. Accessed on 20<sup>th</sup> December, 2022.

<sup>29</sup> OO Udofia and OF Joel, 'Pipeline Vandalism in Nigeria: Recommended Best Practice of Checking the Menace'. Retrieved online from <http://www.onepetro.org>. Accessed on 20<sup>th</sup> January, 2022.

<sup>30</sup> Mohammed Shosanya, 'Frequent Changes in NNPC Leadership Disincentive to Downstream Sector', *Daily Trust Newspaper*, October 31, 2015.

<sup>31</sup> Ibid.

<sup>32</sup> N Ayoola-Daniels, 'Oil Sector Reform Should Go Beyond Shakeups at NNPC' *This Day*, 25 Aug. 2015. Retrieved online from <http://www.thisdaylive.com/articles/ayoola-daniels-oil-sector-reform-should-go-beyond-shakeups-at-nnpc/218366/>. Accessed on 22<sup>nd</sup> Janury, 2023.

<sup>33</sup> Petroleum Profit Tax Act, CAP P13, Laws of the Federation of Nigeria 2004, S. 21(1).

<sup>34</sup> Ibid, S. 21(2).

Another important tax policy in the Nigerian oil and gas sector is the Gas Flaring Penalty. The Nigerian government imposes a penalty on companies that flare natural gas during oil production. The penalty is aimed at reducing gas flaring, promoting environmental sustainability, and encouraging the use of natural gas for power generation and other industrial purposes. Furthermore, the Nigerian government has implemented various tax incentives and exemptions to attract foreign investment and promote local content in the oil and gas sector. For instance, the Nigerian Content Development and Monitoring Board (NCDMB) provides tax incentives to companies that invest in the development of local content in the oil and gas sector.

In summary, taxation plays a significant role in the oil and gas sector reforms in Nigeria. Tax policies and reforms have helped to increase revenue, promote transparency and accountability, reduce gas flaring, and encourage foreign investment and local content development in the sector.

## **5. Conclusion and Recommendations**

In conclusion, the oil and gas sector is crucial to the Nigerian economy, accounting for a significant portion of the country's revenue and foreign exchange earnings. However, the sector faces several challenges that have hindered its growth and development, including corruption, security, infrastructure, environmental degradation, regulatory framework, and funding. To address these challenges, the Nigerian government must implement reforms that prioritize transparency, accountability, and sustainable development in the oil and gas sector. This would require a coordinated effort from the government, oil companies, and other stakeholders to address the challenges facing the sector and promote its growth and development. One important aspect of oil and gas sector reforms is the role of taxation. Taxation can be an effective tool for promoting transparency, accountability, and sustainability in the sector. By imposing taxes on oil and gas companies, the government can generate revenue to fund infrastructure development and other projects that benefit local communities. Taxation can also incentivize oil and gas companies to adopt sustainable practices and reduce environmental degradation. However, taxation must be implemented in a way that is fair and does not discourage investment in the sector. The government must strike a balance between generating revenue and promoting investment and development in the sector. Overall, the need for oil and gas sector reforms in Nigeria is critical, and the role of taxation can play a significant part in promoting transparency, accountability, and sustainable development in the sector.

This study makes the following recommendations towards addressing the challenges identified in this research paper. Below are some of the recommendations;

1. Effective oversight by accountability institutions (legislature, judiciary, anti-corruption institutions, civil society, media and citizens) is crucial for stemming oil sector corruption in Nigeria.
2. Promotion of international good practices around issues including oil block licensing rounds, oil marketing, procurement and contracting, legislative oversight of sector regulation and transparency of contract terms.
3. Public accountability of the NNPC and other subsidiaries should be encouraged to foster transparency in the sector.
4. An amendment of existing legislation on corruption to be stricter to deter other perpetrators and all public loots from the oil and gas sector should be thoroughly investigated and offenders once found guilty should be prosecuted and loots taken back on the value of what has been stolen.
5. The appointment of the GMD should be based on a fixed tenure system to allow them to consistently drive policy as it applies in other state owned parastatals and the NNPC should have some degree of autonomy from the federal government to avoid unnecessary interferences that would hamper their policy development.
6. The provision of more gunboats for security operatives and enhanced logistics support to enable it step up its efforts in checking criminal activities aggressively along the waterways and creeks and security personnel drafted to guard pipelines should be rotated every year before the personnel becomes familiar with the communities hosting the pipelines as this could aid in them assisting in oil theft and pipeline vandalization.
7. Traditional rulers and communities leaders in the areas marked as pipeline routes should be incorporated into a pipeline security vigilante group and held responsible for any disruption of pipelines by vandals.
8. Allocation of adequate resources technology, equipment and logistics to security agencies to enable them function effectively.
9. Creating awareness about crude oil theft and engendering cooperation between the public, relevant locals, stakeholders and international agencies.
10. The four refineries in Nigeria are over 20years old. The government must construct a new refinery with more modern forms of technological infrastructure and operation of refineries at full capacity should be of paramount importance.
11. Privatization of the refineries though turned down by the government could accelerate development and rehabilitation of refineries in Nigeria.
12. By enforcing laws and holding oil companies accountable for their actions the risk of contamination can be greatly reduced.
13. Government should make sure that regulatory bodies have the authority to sanction oil companies who spill oil in the region. Also, stricter laws with stiffer penalties should be passed so that oil companies are more mindful of their activities and the spill that they cause.