*Journal of Social Science and Public Policy* *Volume 2, December 2010*


*www.cenresin.org*

# DEREGULATION OF DOWNSTREAM OIL SECTOR IN NIGERIA: ITS PROSPECT

***Ovaga, Okey H.***
***Department of Public Administration and Local Government***
***University of Nigeria, Nsukka***
***E-mail: revovaga@yahoo.ca***

## ABSTRACT

The oil industry has been a major contributor to Nigeria's economy and that is why over 80 percent of the country's foreign exchange earnings come from this sector. Since the discovery of oil in commercial quantity, Nigeria has been experiencing consistent increase in revenue earning. But this increase notwithstanding, Nigerians are yet to enjoy certain basic necessities of life. It has been strikes and protests against inadequate supplies and incessant increases in the pump price of refined products. In order to reduce the burden on the citizenry, the federal government introduced the policy of subsidy, which was to make the prices of fuel in the country cheaper for consumers to buy. But, in spite of the whooping amount of money spent on subsidy, the prices of the refined products continued to rise astronomically. It is against this background that this paper seeks to examine the issue of deregulation in the downstream oil sector and to find out if the crisis being generated can be resolved. During the course of this paper, it was discovered that a group of dissidents and saboteurs have been working against the functionality of the existing refineries and equally engage in fuel importation for the purpose of satisfying their selfish interests. In order to ameliorate the ugly situation, introduction of deregulation in the downstream oil sector becomes imperative. The paper believes that the policy, if properly implemented, will go a long way in eliminating market distortions, promotes free market competition, and encourages private ownership of refineries in the downstream petroleum sector.

## INTRODUCTION

Nigeria is endowed with vast natural resources including such minerals as petroleum, limestone, tin, natural gas and others (Anyanwu et al, 1997:3). All these minerals have remained untapped, except petroleum which had dominated Nigeria's economy since the 1970s. Today, petroleum is by far the most widely used energy resource world wide. Its production and distribution, according to Asimi(2005:8), affects the relations among nations and even the purchasing power of some individual citizens.The first discovery of oil in commercial quantity in Nigeria was made in 1956. Shell- BP was the principal company undertaking oil exploration and production activities in the country, although there were sporadic explorations by other companies, prior to that date (Gidado,1999:53). According to him, Nigerian government did not embark on serious oil policies for the country until 1967. The rapid inflow of oil revenue to the country in the early 1970s, led to the complete abandonment of agriculture which was Nigeria's mainstay of economy. It was observed that since the beginning of oil production in commercial quantity, Nigeria has been rated high, the world over, such that she is declared Africa's second largest producer after Libya, eighth largest exporter in the world and the world's tenth largest oil reserves (Omotoso, 2010:2). Since Nigeria's first export of crude oil in 1959, it has become the major contributor to the country's economy, and that is why over 80 percent of the country's foreign exchange earnings come from the oil sector. Nigeria has been enjoying consistence increase in the revenue from oil. For instance, a barrel of oil was sold at 3.00 dollars per barrel in 1971,12.42 dollars and 37.00 dollars a barrel in 1974 and 1980 respectively. Following steady increases in the sales, receipts swelled as well from 300 million dollars in 1970 to 4.2 billion dollars by the end of 1974, when oil production was 2.3 million barrels per day (Asimi, 2005:8). By 1976, oil revenue had risen to 6.3 billion naira and in 1980, the peak of 12 billion naira was achieved (Nigerian oil Directory, 1993: 53). Considering the current price of crude oil in the international market, which stands above 70 dollars a barrel, the revenue accruing to the country, has equally increased correspondingly. The huge revenue notwithstanding, one may be tempted to ask, if this God-given commodity has brought curse instead of blessing, since Nigerian people are yet to have smiling faces right from the inception of oil production and exportation in the country. It has been protests galore against short supply and steady increases in the pump prices of refined products. In order to cushion the effects of these increases and reduce direct burden on the citizenry, the federal government instituted the policy of subsidy. The essence of this policy option was to reduce the prices of the products, but at the expense of the federal government that was paying whooping amount of money. For instance, the sum of about 2.5 trillion naira was spent on fuel subsidy by the federal government between 2006 and 2009, and 600 billion naira budgeted for the fiscal year 2010 (Movement for Economic Emancipation,(2010:10). But what really disturbs the minds of many Nigerians is that despite the huge expenditure on subsidy, the prices of refined products continue to rise incessantly, hence consumers buy them at a rate higher than expected.

Ezeagba (2005:43), asserts that a situation of subsidy exists, when consumers are assisted by the government to pay less than the market prices for the product they are consuming. That is why the essence of the subsidy in the present circumstance in Nigeria, is to reduce the official pump prices of petroleum products paid by Nigerian consumers. It is unfortunate to observe the deteriorating nature of the country's social amenities, critical infrastructure and other development indices, when trillions of naira are believed to have been spent on subsidy. It is therefore, against this background that this paper seeks to examine deregulation of the downstream oil sector and to ascertain whether the policy would solve the problem of scarcity and incessant increases in the prices of petroleum products, which to my own mind have caused a lot of instability in the economy of this country

## CONCEPTUAL CLARIFICATION

### Deregulation

According to Hornby (2001:313), deregulation is the freeing of a trade or a business activity, from rules and controls. In his own view, Obioma (2000: no date), understood it to mean the allocation of resources by market forces. He equally saw it as the determination of price by the interplay of demand and supply. It means the withdrawal of government control of resource allocation mechanism, thereby allowing the forces of demand and supply to determine the prices of goods and services. By way of expansion, Ezeagba(2005:43),stated that the fundamental economic objective of deregulation can be summarized as bringing more competition to the market with its attendant increase in economic efficiency and welfare. In his own words, Fawibe (2009:1), believed that deregulation is the removal of government control, withdrawal of state interference, encouraging free market operation, and simplification of government's rules and regulation for greater market forces. Fawibe's view seems to be more comprehensive and incorporating. This is because, government does not end up in withdrawing its control and interference in the day-to-day businesses and activities, but has to prepare an enabling environment for the take-off of a deregulation policy. For instance, government has to allow the price system to be determined by the forces of demand and supply. In addition, the operators should be acquainted with the rules and regulation of the game, for greater market forces. In his own opinion, Akintola(2005:8), described deregulation as removal of government subsidy and the cessation of the price control or regulation by officialdom. He went further to state certain conditions that may necessitate deregulation policy in a country. They include the inability of government to continue to subsidize petroleum products because of competing national priorities and the need to curb smuggling of the products overseas, thereby unwittingly subsidizing other economies. Akintola's view is in order as the mentioned conditions are undoubtedly prevailing in Nigeria today and that is why there are calls from different quarters in the country, to implement the deregulation policy without much ado.

## SUBSIDY

Agu (2009:286), saw subsidy as a payment made by government to producers to enable them produce and sell at a lower price than they would otherwise. He held the view that it lowers the market price below the factors cost, so that consumers pay less for the good than it costs the producer to make the good. In his own understanding, Ezeagba (2005:45), believed that subsidy exists in a situation when consumers of a particular commodity are assisted by the government to pay less than the market price of the very commodity they are consuming. On the producers' side, he saw it as the payment to producers of certain commodities by the government not to produce at all or to augment their income when the price of their product is less than break-even point. Subsidy was defined by Hornby (2005:1476), as money that is paid by a government or an organization to reduce the costs of producing goods or services so that their prices can be kept low. He stated that subsidies can be granted in agricultural area or housing projects.
From the above definitions, subsidy is seen as a device employed by government to assist either the consumers or producers to consume or produce certain commodities at prices below the prevailing market prices. It is also an incentive given to either side (consumers or producers) to consume or produce more of the goods in question.

## SOURCES OF PETROLEUM PRODUCTS SUPPLY

In Nigeria, there are two distinctive sectors in the oil industry. These are the upstream sector, which comprises exploration and production, and the downstream, which deals with refining of crude oil for local consumption. For the purpose of this paper, the discussion will be centered on the downstream sector. In the downstream oil sector, the products consist of premium motor spirit (petrol), Automotive Gas Oil (Diesel) and Dual Purpose Kerosene (Kerosene). These products are supplied from two major sources: through the local refineries and importation.

## LOCAL REFINERIES

The primary aim of developing refineries in Nigeria was to refine crude oil produced within the country to meet local demand and possibly to export the excess, if any. To achieve this purpose, four refineries were constructed and commissioned between 1971 and 1989. Hereunder, is the breakdown of installed capacities of the refineries.

**Table 1: Processing Capacity of Nigeria's Oil Refineries**

| S/N | Refinery | Date commissioned | Processing Capacity (BPD) |
|---|---|---|---|
| 1 | Port Harcourt 1 (Eleme) | 1971 | 60,000 |
| 2 | Warri | 1979 | 125,000 |
| 3 | Kaduna | 1980 | 110,000 |
| 4 | Port Harcourt 11 | 1985 | 150,000 |
| | **TOTAL** | | **445,000** |

**Source:** *Nigerian National Petroleum Corporation (NNPC), 2000.*

It was expected that with the total refining capacity of the four refineries at 4445,000 barrels per day, the issue of fuel scarcity in the country, would have been a thing of the past. But, Nigerians were disappointed as refined products were not only in short supply, but disappears quite often in almost all the filling stations in the country.

**IMPORTATION**

Importation of refined products came into focus when the turnover from the four refineries could not satisfy the ever increasing demand by Nigerian consumers. In other words, import was mainly as a result of the poor performing state of the refineries (Federal Republic of Nigeria, 2000:19). This is evident in the table below.

**Table 2: Refining Capacity of the Refineries:**

| S/N | Refinery | Installed capacity (BPD) | Optimum capacity Achieved (BPD) |
|---|---|---|---|
| 1 | Port Harcourt 1 & II | 210,000 | 190,000 |
| 2 | Warri | 125,000 | 100,000 |
| 3 | Kaduna | 110,000 | 70,000 |
| | **TOTAL** | **445,000** | **360,000** |

**Source:** *Nigerian National Petroleum Corporation (NNPC), 2000.*

It is crystal clear from the table above that the optimum capacity achieved fell below the installed capacity in each of the refineries. For instance, the Port Harcourt refineries combined together had an installed capacity of 210,000 barrels per day but 190,000 barrels per day was achieved, showing a shortfall of 20,000 barrels per day. Aggregatively, a total shortfall of 85,000 barrels per day was observed in the general petroleum products supply. This is true because, the total installed capacity of all the refineries was 445,000 barrels per day while 360,000 barrels per day was achieved. The decline in the refined products was attributed to the poor performance of the existing refineries. According to Ezeagba(2005:43), the poor performance of the refineries over the period (1990-2000) was due largely to problems, such as fire, sabotage, poor management, lack of turn around maintenance (TAM), and corruption, which have left them (refineries), often operating at about 40 percent of full capacity, if at all. He said this has resulted to shortages of refined products, hence the need to increase imports to meet domestic demand.

## FUEL SUBSIDY IN NIGERIA

The issue of long queues experienced by motorists stuggling to buy petrol, at filling stations, has become a common phenomenon in a country richly endowed with large crude oil deposit, and a greater exporter of the God-given commodity. It is pathetic to observe that no other OPEC country or even countries that do not produce oil, share similar nasty experience with Nigeria (Badmus, 2009: 25). Prior to this ugly situation, there were moments of joy in Nigeria, when the four refineries were all working at full capacities, and there was no need for queuing to buy fuel. But, according to Badmus, Nigeria could not help relying on fuel importation because under the regime of President Ibrahim Babangida and his successors (Generals Sani Abacha and Abdulsalami Abubakar), the four local refineries could not be managed properly and they fell below the installed refining capacities, thereby making it imperative for demand to be met through imports.The import dependency which constituted over 82 percent of the total supply of petroleum products consumed locally, invoked protests from different quarters in the country. This undesirable situation led to the controversial issue of subsidy, which nearly tore the country into pieces. Subsidy, in the economic sense, exists when consumers of a given commodity are assisted by the government to pay less than the market price of that commodity. In relation to the fuel subsidy, it means that consumers would pay less than the prevailing pump price per litre. For instance, the current official pump price of N65 per liter is still carrying a subsidy of N2.72 per liter of refined product (Chizea, 2009:8). According to him, there is equally a subsidy of about N30 per litre of kerosene, hence, a whooping amount of N640 billion was spent as a subsidy on all the refined products in 2008 alone. The amount spent on subsidy alone was almost the whole of the capital budget estimated for 2009 budget. But the question many Nigerians ask is, to what extent has the subsidy impacted on their lives?

This has generated a lot of crises in the country. Man-hours were lost, social amenities and infrastructural facilities which were in short supply were recklessly destroyed, thereby slowing down the rate of economic development. This was why Ayankola (2010:22) suggested for its removal, and the introduction of deregulation in its place. In the same vein, Economists do not like to talk about subsidy because it is often a misallocation of resources (Chizea, 2009:8). In the light of the nation’s experience with subsidy, Chizea believed that it cannot be encouraged anymore in the country’s present day economic situation. He recalled how the subsidy on fertilizer was hijacked and later became an instrument for political patronage and never reached the intended beneficiaries. He strongly admonished Nigerians to be very careful in recommending the extension of subsidy in our environment. Stressing more on the issue of subsidy, Oketola (2010 :19), contended that it would be difficult to get adequate financing and investment in refineries in a regulated pricing regime. He observed that this country spends approximately N600 million per day on subsidy on petrol and kerosene, while government struggles to fund infrastructure, health, transport and other competing needs. With deregulation, Oketola stated further that government will have more resources available for the provision and financing of education, road construction and equipping of hospitals and improving the power sector. From the foregoing, it is observed that the policy of subsidy has rather done more harm than good to the citizenry of this country.

## DEREGULATION OF DOWNSTREAM OIL SECTOR IN NIGERIA

It was argued from different quarters in Nigeria that deregulation of downstream oil sector without adequate local supply, will further aggravate importation and virtually seal all hopes of ever reviving the existing refineries, and gainfully utilizing the vast assets therein (Federal Ministry of Information, 2000:91). To rectify this situation, government had tried to lure private investors to float refineries and assist to end the fuel crisis in the country, but so far, no serious private investor had taken up the challenge. But Adeogun (2010:43), contended that the quest to attract private investors into the petroleum refining business may remain a pursuit in futility, as no investor would be willing to invest in the sector under a price regulated regime. This implies that the existence of functional refineries is significantly dependent on the introduction of effective deregulation policy. This was the reason why the Nigerian National Petroleum Corporation (NNPC) on behalf of the federal government and China State Construction Engineering Corporation (CSCEC), on 31st May, 2010, signed a Memorandum of Understanding (MOU) worth N4.2 trillion, for the building of three new refineries (Okpole, 2010:9) According to him, the move is to accelerate the birth of refineries and stem the flood of imported refined fuel currently estimated to cost about N1.5 trillion yearly. Okpole was of the view that the successful building of new refineries will no doubt reinforce deregulation of the downstream sector of the nation's petroleum industry. He equally believed that they (new refineries) will add some capacity of 750,000 barrels per day to Nigeria's refining infrastructure and position NNPC to engage profitably in the international trading of refined petroleum products.

It is unfortunate to observe however, that while the government was making frantic effort to resolve the fuel crisis in the country, there were nefarious groups of individuals who have been working strategically against such effort. For instance, there exist a syndicate believed to be responsible for the dysfunctional state of the nation's refineries so as to continue to import finished products at a price determined by them(Onyekwuere, 2009:19). According to him, President Umaru Musa Yar' Adua in May 2009, attributed the problem in the oil sector to the handiwork of cabals. It is believed among most Nigerians that, it was corruption that crippled Nigeria's refineries. One school of thought was of the view that unless corruption is wiped out in Nigeria, there is no way Nigerians will progress as a people. For instance, why will the federal government go to Senegal, a small country that does not have crude oil deposit, to import refined petroleum products? (Aturu, 2009:20). This has been the handiwork of the groups in the country that have been undermining the efforts of the government, to resuscitate or build new refineries. The proposal was always killed by them, for fear of loosing their source of income. This was because it would put an end to their import racket, thus taking business away from their outside collaborators (Onyekwere, 2009:23). Their activities in Nigeria's oil sector have been causing a lot of worries in the country and that is why the campaign for deregulation of the sector should be strongly encouraged. The activities of the economic saboteurs notwithstanding, the government has continued to hold positive view about the implementation of the deregulation policy in the country. The government believes that the policy will no doubt make the products available and even cheaper. It contended that deregulation is most needed presently in Nigeria, especially, this time when the government is finding it very difficult to sustain fuel subsidy which has gulped large amount of public money. The government believes that through deregulation, the level of distortions and corruption existing in oil transactions, will reduce drastically and will offer more benefits to Nigerians. This is because the oil market will become more efficient and the result will be passed on to Nigerians in the form of lower prices and better quality of service (Olayinka et al, 2009:1-2). In his own view, Okiti (2009:60), stated that the importance of the deregulation of downstream oil sector cannot be overemphasized, since its process must ensure that there are competitive incentives that serve as a platform for greater generation of wealth than the savings the government hope to make. He contended that the end game of a deregulated environment should be a vibrant, competitive, investment and employment generated sector. In line with other protagonists of the deregulation of downstream oil sector in Nigeria, Fawibe (2009:7), gave some reasons why government wants to deregulate the sector. They include: burden of subsidy on national treasury; strain of financing Nigeria's state-owned petroleum businesses; intra and trans ECOWAS smuggling of Nigeria's oil products; relative market prices of oil in the ECOWAS Sub-region; inability to attract investment in midstream while licensed refineries could not operate and the high cost of maintaining the refineries. He was of the view that the Nigerian government should deregulate the downstream sector, so as to revitalize the country's ailing economy and equally provide all the necessities of life to her teeming population. Finally, he opined that, if the policy is properly implemented, it will no doubt bring increase in foreign investment in Nigeria, increase in competition, availability of products, predictable prices of products, end of price-fixing regime, appropriate accounting of the oil revenue, and reduced corruptive tendency in the sector (Fawibe, 2009:10).

According to Braide (2003) quoted in Ezeagba (2005:43), there are certain processes which deregulation must undergo before it succeeds in Nigerian context. They include supply side and complete deregulation. In the supply side, the writer stated some underlying assumptions, which consist of the federal government's sensitivity to the inadequacies of the existing stated–owned petroleum refineries and refined products; supply and distribution system and desire to maximize supply sources for the refined products market in the country; federal government's monopoly of pipeline operations and primary distribution from the stated-owned storage depots would be completely abolished; local and foreign private investors would be willing to take over the dilapidated refineries and operate them efficiently and profitably; private refineries would be able to procure crude oil at competitive rates and sell their refined products profitably. Also, private importers would procure refined products and sell such at deregulated prices. Most importantly, barriers to new entrants in private refining and depot operations would be eliminated (Ezeagba 2005:43). However, government would refurbish all state owned refineries, pipelines, storage depots, prior to their final acquisition by private investors. This is preparatory to the complete deregulation of the downstream oil sector in the country. Ezeagba (2005:43), has confidently assured Nigerians that the state-owned downstream petroleum sector can be effectively taken over by qualified private Nigerian investors. He believed that they will manage them comfortably, efficiently and profitably. In addition, unnecessary impediments, including the existing overbearing procedures for granting licences to private refineries and other potential investors must be abolished by law with maximum dispatch. He opined that there must be open access to state-owned monopolistic facilities such as jetties, storage tanks, and pipelines through non-discriminatory tariffs to private operators. Ezeagba stated unequivocally, that price fixing in any guise by the government must stop. It is observed from the foregoing that there are certain important underlying conditions that must exist before the introduction of deregulation policy in any economy, most especially in the downstream oil sector. The conditions as pointed above by Ezeagba, are necessary and sufficient, which in my opinion, the government of this country should not hesitate to implement, if a successful deregulation of the downstream oil sector would be achieved in Nigeria.

## DISCUSSION

It was observed that the independent oil marketers and other stakeholders in the sector have been causing a lot of havoc and instability in the downstream petroleum sector in Nigeria. According to records, domestic fuel consumption in Nigeria is in the region of between 30 and 35 million litres per day but about 60 percent of this is being imported by the major oil marketers, while the NNPC makes up the balance (Onyekwere,2009:19).Sometime in November 2009, the independent marketers stopped abruptly the importation of fuel leaving the NNPC as the sole importer of the products. This was because the federal government was owing them to tune of N70 billion. The suspension of fuel importation by the marketers meant that less than 15 million litres of fuel would be available for local consumption in the country. There was serious scarcity of the commodity. Consequently, all the sectors of the economy in the country had the impact as prices of all other commodities, including the petroleum products, soared. The movement of people was disrupted because of fewness of vehicles on our roads. Motorists slept at filling stations while queuing up to buy fuel. At the end, man-hours were lost. The answer to this ugly experience is the institution of deregulation policy in the downstream petroleum sector. The implementation will not only remove scarcity of fuel in our daily lives in this country, but it will break the monopolistic tendency of the marketers, thereby opening the gate for more investors to come into play in the downstream sector. They failed deregulation policy in Nigeria came into focus when the federal government of Nigeria found it difficult, if not impossible to continue to shoulder the burden of subsidy. This became obvious, when Nigeria paid a whooping sum of N640 billion as subsidy in 2008 alone. The table below depicts the extent of burden of subsidy between 2006 and 2009.

**Table 3: The Burden of Subsidy in Nigeria (2006-2009).**

| S/N | States | No. of Local Governments | 2006 Census Population (₦ Millions) | Subsidy Paid (₦ Billions) | Subsidy Outstanding (₦ Billions) | Total Subsidy (₦ Billions) |
|---|---|---|---|---|---|---|
| 1 | Akwa Ibom | 31 | 3.92 | 79.13 | 43.24 | 122.37 |
| 2 | Rivers | 23 | 5.19 | 72.94 | 39.86 | 112.80 |
| 3 | Delta | 25 | 4.10 | 69.83 | 38.16 | 108.00 |
| 4 | Bayelsa | 8 | 1.70 | 35.59 | 19.45 | 55.05 |
| 5 | Kano | 44 | 9.38 | 32.55 | 17.79 | 50.34 |
| 6 | Ondo | 18 | 3.44 | 27.86 | 15.22 | 43.08 |
| 7 | Lagos | 20 | 9.01 | 24.48 | 13.38 | 37.86 |
| 8 | Katsina | 34 | 5.79 | 24.27 | 13.26 | 37.53 |
| 9 | Oyo | 33 | 5.59 | 23.37 | 12.77 | 36.14 |
| 10 | Kaduna | 23 | 6.07 | 22.84 | 12.48 | 35.31 |
| 11 | Borno | 27 | 4.15 | 22.38 | 12.23 | 34.61 |
| 12 | Imo | 27 | 3.93 | 22.37 | 12.23 | 34.59 |
| 13 | Niger | 25 | 3.95 | 21.53 | 11.77 | 33.29 |
| 14 | Bauchi | 20 | 4.68 | 20.68 | 11.30 | 31.98 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 15 | Jigawa | 27 | 4.35 | 20.59 | 11.25 | 31.85 |
| 16 | Benue | 23 | 4.22 | 19.90 | 10.88 | 30.78 |
| 17 | Edo | 18 | 3.22 | 19.73 | 10.78 | 30.51 |
| 18 | Sokoto | 23 | 3.70 | 18.84 | 10.30 | 29.14 |
| 19 | Osun | 30 | 3.42 | 18.41 | 10.06 | 28.47 |
| 20 | Abia | 17 | 2.83 | 18.33 | 10.02 | 28.34 |
| 21 | Kogi | 21 | 3.28 | 17.93 | 9.80 | 27.73 |
| 22 | Anambra | 21 | 4.18 | 17.85 | 9.76 | 27.61 |
| 23 | Adamawa | 21 | 3.17 | 17.82 | 9.74 | 27.55 |
| 24 | Kebbi | 21 | 3.24 | 17.68 | 9.66 | 27.34 |
| 25 | Ogun | 20 | 3.73 | 17.06 | 9.32 | 26.38 |
| 26 | Taraba | 16 | 2.30 | 16.58 | 9.06 | 25.65 |
| 27 | Plateau | 17 | 3.18 | 16.52 | 9.03 | 25.55 |
| 28 | Yobe | 17 | 2.32 | 16.31 | 8.91 | 25.22 |
| 29 | Zamfara | 14 | 3.26 | 15.94 | 8.71 | 24.66 |
| 30 | Cross River | 18 | 2.89 | 15.90 | 8.69 | 24.32 |
| 31 | Enugu | 17 | 3.26 | 15.72 | 8.59 | 24.32 |
| 32 | Kwara | 16 | 2.37 | 15.22 | 8.32 | 23.53 |
| 33 | Ekiti | 16 | 2.38 | 13.67 | 7.47 | 21.14 |
| 34 | Gombe | 11 | 2.35 | 13.47 | 7.36 | 20.83 |
| 35 | Nassarawa | 13 | 1.86 | 13.43 | 7.34 | 20.78 |
| 36 | Ebonyi | 13 | 2.17 | 12.94 | 7.07 | 20.02 |
| 37 | F.C.T. Abuja | 6 | 1.41 | 2.57 | 1.41 | 3.98 |
| **Total States & L. Govt. Portion** | | | | **872.23** | **476.68** | **1,348.92** |
| **FGN Portion** | | | | **738.00** | **403.32** | **1141.31** |
| **Grand Total** | | | **140** | **1,610.23** | **880.00** | **2,490.23** |

**Source:** *The Punch*, Thursday, February 4, 2010, P.44.

It can be seen from the above that, over N1.6 trillion was paid by the three tiers of government in Nigeria as fuel subsidy between 2006 and 2009. The policy as envisaged by the policy makers was to reduce the pump prices of petroleum products in our local markets. But, unfortunately, the reverse is the case as the prices of the products were rather increasing astronomically instead of decreasing. This contention is evident in the table below, where the prices of fuel were increasing incessantly.

**Table 4: Fuel Pump Price in Nigeria between 1999 and 2009**

| Date | Price Per Litre (N) | Regime |
|---|---|---|
| 1999 | 20.00 | Abubakar |
| 2000 | 30.00 | Obasanjo |
| 2000 | 25.00 | Obasanjo |
| 2002 | 26.00 | Obasanjo |
| 2003 | 40.00 | Obasanjo |
| 2004 | 41.50 | Obasanjo |
| 2004 | 48.50 | Obasanjo |
| 2005 | 52.50 | Obasanjo |
| 2007 | 70.00 | Yar' Adua |
| 2009 | 65.00 | Yar' Adua |

**Source:** *The source,* October 26, 2009, P.20.

The above table shows that the subsidy has not arrested price increases of fuel consumption in the country. This situation has generated a lot of protests in the recent past as people were clamoring for the removal of subsidy in the policy lexicon of Nigeria. This is because the beneficiaries are the few elites who are living in the urban areas. How does a man in the village who hardly uses two litres of kerosene in a month benefit from such subsidy? Petrol is seen as a white man's commodity which is used only by those in the cities. That is why Fadare (2009:8), was of the view that subsidy gives room for unequal distribution of wealth in a country. He did not mince words in suggesting for the removal of subsidy and using it to develop our decaying infrastructure, so that all will benefit, instead of allowing a cabal to sit on it and milk the country. In other words, deregulation of the downstream oil sector will do the magic of equal distribution of wealth among Nigerians, irrespective of one's place of abode. That is to say that, with deregulation, more resources will be channeled towards construction of schools, roads, hospitals and improve power. Refineries are established to overcome the inherent problems of fuel import and make the nation reap the benefits from oil resources. But the problem refineries face in this country is the increasing activities of mafia importers of petroleum products and also the influence of peddling middle men (Federal Ministry of Information, 2000:90). In addition, there is the problem of neglect of local refineries. It is obvious that if the refineries are not efficiently maintained, it will lead to persistent supply problem, and possible exorbitant import prices. According to the report of the Special Committee on the Review of Petroleum Products, Supply and Distributions, every increase in price has profound economic-wide effects (Federal Republic of Nigeria, 2000). For instance, if there is an increase of 10 percent in the pump price of the products, there will be a follow-up increase of about 62 percent in transportation cost, 4 percent and 3 percent in petroleum sector and utility respectively.

The consumers are at the receiving end because these price increases will be passed on to them. To address this issue, deregulation of the downstream oil sector becomes pertinent. It will eliminate market distortions, promote free market competition, encourage private ownership of refineries, thereby reducing the monopoly of building refineries by government alone. Increase in the number of refineries will not only ensure constant supply, but minimize, if not stop completely, massive import of the products. With steady availability of the products, industries can now concentrate on their core areas of operations. The need to encourage the deregulation of downstream oil sector cannot be overemphasized. This is because Nigeria is observed to be selling her fuel at prices higher than their exporting counterparts. The irony of this situation is that, the current price of N65 per litre is the lowest Nigeria could offer to her citizens since 2007. The table below depicts the comparative pump price of fuel exporting and non-exporting countries.

**Table 5: Comparative Fuel Price between the Oil Exporting and Non-Exporting Countries.**

| S/No | Country | Price (N) | Exporting / Non-Exporting |
|---|---|---|---|
| 1 | Egypt | 466.72 | Non-Exporting |
| 2 | Iran | 58.40 | Exporting |
| 3 | Kuwait | 30.66 | Exporting |
| 4 | Qatar | 32.12 | Exporting |
| 5 | Saudi Arabia | 17.52 | Exporting |
| 6 | U. A. E | 54.02 | Exporting |
| 7 | Venezuela | 5.84 | Exporting |
| 8. | Malaysia | 73.00 | Non-Expor |
| 9 | Mexico | 81.76 | Non-Expor |

| | | | |
|---|---|---|---|
| 10. | Libya | 15.95 | Exporting |
| 11 | Nigeria | 65.00 | Exporting |
| 12 | Bahrain | 39.42 | Non-Exporting |
| 13 | Russia | 90.52 | Non-Exporting |
| 14 | Indonesia | 81.14 | Non-Exporting |
| 15 | USA | 108.04 | Non-Exporting |
| 16 | China | 118.26 | Non-Exporting |
| 17 | Brunei | 56.94 | Non-Exporting |

**Source:** Alozie E., (2009:17), "The Lies About Deregulation", *Nigerian Newsworld,* October 26, in Eme, O. I. and Onyishi A., (2010:17), "The Fallacies About the Downstream Oil Sector Deregulation in Nigeria," Department of Public Administration & Local government, U. N. N. From the above table, it is clearly shown that, among the entire OPEC members, Nigeria has the highest price per litre of fuel. It is observed that Brunei, a non-exporting country has in her local market, the pump price of oil lower than Nigeria.

**THE WAY FORWARD**

The refineries in Nigeria are supposed to be operating as limited liability companies, but it is not so as they are tied to the apron string of the NNPC. They do not even have Board of Directors. It is clear that NNPC has total control over the companies such that their annual budgets are presented to the agency (NNPC), and instead of their financial needs getting to them on production requirements, surprisingly, they are available to them on request. With the full interference and control of the refineries by the NNPC, it would be difficult to determine their actual cost structure and profit. In this circumstance, for efficient and effective refineries to be put in place, the NNPC should be reminded of its limitations and boundaries of operations.. It should recoil to its constitutional functions and stop forthwith from interfering in the private businesses of the refineries. Thus, the refineries should be granted full limited liability status to enable them salvage this country from further sinking into oblivion. The building of new refineries is under way. It is imperative to remind the-would be authorities of the proposed new refineries of the devastating conditions of the existing ones, resulting from utter neglect.

This is evident in the shutting down of those refineries on flimsy reasons. For instance, the two Port Harcourt refineries were shut down in the year 2000 simply because the internally generated power was not enough to run them and the public power supply was unreliable (Federal Ministry of Information, 2000:7). In addition, almost all the refineries were abandoned due to lack of Turn Around Maintenance (TAM). Considering the above undesired experience, the federal government should ensure that such does not repeat itself in future. An enabling environment should be created by the government for the new refineries to thrive for maximum output. For instance, power supply to all the refineries must be assured, as its inadequacy has been the bane of functional refineries in Nigeria. In other words, successful deregulation of the downstream oil sector in Nigeria is significantly dependent on constant power supply. The importance of Turn Around Maintenance (TAM) in Nigeria's refineries cannot be over emphasized since steady maintenance will continue to offer the owners the opportunity to upgrade them. It will defeat the mindset of many Nigerians who believe that they are aged and therefore, must be totally abandoned and replaced. I believe it is not out of place if we can borrow a leaf from Ghana, our next-door neighbour country, that has a refinery that was built in 1963 but today, it is newer than any of Nigeria's refinery (Komalefe, 2005:13). The problem of Nigeria in this dispensation, is the inability of the managers of these refineries to carry out TAM as and when due. As at 2004 each of the four refineries would have had at least six Turn Around Maintenances, but unfortunately, none has been successfully done since 1992.Therefore, if Nigerians cannot imbibe the maintenance culture as is obtainable in most countries, the proposed new refineries will equally go down the drain as the existing ones. Deregulation is the answer to the problem of insufficient number of functional refineries in Nigeria. Deregulation regime attracts both foreign and local investors into building refineries. That is why Ajose Adeogun, in his interview with Iba (2010:43) said, "the quest to attract private investors into the petroleum refinery business may remain a pursuit in futility, as no investor would be willing to invest under a price regulated regime. Furthermore, he allayed the fear of possible gang-up by some marketing firms to increase prices of products arbitrarily to their benefits under deregulation policy. He said no cartel would be big enough to do that in the industry, as the priority would be to sell products off and not to hoard. From the foregoing, it is clear that the introduction of deregulation in the downstream oil sector will no doubt minimize the issue of fuel scarcity, which is always borne out of hoarding by unscrupulous marketing firms. Consequently, these firms that deliberately create artificial scarcity to increase the pump price of fuel, to their own advantage and at the expense of millions of Nigerians, will be thrown out of business.

Deregulation of the downstream oil sector will help to redeem this country's image which has been battered internationally, due to corruption. Has our image not been damaged when Nigeria, the second largest exporter of crude oil in Africa has the impetus to import refined petroleum products from a small country like Senegal that does not have any crude oil? This is the handiwork of the cabals in the country. Implementation of the policy will bring to an end the existence of cabals that have been undermining all strategies of the government to revitalize our ailing refineries. The cabal is a group of dissidents and economic saboteurs, that is out to undermine the sovereignty of this great nation. The members are known because they occupy strategic positions in the affairs of this country. For a successful deregulation policy of the downstream oil sector in Nigeria, this group of people must be fished out and prosecuted. This contention is in line with the assertion by Hon. Bamidele, the Deputy Chairman, committee on Petroleum Resources, that deregulation of the downstream oil industry would deal a lethal blow on the activities of the cabal, who he said had continued to hold the country to ransom. This is in spite of the fact that the Obasanjo administration attempted to break their backbones through partial deregulation by giving refineries to private investors in 2003 (Badmus, 2009:31).For effective implementation of deregulation policy, the government should provide enabling environment for its take-off. What happened in Ghana in 2002 when price increases in petroleum products were anticipated should be an eye-opener to Nigeria. During this period, it took the Ghanaian government over one year to enlighten her citizens on the coming price increases, so that when it finally came, nobody was taken unawares. In order to cushion the expected multiplier effects of such increases, more buses were injected into the transport sector, to minimize the possible increase in the fares. In spite of the fact that Ghana is not an oil exporting country, there was no appreciable increases in the pump prices of fuel and transport fares in the country, when the oil price started rising in the international market. It would not be out of place therefore, if Nigeria should emulate Ghana in this circumstance, by trying to cushion the possible effects of deregulation before it comes. The importance of this cannot be overemphasized, since a rise in the pump prices of petroleum products is optimistically anticipated, most especially, at the initial stage of implementing the policy.

## CONCLUSION

One of the greatest challenges facing the downstream petroleum sector in Nigeria is the issue of fuel importation. It is believed that deregulation would address this problem squarely. With deregulation, subsidy which has been a conduit pipe and source of fraud in Nigeria,will be a forgotten issue. Furthermore, competition which is an important component of deregulation policy will encourage private sector participation in building new refineries, thereby increasing refining capacities in Nigeria. We cannot continue to import petrol, when we have the capacity to produce what we can consume as well as for exportation (Okere, 2010:45). In other words, Nigeria has all the wherewithal, not only to be self-reliant but even enough to export refined products.

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