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Impact of Deregulation of the Downstream Petroleum Sector in Nigeria

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Abstract: The oil industry has been contributing immensely to the Nigerian economy and that is why over 80 percent of the country foreign exchange earnings comes from this sector. Since the discovery of oil in commercial quantity in 1956, Nigeria has been experiencing consistent increase in revenue earning. Even with this increase, Nigerians are yet to enjoy the basic necessities of life. We have witness strikes and demonstrations against poor suppliers, incessant increase in the pump price of refined products. In a bid to reduce the burden on the citizenry, the federal government introduced subsidy which was to make prices of petroleum in the country cheaper for consumers to buy. But, alarmingly, the price of the product continues to escalates even the huge amount spend on subsidy. It is against this background that this paper seeks to assess the impact of the deregulation of the downstream oil sector. The source of data for the study area mainly secondary and neoliberal theory was utilized to assess the impact of the deregulation of the downstream oil sector towards economic development. The paper revealed that deregulation of the downstream oil sector to achieve its goal of economic development in Nigeria, government at all levels should put in mechanism such as EFCC, ICPC and other related agencies to fight corruption and ensure effective way for the success of full implementation of deregulation policy. The paper therefore recommends that deregulation of the downstream oil sector must be gradually and consistently pursue to revive maximum result. Moreso, the existing refineries should be maintained and made to operate at full capacity.
Keywords: Deregulation, Downstream, Subsidy, Petroleum Sector.

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Introduction

The pricing of petroleum products in Nigeria has been a bane to the Nigerian economy because petroleum product prices are fixed and subsidized by the Federal Government (FG). Over five decades now, Nigeria's economic policies, growth, and other related activities have been largely influenced by the oil industry. To say that the economy is heavily dependent on the oil industry will amount to an understatement as the oil industry is nothing short of a life-blood for the Nigerian economy (Adelabu, 2012). Available evidence in extent literature shows that Nigeria is the largest in Africa and six largest oil producing country in the world.

The country economic strength is derived largely from its oil and gas wealth, which contribute 99 percent of government revenues and 38.8 per cent of GDP (2010 National budget).

The Nigerian oil industry is divided into two sectors: the upstream sector which deals with exploration and production and the downstream sector deals with refining of crude oil for domestic consumption. Nigeria's downstream petroleum sector is not as developed as the upstream as most of the operations (apart from the NLNG and a few other projects) are operated by the government as a monopoly. The downstream gas sector is defined to comprise the activities of transportation, distribution and supply of gas to customers. It includes the extraction of liquefied petroleum gas for commercial purposes and the sale and purchase of gas for industrial purposes such as the production of compressed natural gas, electric power, gas to liquids, liquefied natural gas, methanol and fertilizer but excludes pipelines for the transportation of natural gas from producing-wells to facilities producing pipeline specification gas (Gbenga, 2008).

The need to deregulate the downstream oil sector arises from the sorry state of the nation's existing refineries with its concomitant inefficiency in distribution, ineffective and fluctuating price of the petroleum product and the negative tendency of monopolistic structure which has had tremendous adverse effects on the economy. This has been a contentious issue in national discourse hence the non-availability of petroleum products found beneath our soil in quantum as well as poor pricing mechanism as the price of petroleum product in Nigeria has but fluctuated and skewed against the masses while the government top officials smile to the bank. As a way out, it is believed in some quarters, that the deregulation of this strategic sector will bring success to Nigeria and make the product rapidly and readily available as well as cheap since it will engender competition as witnessed in the telecommunication sector in Nigeria which gave way for more competition and eventually lower tariffs.

It can therefore be argued that with deregulation of the downstream oil sector, other refineries to be established would commence processing of petroleum products. In the interim the major and independent marketers could import the products, this will make petroleum products available and price at a lower price to the consumers. Competition would thus be promoted as private entrepreneurs commence the business of setting up private refineries or importing the products. That means a situation of the marketing maxim which says “customer is always king” would be achieved. Apparently, the monopoly of the Nigeria National Petroleum Corporations will be phased out.

The central focus of this paper therefore is to examine the impact of deregulation of the downstream oil sector and its implications on Nigeria economy. To achieve the objective, the paper is structured into six sections. Section one serves as the introduction, section two focuses on the conceptual and contextual framework of the paper, section three discussed the theoretical framework, section four examines the impact of the deregulation of the downstream oil sector in Nigeria, while section five discusses the challenges of the deregulation of the downstream oil sector in Nigeria and finally, section six deals with the conclusion and recommendations.

Conceptual and Contextual Framework

Deregulation is an act by which the government regulation of a particular industry is reduce or eliminated in order to create or foster a more efficient market place. This is enacted to weaken government influence and force greater competition. In a popular parlance, to regulate mean to do away with the regulations concerning financial markets and trades (Ugo, 2011). Deregulation in the economic sense means freedom from government control. Akinwumi *et al.*, (2005) asserts that deregulation is the removal of government interference in the running of a system. This signifies that government rules and regulations governing the operations of the system are relaxed or held constant in order for the system to decide its own optimum level through the forces of supply and demand (Onoho, 2012).

Deregulation implies the absence of control or regulation of the prices of petroleum products of government leaving the determination of prices to the interaction of forces of demand and supply which also rule out subsidy and encourage competition, efficiency and increase output in the petroleum industries (Umaru, 2013). Deregulation pre-supposes market forces as the determinant of prices rather than a decision to fix price by administrative fiat. It is the process of freeing federal government of its concurrent control and involvement in the business of refining, importation, and distribution of refined petroleum products in the Nigerian market.

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In line with the above, we can argue that deregulation and privatization are elements of economic reform programmes charged with the ultimate goal of improving the overall economy through properly spelt out ways. For example, freeing government from the bondage of continuous financing of extensive projects which are best suited for private investment by the sale of such enterprises; encouraging efficiency and effectiveness in resources utilization; reducing government borrowing while raising revenue; promoting healthy market competition in a free market environment; improving returns from investment and broadening enterprises share ownership thus engendering capital market development.

Therefore, deregulation in the downstream sector involves removal of governmental controls in the business of refining, importation, sales, marketing and distribution of petroleum products. In a similar vein, deregulation in the downstream sector of the petroleum industry in Nigeria presupposes deliberate government processes, actions and inactions of removing or reducing state regulations in the refining, importation, sales, marketing, and distribution of petroleum products in Nigeria. Deregulation epitomises "the undoing and repeal of governmental regulations of the economy" (https://en.wikipedia.org). It means to allow for free and efficient market forces (demand and supply) determine the prices of petroleum products. Deregulation connotes "removing barriers to competition" (www.economicshelp.org). Some other views conceive deregulation in the context of "revision, reduction, or elimination of laws and regulations that hinder free competition of supply of goods and services" (www.businessdictionary.com). Furthermore, deregulation conceptualises the reduction or elimination of government power in a particular industry, usually enacted to create more competition with the industry (Anyadike, 2013).

Deregulation enhances competitive service delivery that will enable consumers to have wide range of choices as regards their quest for satisfaction. A glaring example can be seen in the telecommunications sector (Omodia, 2007). As noted by the World Bank (1988), experience has shown that competitive markets (mainly involving private sectors) are the most efficient ways to supply goods and services. "Government's role usually can be limited to policy-making while leaving actual investment, operation and maintenance to non-governmental entities" (Omodia, 2007). According to Onipede (2003), the continuous abysmal performances by most of the government parastatals are the undisputable evidences of inappropriateness of government involvement in business. Onipede further asserts that those who continuously argue against NEPA's (now PHCN) privatization cited loss of jobs and national security as reasons. Rational minds would definitely disagree with this reasoning. Thus, deregulation and privatization are believed to be capable of enhancing efficiency and effectiveness in service-delivery.

Theoretical Framework

Neoliberalism is a contemporary forum of economic liberalism that emphasizes the efficiency of private enterprise, liberalized trade and relatively open markets to promote globalization. Neo-liberals therefore seek to maximize the role of the private sector in determining the economic priorities of the world. The major proponents of neo-liberal theory are Friedrich Von Hayek, who argued that interventionist measures aimed at the redistribution of wealth lead inevitably to totalitarianism and Adam Smith who argued in the Wealth of Nation (1776) that markets are governed by an "invisible hand" and thus should be subjected to minimal government interference. The theory seeks to transfer control of the economy from public to the private sector. The main argument of neo-liberalism centred on;

a) Cutting Public Expenditure for Social Services like education and health care. reducing the safety-net for the poor, and even maintenance of roads, bridges, water supply-again in the name of reducing government's role. Of course, they don't oppose government subsidies and tax benefits for business.

b) The Rule of the Market: Liberating "free" enterprise or private enterprise from any bonds imposed by the government (the state) no matter how much social damage this causes. Greater openness to international trade and investment, as in International Economic Relations. Reduce wages by de-unionizing workers and eliminating workers' rights that had been won over many years of struggle. No more price controls. All in all, total freedom of movement for capital, goods and services. To convince us this is good for us, they say "an unregulated market is the best way to increase economic growth, which will ultimately benefit everyone.

c) Deregulation: Reduce government regulation of everything that could diminish profits, including protecting the environment and safety on the job.

d) Eliminating the Concept of "the Public Good" or "Community" and replacing it with "individual responsibility." Pressuring the poorest people in a society to find solutions to their lack of health care, education and social security all by themselves-then blaming them, if they fail, as "lazy."

e) Privatization: Sell state-owned enterprises, goods and services to private investors. This includes banks, key industries, railroads, toll highways, electricity, schools, hospitals and even fresh water. Although usually done in the name of greater efficiency, which is often needed, privatization has mainly had the effect of concentrating wealth even more in a few hands and making the public pay even more for its needs.

Around the world, neo-liberalism has been imposed by powerful financial institutions like the International Monetary Fund (IMF), the World Bank and the Inter-American Development

Bank. It is raging all over Latin America. The first clear example of neo-liberalism at work came in Chile (with thanks to University of Chicago economist Milton Friedman), after the CIA-supported coup against the popularly elected Allende regime in 1973. Other countries followed, with some of the worst effects in Mexico where wages declined 40 to 50% in the first year of NAFTA while the cost of living rose by 80%. Over 20,000 small and medium businesses have failed and more than 1,000 state-owned enterprises have been privatized in Mexico. As it can be argued, “Neoliberalism means the neo-colonization of Latin America" (Onyishi *et al.*, 2012).

It is obvious that, most contentious issue in Nigeria today is the politics associated with the issue of deregulation of the downstream oil sector. Therefore, it is on this note the neo-liberalism emphasizes on the efficiency of private enterprises, liberalize trade and relatively open markets to promote globalization. One can deduce that with the ongoing crises on the petroleum industry in Nigeria where few individuals have constituted themselves into a clique that are benefiting heavily from this leakage called subsidy.

A report of House of Representatives investigation team under Honourable Faruq Lawal’s ad-hoc committee on subsidy probe in 2012 was the case in point. It can be argued that the best way of avoiding few Nigerians who have constituted themselves as clique to continue exploiting majority of Nigerians. The primary essence and idea of subsidy in effect, is targeted at benefiting the masses, the very poor in our system but, in Nigeria’s context, controversies have trailed the supposed impact of this policy. The benefit incidence on the poor, have been very abysmal; furthermore, empirical evidence from several studies and surveys have shown that the bulk of the limited resources of the country are enjoyed by very few members of the ruling political, bureaucratic and business class (the elites) at the expense of the very many poor members of the society (Nwachukwu, 2011).

Collaborating this view, the National Economic Council (NEC), the highest economic policy organ of the government, in its analysis stated that it cost the country treasury one trillion naira yearly to subsidize petroleum products in Nigeria. NEC further stressed that it would be better if this huge sum of money spent on subsidy is used in smoothing pathholed roads, providing hospitals, rehabilitating and building health facilities and schools. Therefore, it is pertinent to note that deregulation of the downstream oil sector is the best option for Nigerian government based on the level of corrupt practices involved in the oil industry.

Impact of the Deregulation of the Downstream Petroleum Sector in Nigeria

The impact of the deregulation of the downstream oil sector in Nigeria cannot be overemphasized, as it can be argue that deregulation of the downstream oil sector will generate enough domestic oil savings which can translate to higher revenue for the economy. Therefore, deregulation would put an end to a situation whereby only elite benefit from the subsidy. The revenue generated from the saving would be used for development of the other sectors such as rehabilitation and building health facilities, improvement in education, power, agriculture and construction of roads, etc. A glaring example can be seen in the telecommunication, banking and aviation sector in Nigeria.

Before the deregulation of the communication sector, the Nigeria Telecommunication Limited (NITEL), a government owned company was the sole operator of telephone lines in the telecom sector. This period was marred by inefficiency, low telephone access, high tariffs and poor services. Once the sector was deregulated, private investor, both domestic and foreign came in with Global System of Mobile Communication (GSM) services, resulting in high competition which significantly improved services coverage, increase telephone access and drive down prices.

Similarly, deregulation of the Banking Sector resulted in the emergence of strong local banks offering a variety of services, and with a high presence in several other African countries. a few of these banks are also operating in some non-African countries including the United Kingdom, the United State and France. Following the success story of deregulation in the few sectors mention above, there will be no doubt that the downstream oil sector will perform more remarkably in a deregulated environment.

As posit by the World Bank (1999), experience has show that competitive markets (mainly involving private sectors) are the most efficient ways to supply goods and services. Government's role usually can be limited to policy-making while leaving actual investments, operation and maintenance to non-governmental entities.

Moreso, deregulation of the downstream oil sector if fully adopted, corruption would be tackled and masses are likely to benefit from the money generated from oil. The changes in the fuel marketing and distribution network will be checked as several importers and independent marketers, which hitherto exploited revenue generated, will be eliminated from the fuel supply chain.

Deregulation of the downstream oil sector will entails wealth creation as it will enhance income, this income will be translated into more savings and investment and of course greater income. This savings and investment are what translate to development. Creating jobs will help transform the entire economy. As observed by Abiola (2012), the aim of deregulation of the petroleum downstream is meant to create massive employment for the teeming unemployed youth of Nigeria. Unemployment has become a major illness ravaging the social fabrics of Nigeria. Therefore, it can be sustain that deregulation of the downstream oil sector will enable government to get more money which will be channelled into industrialization whereby employment opportunities will be made available for the unemployment youth.

In the light of the above, one can deduced the fact that, deregulation of the petroleum downstream sector can go a long way to sanitise and clean-up the claims and counter claims about the truth of oil subsidy. According to an article, "the truth about oil subsidy" by Ganiyat Gani Fawehinmi:

...the truth is that there was never an oil subsidy; there has never been oil subsidy and today there is no oil subsidy in the pricing of petrol per litre in Nigeria. The causes of our present oil chaos are not the issue of oil subsidy but: High level of corruption in all strata of governance in all parts of Nigeria: Massive and unchecked stealing by our leaders, their cohorts and cronies in public and private sectors of Nigerian economy over the decades: open and deceptive mismanagement of our resources including public funds: mindless and mind-boggling lavish projects specifically designed as conduit pipes to siphon the people's common wealth into private pockets at the expense of the needs and cares of the suffering Nigerian masses; and unceasing and measures astronomical devaluation of the Nigerian currency, a result of gross mis-governance of the country in all facets of human activities (cited in Adejumo, 2012:8).

Therefore, it can be argued that deregulation of the petroleum downstream oil sector can help to reduce the risk distortion by the advocate of fuel subsidy in the following:

i) Market distortions: Free market economists argue that subsidies distort the free market mechanism and can worsen the distribution or allocation of resources. For instance, import subsidy on petrol by Nigeria may discourage domestic production of petrol and lead to misallocation of an increasing amount of scarce foreign exchange for importation of petrol.

ii) Risk of fraud and corruption: Subsidies are susceptible to corruption and the ever-present risk of fraud, especially when allocating subsidy payments. For instance, the delay in the reimbursement of subsidies to importers of fuel has created incentives for the importers to induce payment (U4 Anti-corruption Resource Centre, 2009). There are also several reports of high-profit rackets and "round-tripping" of imported fuel produced by local refineries (Nuhu-Koko, 2008).

iii) Uneven playing field: Paying subsidy to importers of petroleum products while local refineries do not receive an equal amount of subsidy creates distortions in the petroleum products markets and uneven playing field between the local refineries and foreign refineries represented by the importers. This makes local refineries to sell their products at artificially low prices, and the refineries are therefore unable to generate adequate revenues to maintain their plants and expand their production capacities.

iv) Private investment: Paying subsidy to importers of petroleum products while local refineries do not receive commensurate subsidy discourage private investors in the downstream sector because the low price of petroleum products makes it unprofitable for private investors to establish new refineries at huge cost only to sell their refined at low prices that cannot guarantee adequate returns on investment. If the private refineries are to buy crude oil from NNPC or other upstream oil companies at international prices and refine the crude locally into petroleum products they cannot afford to sell the products at the "controlled" price because they will not break even or generate adequate income for maintenance and dividends. It is not surprising therefore that of the 26 companies that have been granted licenses to establish and operate local refineries in Nigeria since 2002, only one has recently managed to establish a small (mini-direct) refinery (referred to as a topping plant) in Rivers state.

Challenges of Deregulation of the Downstream Petroleum Sector in Nigeria

The downstream sector of Nigerian petroleum industry is at once volatile but laden with economic opportunities. The sector is characterised by supply uncertainty, fuelled by the mismanagement of the nation's refineries, endemic corruption, lack of transparency, direct government interference and bureaucratic processes (Aigbedion and Iyayi, 2007). Despite the nation's huge endowment of crude oil and gas, and the extensive infrastructures available in the sector for distribution and marketing of petroleum products, the downstream sector has been hit by increase instability, hallmarked by a dearth of product to supply. Particularly, this problem became noticeable in the late ten years. This has led to massive importation of petroleum products by government and major oil marketers in Nigeria. Based on this, many scholars and commentators have affirmed the following challenges to the Nigeria petroleum downstream sector.

A) Lack of trust for Nigerian leaders based on their erstwhile failed promises as well as misleads, misdeeds and misrepresentation.
B) Corruption in the system especially at the political realm as the whole governance paraphernalia have been compromised, leading to outright lack of trust for any policy irrespective of its prospect.

C) The sorry state of Nigerian refineries which ought to be revamped for maximum domestic refining of oil as well as the lack of new one in the system instead of its privatization.
D) The role of labour unions in fighting the course of the masses as against the governments' whims and caprices which is usually the highest restraining factor in the Nigerian government/masses relationship.
E) We are oil producing and exporting country and should not be running comparative analysis with those who are non-oil producing and exporting countries.
F) The obvious claim that IMF policies and development cum economic reformatory strategies are anti-masses hence without human face; and deregulation of the downstream oil sector in Nigeria is an offshoot of their deregulation policy bequeathed to Nigeria during the Babangida era hence Jega noted that adherence to the structural adjustment programme policy prescription worsened Nigeria's economic crisis resulting in a generalized dearth of social welfare facilities such as healthcare, education etc. Therefore, the deregulation policy is heavily challenged (Okafor, 2012).

Conclusion and Recommendations

Deregulation is a good economic policy for sustainable development of Nigeria, provided social vices like unethical marketing practices of middlemen in the purchase, and distribution of the petroleum products are removed. The corrupt practices of both officials of NNPC and government officials must be avoided while the proceeds from the downstream should be used to provide social infrastructure, which will accelerate employment, job creation and 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 refineries 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.

The paper therefore, recommend that deregulation of the downstream oil sector must be gradually and consistently pursued to revive maximum result to all stakeholders and the nation. While that is being pursued, adequate infrastructure, especially refineries should be put in place. The four refineries already established should be maintained and made to operate at full capacity. This will help to reduce a huge subsidy burden and the money spent on refined fuel importation will be diverted to infrastructural development for the economy.

Again, the people who pose as independent marketers who import these oil and sell to Nigerians and those who smuggle the already subsidized oil out of the neighbouring countries to make great profit at the expense of the federal government and the entire Nigerian masses has to be stopped. Corruption has to be tackled and should becomes the only way to sanitize the system and therefore engenders the nation's economic development.

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