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**LIMITATING FACTORS ASSOCIATED WITH THE  
DEREGULATION OF THE DOWNSTREAM SECTOR OF THE  
NIGERIA ECONOMY**

**OGBU UGONNA CHRIS COLLINS; & NNABUENYI CHRISTOPHER  
CHUKWUNONSO**

*Department of Public Administration, Federal Polytechnic Oko*

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**ABSTRACT**

*In the history of Nigeria, deregulating the downstream oil sector through gradual or total subsidy removal has engendered intense debate in Nigeria with the government claiming that it will guarantee long term stability in product supply and price. As a result, this will lead to an advance and well developed economic transformation in the country. According to this study, the necessity for total deregulation of the downstream oil sector in Nigeria as a remedy to economic recovery of the country is addressed. This study also examined some of the problems that are facing the deregulation of the downstream oil sector in Nigeria, which are continuous increase in petroleum price, scarcity of petroleum product and so on. In a nutshell, these are the foremost problems that are confronting the deregulation of the downstream oil sector which government has to help solve through abundant provision of fuel and ensure products price control. It is discovered in the course of this research some of the objective which will be of benefit in the total deregulation of the downstream oil sector which includes, assessing the pattern of petroleum products pricing in Nigeria, examining the consumption pattern of petroleum products before and after the deregulation, investigating the effect of the deregulation of downstream oil sector on petroleum products pricing in Nigeria, examining the likely effect of the total deregulation of the downstream oil sector on the living standard of the people across the country and investigating how total deregulation of the downstream oil sector can be of high impact on the speedy recovery of the Country's battered economy. Also the study bought to bear the*

*reason why partial deregulation has not yielded the desired result in terms of prices and supply. Data was collected and used in this research work, as it is an important tool to unlock new discovery in any research study. Primary data was collected through structured interview from 342 respondents via administering of questionnaires. Survey method with the use of questionnaire was adopted in collecting data. The data was presented using tables while the mean ( $\bar{x}$ ) and simple percentage (%) were used in the analysis of such data. The findings and conclusion in the research work were also discussed, displaying that without proper management, control and investment the revenue generated from complete deregulation of the downstream oil sector will be squandered by corrupt government stakeholders. Also, there is fuel subsidy and there is a call on its removal proximately after all the necessary measures might have been put in place to avoid risks and control its effects on Nigerians, in order to make it work successfully as expected.*

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## **BACKGROUND OF THE STUDY**

It was admitted that petroleum marketing companies were the main springs of petroleum product's supply across the global world, most especially in Nigeria. The Nigerian petroleum industry is sub-divided into two main sectors, namely: the upstream sector – which deals with exploration and production, and the downstream sector – which deals with refining, distribution, and marketing of crude oil for domestic consumption. There was a time through the distribution and retail outlets of oil companies across the country, petroleum products are been transported and distributed to the end users. During this period, deregulation set-in and Nigerian paid market-determined prices for products. Meanwhile, this planning was not long-achievable because it was discovered to be solely engendered towards profit and market imperatives of the oil marketers. In the antiquity of the country's economic activities, there was its rapid expansion in the seventies such that private companies could no longer handle the surge rise in demand for the products. Sequel to this was the erratic supply of petrol and kerosene and eventually serious scarcity of the product. The scarcity was pervasive and birthed social and economic displacement in the country. Thereafter, government venture into petroleum products marketing and distribution as a result of this malady experienced in the oil sector.

It was the concern of the Nigerian government to overcome the challenges of inadequacy of policy and complete reliance on oil companies that led to policy

transference and inclination towards the sectorial regulations. However, government thus formulated uniform pricing to satisfy and gratify domestic demand, strengthen self-reliance and avoid a plight where oil companies could unexpectedly hold the country to ransom. By virtue of history, the nation experienced sufficient supply of petroleum products up till year 2000 A. D. After that, domestic production was destabilized making it domineering for demand to be met through importations, as a result of the continuous devaluation of the Naira on account of the implementation and execution of the Structural Adjustment Programme (SAP) combined with the non-maintenance of the existing refineries in the country.

It was noticed, that since 1999 the scarcity of petroleum products worsened in spite of increase in prices of the products. During the OlusegunObasanjoadministration government established the Petroleum Products Pricing and Regulatory Agency (PPPRA) to superintend the deregulation process, as portion of the sanctions of the Special Committee on the Review of Petroleum Products Supply and Distribution (SCRPPSD) that was set up in 2001 to proffer.

### **STATEMENT OF THE PROBLEM**

As the 6th largest producer of petroleum, If and only if one can look into the history of Nigerian economy, one will realize that gasoline or simply petroleum products supplies have always been challenging for successive governments in the country. By considering the democratic era, the supply and distribution of petroleum products enhanced but without a continuous price increase in petroleum products. During President Obasanjo's regime, most especially at the tail-end of his tenure, the country experienced unpleasant incidence of petroleum scarcity and one begins to wonder if any salient solution could be proffered to curb the ordeal.

Sequel to this, during the regimes of Presidents OlusegunObasanjo, Umaru Musa Yar' Adua and Goodluck Jonathan there was introduction of the committee system in championing the course of deregulation of the downstream sector of the petroleum industry. The accomplishment of these leadership committees, their styles and their roles as regards deregulation is still under surveys as observation revealed the increment in prices of petroleum products, while we await the establishment of the first private refinery.

Lots of argument against deregulation policy ensued and do opined that despite the good motives behind it, it is not realistic given the awful state of the nation's refineries, roads, railways and other socio-economic setups. Furthermore, it is observed that the Nigerian petroleum industry lacks integrity in terms of transparency, good governance, corruption and leadership as revealed by the just concluded probe report by the House of Representative.

The present situation which categorically typifies petroleum dissertation is as a result of numerous dispossessions and pains it caused Nigerians. It has always been an issue of concerns that in the past decade, supply of all products has been variable and on sharp decline in spite of the fact that the country is buoyant in crude oil exploration. In view of this, as supply declined, products prices have been on the high increase from one government regime to another. The collective effect of defective and derisory supply and continuous price surges have brought indescribable hardship to the citizenry and lots of havoc; it has made economic recovery unrealistic as promised by the immediate past and present democratically elected government owing to the fact that capacity utilization in the manufacturing region tailspins due to scarcities of industrial products. Consequently some of the once existing industries have been forced to close down because of some of these products non-availability.

In the quest for proffering solution to the problem which is seriously besetting many developing countries, structural modification of petroleum markets has become an acute component of macroeconomic liberalization policies. The role of leadership and the government in the petroleum sector is being redefined, and markets are being deregulated, that is to say, state involvements such as distinct treatments usually given to state-owned oil companies, price controls and monopolies are being altered and redefined. The rate at which the private sector is participating is high in more competitive environment, but to this end, the outcome of the deregulation of downstream sector has not been cheering. There has been constant increase in petroleum prices with endless scarcity of petroleum products. Deregulation was expected to give room for competition which would culminate to price reduction and outstanding supply as well as accurate distribution network of petroleum products.

Consequent upon the above, this study is keen to the following:

1. To assess the deregulation exercise in the country
2. To analytically evaluate its impact on petroleum pricing and consumption pattern

3. To evaluate its impact on the general living standard of the people
4. To research into how total or complete deregulation can be of high impact in correcting the battered aspect of the nation's economy.

### **OBJECTIVES OF THE STUDY**

The main aim of this research is to evaluate partial deregulation exercise that was carried out in the Nigerian downstream oil sector and also research into how total deregulation of the sector can be of relevance to Nigerian economy. Hence, the following objectives as enumerated below are the major areas of focus throughout this study

- i. To assess the pattern of petroleum products pricing in Nigeria;
- ii. To examine the consumption assortment of petroleum products before and after the already exercised deregulation;
- iii. To examine the petroleum industry as the supreme dynamic, lively and strategic sector of the Nigerian economy.
- iv. To observe the effect of the deregulation of downstream oil sector on petroleum products pricing in Nigeria;
- v. To investigate the likely effect or implication of the total deregulation of the downstream oil sector on the living standard of the people across the country.
- vi. To examine leadership roles in deregulation of the downstream sector of the country's petroleum industry.
- vii. To research into how total deregulation of the downstream oil sector can be of high impact on the speedy recovery of the Country's battered economy.

### **RESEARCH QUESTIONS**

The study would examine the following questions:

- i. What has been the pattern of petroleum products pricing in Nigeria over the years?
- ii. Has the deregulation exercise impacted on the consumption pattern of petroleum products in Nigeria since its existence?
- iii. To what degree has the deregulation exercise of the downstream oil sector impacted on petroleum products pricing in Nigeria?

- iv. What do you think is causing us to still be experiencing petroleum products price increases even after deregulation over the years in Nigeria?
- v. Do you think total deregulation of the downstream oil sector in Nigeria will generate deserve economic recovery?
- vi. Do you think the period of regulated downstream sector differ meaningfully from the deregulated period?
- vii. Has partial deregulation of the downstream oil sector in Nigeria produced to some degree the expected economic recovery of the country?
- viii. Does the poor operational state of Nigerian refinery worthy of a reason for deregulation?
- ix. Do you think Nigerian Leadership has roles to play in deregulation of the downstream sector of the country's petroleum industry?

### **The Relevance of Deregulation of the Downstream Sector of the Nigerian Petroleum Industry**

Deregulation of the downstream sector of the Nigerian petroleum industry has lots of benefit which includes deletion of ineffectiveness and wastages; enhanced services and facilities; and availability of funds for government to do other meaningful development projects. Also, deregulation of the downstream sector is expected to raise the economy to enviable standard, to create jobs for Nigerians, to expand the downstream sector facility and investment, to encourage private investors in the oil industry and allow more competition which will drive prices downward. As a result of deregulation of the downstream sector, products will be made available, there will be full cost recovery; there is going to be response to changing condition without political involvement; entry of new participants will be evident in the sector; From the NNPC context, the benefits of deregulation of the downstream sector are availability of products; there will be non-hoarding of fuel; there will be asset in new facilities- storage tanks, retail outlets trucks, and so on; there will be competition among marketers; facilities expansion will be possible; there will be employment opportunity among Nigerians and importation of products than exclusive dependence on NNPC.

### **SUMMARY AND DISCUSSION OF FINDINGS**

It can be deduced from the above findings that deregulation of Nigerian downstream oil sector implementation has impacted significantly on the consumption pattern and pricing of petroleum products in the country.

The period of regulated downstream sector has not differs meaningfully from the deregulated period in history of Nigerian petroleum industry. This is as a result of corruption that derailed the sector. Whereas partial deregulation of the downstream oil sector in the nation has produced to some degree economic recovery of the country.

It is observed that in Nigeria, petroleum subsidy is extremely high. Hence, Petroleum products subsidy actually poses challenges to the socio-economic growth of the country. The poor operational state of our refinery is another worthy reason why the oil sector in the country has to be urgently deregulated. It was also evidently observed that leadership in the petroleum sector has not been transparent and accountable and thereby not able to use the country's oil wealth to transform the lives of Nigerians. In short, there are myriads of challenges confronting the Nigerian petroleum industry as a result of leadership problems. Management Board and leadership in the petroleum sector, NNPC and its affiliates are to be completely refurbished in order for the changes desired in the sector to be timely manifested.

The petroleum sector is the supreme dynamic, lively and strategic sector of the Nigerian economy. Meanwhile, deregulation of the downstream sector will lead to economic growth and development of the country and will expose the sector to foreign investment and creation of employments.

It is affirm that according to the study that total deregulation of the downstream sector will minimize if not totally eradicate the crisis in the petroleum sector; as a result of this Nigerian leaders has paramount roles to play in deregulation exercise of the downstream sector of the country's petroleum industry.

However, there is fuel subsidy and there is a call on its removal proximately after all the necessary measures might have been put in place to avoid risks and control its effects on Nigerians, in order to make it work successfully as expected. Total deregulation of the downstream oil sector in Nigeria will largely produce more expected economic recovery as experimented.

## **CONCLUSION**

The findings from this study reveal that partial deregulation has not absolutely yielded the expected recovery in the nation's economy. Corruptions and the likes have derailed the Nigerian petroleum industry; this needed to be checked. As a matter of exigency, if deregulation, most especially when it comes to complete deregulation of downstream sector of the Nigerian petroleum industry will come to reality, Nigerian government should involve stakeholders, such as, Nigerian Labour Congress and Civil Society Organization officials in matters of importance regarding policy making, design, development and implementation in all areas of governance, most especially, the policy of subsidy removal by government which has been issue of concern in the country.

Leaders must be very ready across all sectors of Nigerian economy to take up responsibilities and not see Public service most especially petroleum industry as a means to enrich their individual purses; transparency and accountability should be their watch-word. Followers should also support the leaders in order to make leadership work successfully in the petroleum industry. Unemployment has been the fear of Nigerians, though it cannot be avoided from the initial stage of complete deregulation implementation, but government can create operative and effective safety nets so as to handle welfare matters that may ensue.

### **RECOMMENDATION**

Going through the facts established in this study, as a matter of fact, the Nigerian petroleum industry is a strategic, sensitive and very attractive wealth deposit sector of the country's economy. The attention of all and sundry is highly solicit as regarding the sectorial happening, since almost all economic happenings in the country spin round this sector.

However, for efficiency and effectiveness of the Nigerian petroleum sector following recommendations are made:

Total deregulation of the downstream sector should be adopted as it will minimize if not totally eradicate the crisis in the petroleum sector. Also, deregulation of downstream oil sector will help recover the lost wealth in the economy aspect of the country. To achieve this all necessary tools and strategies which will foster timely economic recovery of the nation must be put in place. There is necessity for attitudinal changes towards leadership at different stages in both public and private sector of our country Nigeria as this will in turn restore the dignity of the nation's economy.

The maintenance and overhauling of the existing refineries for optimum domestic production should be ensured.

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