

**THE EFFECTS OF GOVERNMENT'S DEREGULATION OF THE
DOWNSTREAM PETROLEUM SUBSECTOR ON THE
ECONOMY OF LAGOS STATE, NIGERIA.**

1960-2007

BY
STEPHEN LAZI AKHERE
(MATRIC. NO.NSU/SS/038/PHD/2006/2007)
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DECLARATION

I, Stephen Lazi Akhere, certify that the thesis has been written by me through a methodical study and readings. It has not been beforehand presented in any application for a Doctor of Philosophy Programme. All information used has been duly acknowledged in the references.

APPROVAL

This thesis entails “**The Effects of Deregulation of the Downstream Petroleum Subsector on the Nigerian Economy, 1999-2007**” has been read and approved as meeting the requirement for the Award of a Doctor of Philosophy Political Economy of the Department of Political Science, Nasarawa State University, Keffi, Nigeria.

Prof. Shuaibu .A. Ibrahim
Supervisor

Date

Prof. Shuaibu .A. Ibrahim
Dean, Faculty of Social Sciences

Date

Dr. Abdulliahi .S. Modibbo
Head of Department

Date

Prof. Zaynab Alkali
Dean, Post-Graduate School

Date

External Examiner

Date

DEDICATION

This research work is dedicated to the almighty God who granted me strength and to my aged mother Mrs Isebhere, my most patient wife, Mrs Stephen Gloria Ajiri, my children; Jethro, Bethel, and Barachel who encouraged me throughout the period of the research.

Finally, “this research work” is dedicated to those in search of honest means of acquiring knowledge and the justification of such acquisition through honest contribution to the furtherance of discipline of the knowledge so acquired.

Stephen Lazi Akhere.

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TABLE OF CONTENTS

CHAPTER ONE

1.0. Introduction	
1.1. Background of the Study	1-6.
1.2. Statement of the Problem.....	6-8.
1.3. Aims and Objectives of the Study.....	8-9.
1.4. Research Questions.....	9-10.
1.5. Research Propositions.....	10-11.
1.6. Significances of the Study	11-13.
1.7. Scope of the Study	13-14.
1.7.1. The Study Area.....	14-33.
1.8. Limitations of the Study.....	33.
1.9. Organisational Structure of the Thesis	34.
1.10. Definition of terms.....	35-44.

CHAPTER TWO

2.0. LITERATURE REVIEW AND THEORETICAL FRAMEWORK:	
2.1. Concept of Public Policy	45-51.
2.2. Concept of Deregulation Policy.....	51-67.
2.3. Deregulation Policy Change and its Implementation in Nigeria	68-72.
2.4. Policy of Regulation, Deregulation, Privatization and Liberalization in Nigeria	73-77.
2.5. Deregulation in Developed Countries	78-84.
2.6. Deregulation in Developing Countries	85-91.

2.7. Theoretical Framework	91-97.
2.7.1. <i>Justification of Theory</i>	97-100.

CHAPTER THREE

3.0. RESEARCH METHODOLOGY

3.1. Research Design	101-102.
3.2. Sources of Data.....	102-107.
3.3. Target Population.....	107-108.
3.4. Population Sample.....	108.
3.5. Sample and Sampling Techniques.....	108.
3.5.1. <i>Questionnaires</i>	119-110.
3.5.2. <i>Method of Questionnaire Administration</i>	110.
3.6. Methodological Challenges.....	111.
3.7. Method of Data Analysis.....	111-112.

CHAPTER FOUR

4.0. DEREGULATION POLICIES IN THE NIGERIA PETROLEUM DOWNSREAM SUBSECTOR

4.1. Colonial Era	113-116.
4.2. The Military Regimes and Expansion of the Nigerian Petroleum Sector.....	116-123.
4.3. Structural Adjustment Programme and the Nigerian Oil Industry	123-130.
4.4. The Collapse of Nigerian Oil Economy, 1980-1995	130-135.
4.5. Petroleum Products Prices and Subsidies in Nigeria	136-137.
4.5.1. <i>Component Cost</i>	137.
4.5.2. <i>Exploration Cost</i>	137-138.

4.5.3. Development Cost	138.
4.5.4. Operational Cost.....	138-139.
4.4.5. Refining Cost.....	139-140.
4.5.6. Distribution Cost.....	140.
4.5.7. Marketing Margins	141.
4.5.8. Total Cost.....	141.
4.5.9. Effect/Politics of oil subsidy on the Economy of Nigeria.....	141-148.
4.6. Deregulation Policy in Nigeria.....	148-165.
4.7. Effects of Deregulation on Lagos State Economy.....	166-174.
4.8. Constraints to Deregulation Policy in Nigeria	174-179.
4.8.1. The Impact of Petroleum Products pricing on the economy.....	179-185.
4.8.2. Analysis of Changes in Petroleum Pump prices in Nigeria.....	185-191.
4.8.3. Effects of Exchange Rate on Petroleum Pricing.....	192-196.
4.9. Macroeconomic Indicator of Deregulation.....	197-211.
4.9.1. Socioeconomic Benefits of Deregulation Policy in Nigeria.....	211-214.

CHAPTER FIVE

5.0. ANALYSIS AND DISCUSSION OF DATA ON THE EFFECTS OF DEREGULATION IN LAGOS STATE, NIGERIA.

5.1. Data Analysis	215-217.
5.2. Respondents' PENGASSAN view on Deregulation Policy.....	218-221.
5.3. Respondents' NUPENG view on Deregulation Policy.....	222-225.
5.4. Respondents' OIL COMPANIES Opinion on Deregulation Policy	225-228.
5.5. Respondents' PUBLIC Opinion' on Deregulation Policy.....	229-232.
5.6. Respondents Involvement and Assessment of Deregulation Policy	

.....	231-240.
5.7. Implementation of Deregulation Policy in Lagos State.....	240-255.
5.8. Effect of Deregulation on Lagos State Economy.....	256-271.

CHAPTER SIX

6.0. SUMMARY, CONCLUSION AND RECOMMENDATION

6.1. Summary.....	272-274.
6.2. Conclusion.....	274-278.
6.3. Recommendations.....	278-284.

REFERENCES

A. Books.....	285-289.
B. Journals.....	290-292.
C. Websites.....	293-294.
D. News Papers/Magazines.....	295-296.
E. Unpublished Works.....	296-298.

Appendix 1: Questionnaires	299-303.
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Appendix 2: Petroleum Industry Bill (PIB)	304.
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Appendix 3: PPPRA Current Statutory Templates for the determination of Petroleum Pump Prices; thus: PMS, HHK, AGO, and DPK.....	305-309.
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LIST OF TABLES

- Holding Capacity of Petroleum Depots (All Figures in M3)..... 29.
- Draught Limitation of Petroleum Receiving Jetties 32.
- Population Sampled Cases 109.
- Holding of Bank Development Stock (N Million) 127.
- Nigeria Balance of Payment of Oil & Non-oil..... 170.
- Analysis of Changes in Petroleum Pump prices in Nigeria.....188-189.
- PMS Supply Price & other Market Indicators..... 192.
- Selected Macroeconomic Indicators 198.
- Current Revenue of the Federal Government 200-206.
- Federal Government Account Operation (N Million) 207.
- Distribution of Questionnaires..... 216.
- Respondents' PENGASSAN view on Deregulation Policy..... 218.
- Respondents' NUPENG view on Deregulation Policy 221.
- Respondents' Oil COMPANIES Opinion on Deregulation Policy 225.
- Respondents' PUBLIC Opinion on Deregulation policy..... 229.
- Respondents' Assessment on the level of Products Availability... 232.
- Respondents' Assessment of Price increase vis-a-vis Quenes at Petrol Stations
as a result of removal of government subsidy 234.
- Respondents' Assessment on the removal of government subsidy, its Positive
Impact on the Economy 235.

- Respondents' Assessment of Deregulation and its effect on Price Volatility of Petroleum Products 237.
- Respondents' Opinion on various attributes to Petroleum Products Price Volatility..... 238.
- Respondents' Assessment of the impact of government cushion measures resulting from Price increase 240.
- Respondents' Assessment of the effect of implementation of deregulation policy in Nigeria 242.
- Respondents' opinion on possible internal constraints against effectiveness of the Policy 244.
- Respondents' opinion on possible external constraints against effectiveness of the Policy..... 246.
- Respondents' Opinion on possible benefits from Deregulation of the Petroleum downstream subsector..... 248.
- Views on Improvement on the Existing Local Refineries Capacity Utilisation or Encourage the establishment of new refineries 251.
- Respondents' views on the impact of capacity utilisation of local refineries and the need to establish new ones for products availability and price stability 252.
- Respondents' views on the effectiveness/implementation of deregulation policy in the oil & gas industry 254.

- View the effects of deregulation policy on Lagos/Nigeria economy 255.
- Respondents' views on the achievement of deregulation policy as facilitator of the sector for socioeconomic change in Nigeria 257.
- Respondents' views on policy given equal level playing ground to stakeholders in the oil & gas sector 259.
- Respondents' views on deregulation policy as a motivating factor to increase economic activities in Nigeria 261.
- Respondents' views on deregulation policy as a tool for expanding productivity capacity of the economics of Nigeria 263.
- Respondents' views on excessive control of government functionaries and other internal factors affecting the implementation of deregulation policy 264.
- Respondents' views on the need to redesign the oil & gas policy to attain its statutory objectives 266.
- Respondents' views on measures to be taken for the eradication of the observed problem associated with the policy implementation. 268.

LIST OF FIGURES

Fig.4.3.1. Holding of Development Stock (₦ in Millions)	128.
Fig.4.8.1. Petroleum Price Increase	190.
Fig. 4.8.2. Line Chart on PMS supply Via other indicators	193.
Fig. 5.1.1. Distribution of questionnaire to respondent.....	216.
Fig. 5.2.1. Respondents PENGASSAN.....	219.
Fig. 5.3.1. NUPENG result analysis in percentage	222.
Fig. 5.4.1. Oil companies result analysis in percentage.....	226.
Fig. 5.5.1. Public result analysis in percentage.....	230.
Fig. 5.6.1. Respondent' assessment of the level of products availability..	233
Fig. 5.6.2. Respondents' assessment of price increase/queues at petrol stations as a result of the removal of government subsidy.....	234.
Fig. 5.6.3. Respondents' assessment on the removal of govt. subsidy its positive impact on the economy.....	236.
Fig. 5.6.4. Respondents' assessment of deregulation and its effect on price volatility of petroleum products.....	237.
Fig. 5.6.5. Respondents' opinion on various attributes to petroleum product price volatility	239.
Fig.5.7.1. Respondents' assessment of the impact of govt. cushions measures resulting from price increase.....	241.

Fig. 5.7.2. Respondents' assessment of the effect of implementation of deregulation policy in Nigeria.....	243.
Fig. 5.7.3 Respondents opinion on possible internal constraints against deregulation Policy.....	245.
Fig. 5.7.4. Respondents' opinion on possible external constraints against effectiveness of deregulation Policy.....	247.
Fig. 5.7.5 Respondents opinion on possible benefits of deregulation of the petroleum downstream subsector.....	249.
Fig. 5.7.6. Views on Improvement on the exiting Local Refineries Capacity or encourage the establishment of new refineries.....	251.
Fig. 5.7.7. Respondents' views on the impact of capacity utilization of local refineries and the need to establish new ones for products availability and price stability.....	253.
Fig. 5.7.8. Respondents' views on the effectiveness/implementation of deregulation policy in the oil & gas industry	254.
Fig. 5.8.1. Views on the effect of deregulation on Lagos/Nigeria Economy	256.
Fig. 5.8.2. Respondents' views on the achievement of deregulation Policy as facilitator of the sector for socioeconomic change in Nigeria.....	258.
Fig. 5.8.3. Respondents' views on policy giving equal level playing ground to stakeholders in the Oil & Gas sector	259.
Fig. 5.8.4. Respondents' views on deregulation Policy as a motivating factor to increase economic activities in Nigeria.....	261.
Fig. 5.8.5. Respondents' views on deregulation Policy as a tool for expanding productivity capacity for the economy of Nigeria	263.

Fig. 5.8.6. Respondents' view on excessive control of government functionaries and other internal factor affecting the implementation of the policy..... 265.

Fig. 5.8.7. Respondents' view on the need to redesign the Oil & Gas policy effective implementation to attain its statutory objectives..... 267.

Fig. 5.8.8. Respondents' view on measures to be taken for the eradication of the observed problems associated with policy implementation..... 269.

ABSTRACT

The revolution in the Oil and Gas industry and availability of petroleum products to the final consumer now forms the mainstay of business activities in the downstream subsector in Nigeria. This sector contributes about 65-70 percent of the total socio-economic activities including a major energy generator to all sectors of the economy. Deregulation policy of the downstream subsector is the action-plan of the government pertaining to petroleum sector of the economy, describing the intended objectives and how to achieve them. The policy objective is to improve petroleum supply and distribution network and better service delivery. Notwithstanding the implementation of this policy, the nation is still confronted with unending problems occasioned by ineffectiveness of policy direction, low capacity utilization of the local refineries, inadequate products supply for local consumption, price volatility, etc. These constraints have assumed worrisome proportions as a result of the inability of the policy implementation to attain its statutory objectives. It is on this premise that this study is saddled with the task of examining the real and potential prospects for fundamental changes in the formation and apparatus of the petroleum downstream subsector. Furthermore, this study sought to indisputably examine the effects of deregulation of petroleum downstream subsector on the Nigerian economy with Lagos State as a point of reference. The outcomes will possible assist policy makers and stakeholders so as to make the necessary adjustment towards its successful implementation. Both Primary and Secondary sources of data were obtained from relevant establishment to provide a platform for the comparative and theoretical discussion. Primary data was obtained from designed questionnaire administered on respondents within Nigeria via Lagos State. Secondary data on the other hand was sourced from existing publications on oil and gas and non-published materials. The major findings of the study indicate that the challenges facing the development of the sector are enormous; thus effective policy implementation has become a challenge to the government to enhance the sectors much needed structural transformation, which was impelled by the current global economic recession. The implementation of the deregulation policy in the petroleum downstream subsector has not been effective, thus requiring the necessary adjustments and changes that will reposition the downstream subsector, so as to derive the benefits expected from the policy. The studies therefore opines that for effective products and service delivery by the sector, and to successfully transform the nation's economy, the interest of the citizenry and their involvement in the Oil and Gas industry must be taken into consideration and above all, the establishment of a broad-based deregulation of the downstream subsector devoid of monopoly in any disguise would trigger economic industrialization in the country.

CHAPTER ONE

INTRODUCTION

1.1. BACKGROUND TO THE STUDY

The dominance of oil in the global economic scene continues to engage the attention of both rich and poor nations alike, the consumer nations as well as exporters of this apparently industrialised commodity in the economic wheels of industrialisation will continue to generate heat in the world market for decades to come, (Todaro, 1983).

After the amalgamation of 1914, interest in Nigerian oil started with an ordinance making any oil and mineral under Nigerian soil legal property of the Colonial Masters in 1938. The development in the petroleum sector came to be after the colonial period of 1960s where agriculture was the mainstay of Nigerian economy with over 70 percent of gross domestic product (GDP) contribution to the wealth of the nation.

As at 2000, crude oil exports accounted for more than 98 percent of export earnings and about 83 percent of federal government revenue. It also provides 95 percent of foreign exchange earnings, and about 65 percent of government budgetary revenues. Hence, it plays a vital role in shaping the economic and political destiny of the country. Although Nigeria's oil industry was founded at the beginning of the century,

it was not until the end of the Nigeria civil war (1967 - 1970) that the oil industry began to play a prominent role in the economic life of the country, (Gbadebo, 2008).

Nigeria is the 7th largest exporter of crude oil in the world, at the same time the country has one of the highest rates of poverty in the world. However the position and contribution of agriculture to the Nigerian economy has consistently been on a decline since the discovery of oil and the population engaged in agriculture has dwindled, (Ajakaiye, 2001).

Oil was discovered in Nigeria in 1956 at Oloibiri in the Niger Delta after half a century of exploration. Before then, agricultural produces were the main engine of the Nigerian economy contributing about 70 percent single digit contributor to national income (NI), with the balance of 30 percent coming from other sectors (Textile and Manufacturing Industries), (Adedipe, 2004). The discovery was made by Shell-BP, at the time the sole concessionaire. Nigeria joined the ranks of oil producers in 1958 when its first oil field came on stream producing 5,100 barrels per day.

Nigeria's proven oil reserves are estimated between 22 and 35.3 billion barrels. The reserves make Nigeria the tenth most petroleum-rich nation, and by far the most affluent in Africa. In mid-2001 Nigeria's crude oil production was averaging around 2.2 million barrels per day. Nearly all of the country's primary reserves are concentrated in and around the delta of the Niger River, but off-shore rigs are also prominent in the well-endowed coastal region. Nigeria is one of the few major oil-producing nations still capable of increasing its oil output. Unlike most of the other

OPEC countries, Nigeria is not projected to exceed peak production until at least 2010. The reason for Nigeria's relative unproductiveness is primarily OPEC regulations on production to regulate prices on the international market. More recently, production has been disrupted intermittently by the protests of the Niger Delta's inhabitants, who feel they are being exploited. Over the past forty years the oil industry has made a variety of contributions to the Nigerian economy. These have included the creation of employment opportunities; local expenditure on goods and services; contributions to government revenues, gross domestic product; foreign exchange reserves; and the supply of energy to industry and commerce. The nationalistic fervour that followed the attainment of independence in 1960 made Nigeria to evolve a seven-year first National Development Plan (1962-1968). The focus of that plan was to industrialize the economy quickly through the import substitution strategy. The implementation of this plan was chequered because of the political instability that eventually led to the civil war between 1967 and 1970, (Nnanna, Alade & Odoko, 2003).

This scenario was to change massively in the 1970s as the disruptions to economic activities by the civil war gave way to broad economic policies for reconciliation and reconstruction. As Nigeria gradually settled into normal economic activities, the first major economic policy of the 1970s was introduced. This was the Udoji Commission's comprehensive review and evaluation of jobs in the public service, which led to new pay and benefits structure, representing the first policy impact of the oil wealth. This changed the psyche and consumption habit of the average

Nigerian, considered prosperous and able to afford most of the good things of life. (Adedipe, 2004)

This was followed by the Indigenization Decree in 1974 and 1977, the latter more comprehensive and far-reaching. The policy sought to put the commanding heights of the Nigerian economy in the hands of Nigerians within the context of nationalism. Several foreign investors divested from Nigeria, not by choice, but because of the policy that made it impossible for them to own certain ventures 100 percent, or not more than 60 percent or 40 percent as the case may be. It was in the process of implementing this policy that oil became a major revenue earner and the policy fundamentals changed, (Tell Magazine, August 2008).

As oil revenue ballooned in 1973/1974, the Nigerian Government embarked on several ambitious and expensive projects, having little or no economic value. There was no concrete economic programme that would do any of the two important growth triggers in Nigeria:

- Unleash the entrepreneurial energy of the typical resilient Nigerian;
- Small and Medium Scale Enterprises (SMEs) in the non-oil sector.

By 1978, there was a downturn in oil earnings as crude oil prices dipped in the international markets and the first major economic policy, labelled ‘Belt Tightening’, was introduced by Obasanjo’s military government. Following closely in 1979, Nigeria resorted to the international capital markets to raise external loans (commonly referred to as the “jumbo loans”) to fund development projects that were hard to place. The 1980s brought in its wake, three major economic policies namely:

- The recommendations of the Onosode Commission on pay structure in Government Parastatals adopted in 1981.
- The Economic Stabilization Act of 1982, which was the response of the Shagari's civilian administration to dwindling oil earnings and major external sector imbalances.
- The Structural Adjustment Programme (1986-1988) by Babangida's military administration, with the active support of the World Bank. This was Nigeria's first bold step on wide-ranging reforms in almost all the major sectors of the economy. It recorded some significant gains for the first two years, but suffered a setback when certain aspects of it were reversed and inconsistencies (internal and sectoral) became prevalent, (Anyawu, 1992).

Each of these policies was reactive to developments in the international oil markets, which was depressed for much of that period and had only occasional spikes.

Oil and Policies in the 1990s might be described as a period of reversals and lost opportunities. The series of reforms and reversals of the late 1980s took its toll on the real sector of the economy and the effects were transmitted to the financial system. This was also the period Nigeria experienced some windfall gains from the strong oil prices as a result of the Coalition Forces/Iraqi war of 1990. The experimentation with deregulation and liberalization was truncated in 1994 with the advent of the military administration led by late Abacha.

Up until June 2003, there was no clear economic direction. Weak institutional legal environment stymied the benefits that would have accrued from oil earnings, which had started to firm up. The entire scenario changed in 2004, with the formal

announcement and presentation of the Federal Government's economic agenda, tagged the National Economic Empowerment and Development Strategy (NEEDS). NEEDS is a medium-term strategy that seeks to implement series of reforms that would lay a solid foundation for a diversified Nigerian economy by 2007. It sets specific goals in major growth indices as wealth creation, employment generation, institutional reforms and social charter, (Ajakaiye, 2001).

1.2. STATEMENT OF THE PROBLEM

In recent times, as strategic as the oil and gas is to the micro and macroeconomic activities of the nation's economy, the downstream subsector is characterised with ineffectiveness and inefficiency due to long neglect of the local refineries, sectorial corruption, obsolete legal framework for the oil and gas sector; Nigeria's import dependence economy and imperialistic policy for wider varieties of necessary resources for development which basically placed us in continuous dependence on western ideology perpetuated by the interference of domestic and Western elite, (Ajakaiye, 2001).

That Nigeria is still underdeveloped is ironic as most nations at par with her at the time of her independence in 1960 have found a place for themselves in the comity of emerging market economies of the world. Such countries include Malaysia, Ghana and South Africa. It is even more pathetic as the country continues to slip further down the aisle of problem nations in the socio-economic and political sphere. The

identified problem unfortunately is with the way and manner the petrol-economy has been mismanaged by government and players of the industry, (Adelman, 1976).

Over the years, industry watchers, opinion moulders and civil rights campaigners have been very critical of the role being played by stakeholders and government in the oil and gas industry vis-à-vis their commitment to policy implementation, these were viewed as complaisant attitude of investors towards better service delivery, as they are more concerned with profiteering and individual enrichment for the benefit of their class gave rise to numerous problems which have been identified as critical to the success of any resolution of the problems of the oil and gas industry. These include:

- i. Low capacity utilisation of the four States-owned refineries including petrochemical plants due to poor maintenance culture and its inherent cost implication;
- ii. Ineffective and inefficiency of Government Policy Implementation,
- iii. Petroleum Products Price volatility as a result of inadequate supply and poor distribution network system resulting to protracted queues at filling stations,
- iv. Illegal bunkering and cross-border smuggling and hoarding of petroleum products;
- v. Burden of subsidy on national economy;
- vi. Inability to attract investment in midstream while licensed refineries could not operate; and

vii. The sorry state of disrepair of logistic facilities (pipelines, depots and jetties) due to vandalism across Lagos State. (RSCRPPSD, 2000).

All of the above are remote causes for the lingering, and intractable crisis associated with the downstream subsector of the petroleum industry in Nigeria for close to four decades now and these are predictable outcome of government failed policy programmes.

Hence, the deregulation policy as introduced by the Federal Government has the ultimate goal of liberalizing the Nigerian economy. So if any country is suitable for the research on the effects of deregulation of the downstream petroleum subsector on both the economy and rural wealth creation is Nigeria and Lagos State a place to focus.

1.3. AIMS AND OBJECTIVES OF THE STUDY

The aim of this research is to examine the effect of government deregulation policy on the petroleum downstream subsector of the economy of Nigeria.

Pursuant to the above purpose, this study aims at achieving the following objectives:

- i. To verify and examine various policies in the downstream subsector of the petroleum industry;
- ii. To identify and examine policy issues on the petroleum downstream deregulation;

- iii. To verify and evaluate the effects of the deregulation policy in Nigerian economy;
- iv. To assess the role of constrain (operates) in the deregulation policy implementation;
- v. To make appropriate recommendations in the downstream petroleum sector;
- vi. To examine the experiences of other countries' deregulation policy;

The combination of the above mentioned aims/objectives provided us the insights that contributed in answering the research questions.

1.4. RESEARCH QUESTIONS

In order to effectively answer the research questions and present an empirical study, the few empirical questions are formulated:

- i. Is the deregulation of petroleum downstream subsector justified in terms of socio-political readiness?
- ii. Is deregulation a catalyst for the repositioning of socio-economic development?
- iii. Is there uniform pump pricing of petroleum products across the country in the current regulatory system?

- iv. What role does government play in ensuring the actualisation of deregulation policy?
- v. Is there a level playing ground for investors in the policy?
- vi. Could the existing refineries be improved upon to meet up with the demand challenges?
- vii. What are the impacts of subsidies on the Nigeria economy?
- viii. What factors are responsible for the determinant of petroleum products pricing?
- ix. In what ways can deregulation reposition the economy?

1.5. RESEARCH PROPOSITIONS

To adequately carry out the research work, the following propositions are made:

- i. The deregulation policy has not impacted positively on the petroleum downstream subsector and the economy at large;
- ii. The policy/strategies of deregulation to make petroleum products available to Nigerians and the people of Lagos State in particular as well as achieving price stability have not been effective;
- iii. Is to allow market fundamentals i.e., economic indicators that will strengthen the pricing regime of the policy;
- iv. The measure taken by the government to deregulate the petroleum downstream subsector with a view to making it competitive has not met

the desire objective since NNPC is still monopolizing the business of the sector;

- v. The measure taken by the government to cushion price volatility through subsidization of Petroleum products will only stagnate the holistic development of other infrastructure as fewer individuals stand to enjoy subsidy against the larger population, hence it is of no significant to economy development;
- vi. The deregulation of the petroleum downstream subsector has brought the desire competition in the sector;
- vii. The challenge to effective implementation of the deregulation policy towards the efficient and effective performance of the petroleum downstream subsector is yet to be countered;
- viii. The partial deregulation currently experienced in the country has encouraged investment and job creation.
- ix. Price volatility will be a thing of the past as market fundamentals will determine petroleum products pricing.

1.6. SIGNIFICANCE OF THE STUDY

The significance of this research work is very tasking and demanding since it bothers on both national and international issues that will be of immense benefit to political economy scholars, readers, all tiers of government establishment and apparatus, students/researchers alike and all those in search of knowledge. The extremes have

always been whether government deregulatory policy of the downstream subsector should reflect their economic opportunities cost. However, since the return to democracy in 1999, the policy thrust seems to favour Market-based economic approach that is, Import Price Parity (IPP) and Export Parity of Products (EPP).

But over the years, the implementation of domestic Petroleum Products Pricing Policies in the petroleum Sector has led to general strikes; principally engineered and organised under Coalition of Labour, Civil Society and Students' Groups; costing the economy incalculable losses of man-hours, growth opportunities and losses of lives and properties, (Posner & Richard, 1992)

The bond of contention is that if the deregulation policy of the downstream subsector of the economy, favours market-based pricing of domestic petroleum products, can market work in political environment that may not tolerate the short-term price volatility (with all the pains associated with it) that may bring the expected long-term efficiency in the economy. The counter-intuition argument however is that, to the contrary, market fundamentals competitive pricing (as opposed to administered pricing regimes) will succeed in producing an improvement (a change that increases social net benefits but does not necessarily make everyone better off) on the long-run, (Atiku, 2005).

The research will contribute to petroleum economy, downstream petroleum policy guidelines, and public policy analysis fact-files, especially those analysts of petroleum and gas economics, initiators of energy pricing policy, government reform agenda; particularly in the exportation of oil by developing countries. Also, we will

try to bridge the gaps through research and knowledge by harnessing the theories of traditional standard economic empirical approach and theories of political economy approach in order to synchronise both approaches for a better understanding of the effects of government deregulation policy of the downstream petroleum subsector on micro and macro-economic indices of the economy.

This approach will provide a unique theoretical case-study of Nigerian downstream deregulation regime under a democratic scenario. However, my argument is towards the benefits associated to a well driven deregulatory petroleum downstream subsector economy in the long run, more so, my reservation is our inability to maintain and sustain the policy if not being politicised or hijacked by elites. Furthermore, the approach to this research is considered suitable as it examines related global economic production of goods and services, wealth distribution against the need for economic efficiency, and holistic overview in the sustainability and management of the economy in general.

Significantly, the recommendations therein shall be applied by all stakeholders and various tiers of government apparatus to resolve the problems associated with policy implementation of the deregulation of the downstream subsector, geared to economic growth, hence, enhancing socio-infrastructures that will trigger national integration.

1.7. SCOPE OF THE STUDY

The scope of this study is on the effect of government deregulation policy of the downstream petroleum subsector on the Nigerian economy. It would assess the impact of the policy on national development, with special reference to Lagos State. It appraises the significance, and performance of the impact of government policy in a deregulated petroleum subsector of the commercial city of Lagos from 1999-2007.

However, 1999 -2007 is selected for this research work; the choice of this period is guided by the following reasons: data availability and Socio-political expediency in Nigeria economy. In the past, these factors have contributed immensely to the hitherto scanty empirical studies on Nigeria's Petroleum Sector. It also examines the basic changes that took place in the Nigeria Petroleum Sector showing the impact of such changes on the Petroleum downstream sub-sector. It shows how the policy on deregulation is implemented, crises associated with Price volatility, the impact of stakeholders in the subsector, impact of Public perspectives concerning the non implementation of previous Government policies, removal of subsidies on Petroleum Products, the role of elite class in the reform initiative, influence of Western bloc, Monopoly of Nigerian National Petroleum Corporation (NNPC), Petroleum Pipelines Marketing Company (PPMC), Petroleum Equalisation Fund (PEF) and other crises associated with pricing policy, (Chakrovorty, 2000).

1.7.1. THE STUDY AREA

Nigeria is located about 10° north of the equator and 8° east of the Greenwich meridian. The country has a landmass of 923,769km² and is bounded by four

francophone countries, Niger to the north, Benin to the west, Cameroon to the east and Chad to the northeast, while the south is bordered by the Atlantic Ocean (McLennan, James & Stewart, 2005).

The country is characterized by a strong climatological gradient from north to south with definitive dry and wet seasons. The southern part of the country experiences heavier rainfall with annual rainfall above 4000mm while in the North rainfall barely exceeds 600mm. This climate has given rise to two types of vegetation; tropical forest and savannah. These are further classified to six ecological zones, beginning from the north with the Sahel, Sudan and guinea savannas, to the tropical rainforest, freshwater swamp forest and mangrove swamps of the south (McLennan, James & Stewart, 2005).

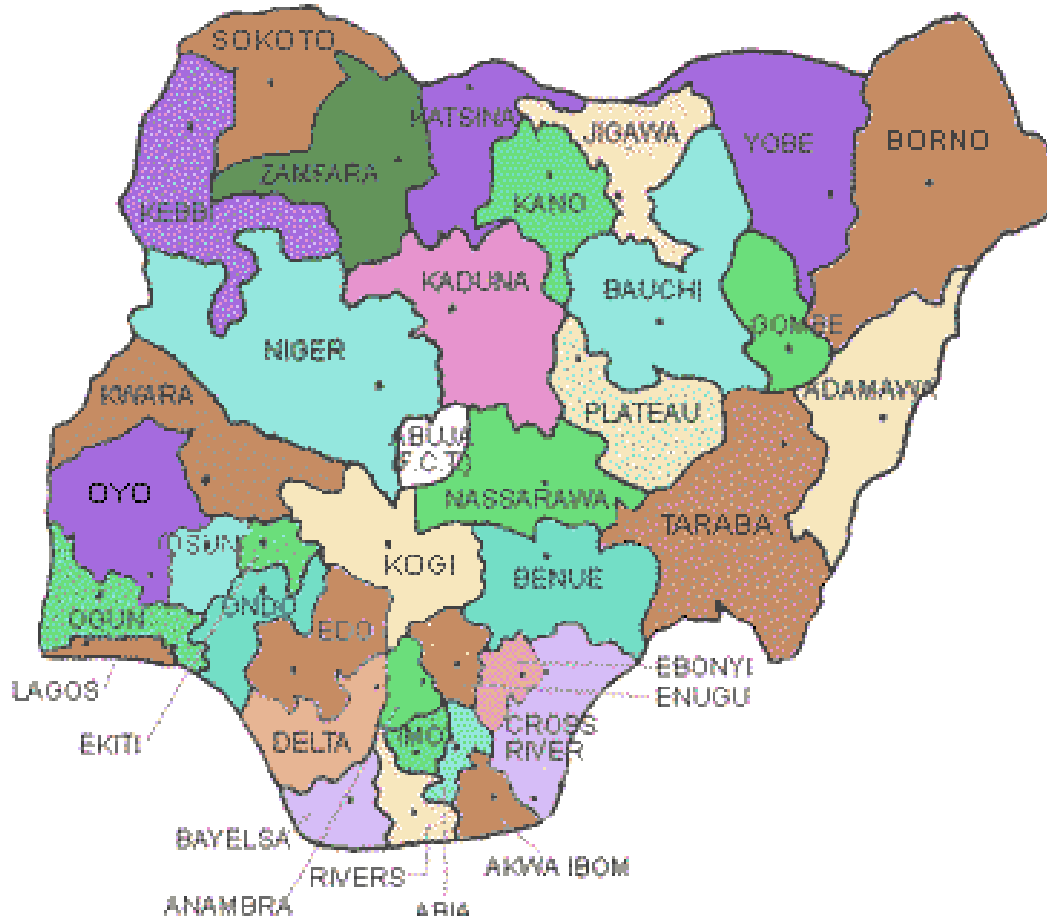
Nigeria is linked by three major river systems, the Komadougou- Yobe river system in the north with head waters formed by the Hadeja, Jama'are and Misau rivers and draining into the 11 Lake Chad, the Niger River systems comprising the rivers Niger and Benue and draining into the Atlantic Ocean. The coastal drainage system is formed by smaller rivers oriented east or west of the Niger delta. The country has two major lakes, the Lake Chad to the northeast and the Kainji Lake, the latter formed by the damming of the river Niger. (Atiku, 2005).

The country is generally characterized by a gentle and rolling topography. The terrain is varied from north to south. The south is made up of peneplains formed by the river

systems. The Jos plateau in the central part of the country is made of a rugged terrain with elevations about 5000 feet above sea level. A mountain terrain is found on the eastern border with Cameroon with elevations ranging from 4000 to 7000 feet above sea level. Other areas of the country are dotted by escarpments and volcanic plugs (ARD 2002). Nigeria is the most populous country in Africa, the 2006 national census pegged the country's population at 140,003,542 (National Bureau of Statistics). More than half of the population live in urban areas, and the population is characterized by a strong rural-urban migration. Annual population growth rate is put at over 3 percent (Boele, 2001).

Nigeria is made up 36 States including Federal Capital Territory, Abuja and over 250 ethnic groups of which the dominant and populous ones are the Hausa Fulani, Yoruba and Igbo. Lagos State is the commercial city of Nigeria. The economy is dominated by petroleum, accounting for over 80 percent of government revenue and GDP, 90-95 percent of export earnings and over 90 percent of foreign exchange earnings. Agriculture once a dominant player has been on a steady decline and its contribution to GDP is now less than 28 percent (see Map I; World Bank, 2001).

1.7.2. Map 1: Nigeria indicating States



Source: Federal Ministry of Information & Communication, (2008).

Lagos State, Nigeria was created on May 27 by Decree No. 14 of 1967 virtue of State (Creation and Transitional Provisions), which restructured Nigeria's Federation into 12 states. Lagos State was an administrative Capital of Nigeria, located in the south-western part of the country. Lagos State is the smallest of Nigeria's states but the second most populous state after Kano State, and arguably the most economically

important state of the country. Lagos is the nation's largest urban area. Equally, the metropolitan areas (Colony Province of Ikeja, Agege, Mushin, Ikorodu, Epe and Badagry) were administered by the Western Region. The State took off as an administrative entity on April 11, 1968 with Lagos Island serving the dual role of being the State and Federal Capital. However, with the creation of the Federal Capital Territory of Abuja in 1976, Lagos Island ceased to be the capital of the State and moved to Ikeja. Equally, with the formal relocation of the seat of the Federal Government to Abuja on 12 December 1991, Lagos Island ceased to be Nigeria's political capital. See map 2 below, (Wikipedia, The Free Encyclopaedia, 2009).

1.7.3. Map 2 showing Lagos State, Nigeria.



Source: Lagos State Ministry of Culture, (2009).

Lagos State is inhabited by the Aworis and Ogus in Ikeja and Badagry Divisions respectively, with the Ogus being found mainly in Badagry. While the indigenous

population of Lagos are Aworis, there is, nevertheless, an admixture of other pioneer immigrant settlers collectively call Lagosians but more appropriately the Ekos. The indigenes of Ikorodu and Epe Divisions are mainly the Ijebus with pockets of Eko-Awori settlers along the coastland and riverine areas. (Encyclopaedia, 2005).

While the State is essentially a Yoruba speaking environment, it is nevertheless a socio-cultural melting pot attracting both Nigerians and foreigners alike, induced a high rate of rural-urban migration to the State metropolitan region. With a territorial land area of 356,861 hectares, Lagos State is made up of five administrative divisions, namely Lagos (Eko), Ikeja, Ikorodu, Epe and Badagry. The dominant vegetation of the State is the swamp forest consisting of the fresh water and mangrove swamp forests both of which are influenced by the double rainfall pattern of the State, which makes the environment a wetland region. Generally, the State has two climatic seasons: Dry (November-March) and Wet (April-October). The drainage system of the State is characterized by a maze of lagoons and waterways which constitutes about 22 percent of 787 Sq.kms (75,755 hectares) of the State total landmass. The major water bodies are the Lagos and Lekki Lagoons, Yewa and Ogun Rivers. Others are Ologe Lagoon, Kuramo Waters, Badagry, Five Cowries and Omu.

Lagos with a population of about 11 million people is divided into 20 Local Government Areas in line with the nation's three-tier federal structure. However, in recognition of the peculiarity of Lagos mega city challenges, and in order to bring governance, development and participatory democracy nearer to the people, Local governments were restructured in June 2002 with the creation of additional 37

Development Area Councils bringing the number of the Local Governments in the state to 57. (Encyclopaedia, 2005).

Refineries in Nigeria: There are basically four state own refineries in Nigeria, with an initial combined refining capacity of 445,000 barrels per day (bpd), which translates to about 18 million litres per day for PMS, if all the refineries assuming they are all working optimally. But the current situation is abysmal, as only Port Harcourt 2 and Warri refineries that are partially refining crude oil. These four refineries are:

- The first Port Harcourt Refinery was commissioned in 1965 with an installed capacity of 35,000 bpd and later expanded to 60,000 bpd;
- The Warri Refinery was commissioned in 1978 with an installed refining capacity of 100,000 bpd, and upgraded to 125,000 bpd in 1986;
- The Kaduna Refinery was commissioned in 1980 with an installed refining capacity of 100,000 bpd, and upgraded to 110,000 bpd in 1986;
- The second Port Harcourt Refinery was commissioned in 1989 with 150,000 bpd processing capacity, and designed to fulfil the dual role of supplying the domestic market and exporting its surplus. (RSCPPSD, 2000).

The combined capacities of these refineries exceed the domestic consumption of refined products in the 1970s and 1980s respectively, most noticeable of these products is Premium Motor Spirit (PMS or Gasoline), whose current demand is estimated at 33 million litres daily. The refineries are however, operating far below their installed capacities, as they were more or less abandoned during the military era, skipping the routine and mandatory turnaround maintenance that made products importation inevitable as a result of persistent product shortages that gave strength to the argument for deregulation of the downstream subsector of the oil and Gas in Nigeria.

From the forgoing, it is believed that the implementation of deregulation policy of the petroleum downstream subsector will attract investor into the refining and logistic facilities business in Nigeria. See pic 2, (NNPC 2000).

1.7.4. Pic. 1: Pictorial representation of existing refineries in Nigeria.



Source: Kaduna Petrochemical, NNPC, (2009).

1.7.5. Pic. 2.



Source: Warri offshore Refinery, NNPC, (2009).

Pipeline Network: there is at present about 5001km of pipeline network nationwide. The PPMC uses the network of multi products pipelines to move products from the refineries/import receiving jetties to the 21 storage depots all over the country. All the systems are multipurpose pipelines except for Mosimi-satelite depot lines. The distribution network is made up of a number of systems as follows:

- **System 2A -** Warri-Benin-Ore-Mosimi
- **System 2AX-** Auchi-Benin
- **System 2B-**
 - (a) Atlas-Cove-Mosimi-Ibadan-Ilorin
 - (b) Mosimi-Satelite [Ejigbo in Lagos]
 - (c) Mosimi-Ikeja
- **System 2C-** Escravous-Warri-Kaduna [Crude lines]
- **System 2d-**
 - (a) Kaduna-Zaria-Kano
 - (b) Kaduna-Zaria-Gusau
 - (c) Kaduna-Jos-Gombe-Maiduguri
- **System 2E-** PH-Aba-Enugu-Makurdi
- **System 2EX-** PH-Aba-Enugu-Makurdi-Yola
- **System 2CE-**
 - [a] Enugu-Auchi [interconnection]
 - (b) Auchi-Suleja-Kaduna

(c) Suleja-Minna

- **System 2DX-** Jos-Gombe. (RSCPPSD, 2000).

The first phase of the pipeline system was built 40years ago. However, the fact is that pipelines are generally known to have a terminal life span of 50years if well maintained. The pipelines and associated equipments such as pumps, valves, loading arms and meters, generators e.t.c. have aged and at various stages of deterioration as a result of the lack of proper maintenance schedule as well as the incessant and deliberate acts of vandalization, (RSCRPPS&D, 2000).

1.7.6. Pic. 3: Sample of a Pipeline Network in Nigeria.



Source: PPMC, 2007.

Refined petroleum products are distributed nationwide through pipelines to designated depots of the corporation. Road tankers, bulk rail wagons and coastal barges to the marketers' outlets and consumers alike handle transportation from the refineries and depots. However, licenses must be obtained from Directorate Petroleum Resources (DPR) for transportation of the products in order to avoid contamination, adulteration and illegal distribution of petroleum products, which also provide for safety from fire, quality control, loading, storage, handling, offloading and other procedures for such an operation.

The activities of these ship owners are monitored by both Directorate of Petroleum Resources (DPR) and Petroleum Products Pricing Regulatory Agency (PPPRA) to prevent illegal bunkering of petroleum products. Recent reasons adjudicated are, that deregulation economy policies will essentially triggered competition in Logistic facilities operations among stakeholders allowing consumers to bid for goods and services, thereby matching their desires with society's opportunity cost, which will instructively allow the pricing system to serve as barometer for competition in the downstream petroleum sector, will attract investment, which would in turn down word prices of domestic petroleum products, (PPPRA, 2009).

1.7.7. Retail Outlets:

The downstream sector of the Petroleum industry is characterized by a wide range of business opportunities of which retail operations stands as an entity. The early investment opportunities tapped by those major marketers today account for their

consolidation and domination of the oil sector both in retail outlets spread and percentage market share in business nationwide.

A functional retail outlet must be strategically located at a commercial point, close to offices, homes or highways; it must be clean, bright, functional and attractive to customers; the physical Structure of a retail outlet should be simple but well designed with adequate facilities; and work force is the key to any successful enterprise. Personnel should be skilled, pleasant, clean, smart, and friendly

The retail outlet is commonly known as a petrol station or filling station and it is a multi-purpose-marketing centre where petroleum product and auto-related services are sold and delivered to the public. Investment in the retail outlet is the most conspicuous and common business area in the downstream petroleum industry. See map 3.

1.7.8. Map 3: Retail Outlets in Lagos State

Distribution of petroleum products is largely dispensed through retail outlets (filling stations). This covers the transportation of refined products from the refineries or the import terminal to the retail/wholesale outlet. Prior to independence, distribution was carried out by Ocean Oil Company whose major marketing strategy was to open retail outlets in major cities in the country. However, in 1973, Nigeria commissioned the British Petroleum (BP) and thereby opened its first refinery in Port-Harcourt. In 1971, Nigeria joined OPEC and decided to implement the OPEC law that all oil producing country should acquire 60 percent equity share and this was when Nigeria National Oil Company (NNOC) was carved out to take care of both the upstream and downstream sectors. When Nigeria started implementing this procedure, it (Nigeria) took 100 percent control and ownership of downstream and upstream sector.

1.8.9. Map 4, showing Depots and Jetties in Nigeria



Source: Directorate of Petroleum Resources, (2010).

Note:

- i. Denotes Refinery depots where tankage is not strictly dedicated to finished products;
- ii. At Ikeja, tank farms belong to the Major Marketers.

From the map 4 above, the black dotted spot indicates the location of depots across the country. Three main groups own the major storage and dispensing facilities nationwide. The combined capacity of these storage facilities (Depots) represents 71percent, 99 percent and 108 percent for which products respectively nationwide daily sufficiency at a consumption level of 18 and 10 million litres per day for the three white products.

NNPC/PPMC Depots are 23, located at various parts of the country. See table 1 below. The Apapa Depot in Lagos state is a privately owned by Major Marketers, while Ibafor Depot is owned by Independent Marketers bringing the total of depots in the country to about 25.

Table 1: Holding Capacity of Petroleum Depots (All Figures in M3)

S/NO	DEPOTS	PMS	DPK	AGO	ATK	TOTAL
1	Benin	60,700	28,700	32,000		12,400
2	Ore	25,700	6,000	10,000	- 57,600	42,300
3	Mosinmi	163,400	76,000	127,200		424,200
4	Atlas cove	48,000	34,000	32,300	1,900	114,300
5	Lagos Satalite	10,000	1,900	12,300		26,300
6	Ibadan	102,800	28,700	40,500		172,000
7	Ilorin	32,500	6,800	20,000		59,500
8	Suleja	45,000	30,000	30,000		105,000
9	Minna	24,000	15,000	24,000		53,500
10	Kano	60,000	22,500	63,000		145,000
11	Gusau	24,400	9,100	20,000		53,500
12	Jos	72,900	8,700	43,200		124,800
13	Gombe	10,000	2,300	7,200		19,500
14	Maiduguri	20,200	15,900	18,500		54,600
15	Yola	39,000	21,900	24,000		84,900
16	Makurdi	59,300	28,100	34,300		121,700
17	Enugu	99,900	49,000	64,500		213,400
18	Aba	56,000	26,000	29,500		111,700
19	Calabar	40,200	20,100	40,000	14,500	103,200
20	Ikeja					14,500
21	Warri	99,200	87,700	97,400		
22	Kaduna	135,000	65,000	97,000		
23	Port Harcourt	145,000	93,000	141,000		
	SUB-TOTAL (NNPC)	1,226,890	676,400	1,007,900	74,000	2,164,800
	APAPA Major Marketers	40,000	17,300	23,000	11,500	91,800
	Independent Marketers (Ibafon)	17,400	15,200	54,000		86,600
	NATIONIDE TOTAL	1,284,290	7,089,000	10,884,900	85,500	2,343,200

Source: Pipelines & Products Marketing, (2009).

Jetties in Nigeria: There are very few state's owned jetties in the country, see table 6. But for the purpose of the study areas, Atlas Cove will stand for those of Calabar, Warri, and Okrika jetties.

a) Atlas Cove Jetty Status

Atlas Cove Terminal, which is the main sea receiving facility in Nigeria, is in a total state of disrepair. Almost all the installed facilities have given way, up to and including the storage capacity for the three major products, the depot is handling; PMS, DPK and AGO.

This depot is very strategic, and also serves as bulk breaking facility for cargoes intended for discharge at Apapa. About 30 percent of the nation's requirement is therefore programmed to pass through this jetty and could be much more if the downstream facilities installed in its system are functioning optimally.

The state of the facilities leaves much to be desired for a facility of that importance, and giving its strategic importance in the main hub in the supply and distribution chain of petroleum products in the country. Owing to its current state, ships are therefore delayed causing inadequate supplies and financial loss through demurrage.

In the navigational facilities/operating cost, only Atlas Cove has facility for handling medium range vessels. All other jetties are limited to operating within draught range

between 6.5 and 9.2 meters, this result in a higher freight cost. Beside, effective supplies are hampered by:

- i. Inadequate tugboats and or pilot cutter required for berthing and unberthing of vessels.
- ii. Shallow and winding approach channels limiting draught and overall vessels length allowed in most berths. See table 2 below on draught limitation.

1.7.10. Pic. 4: Sample of Jetties in Nigeria



Source: Apapa Jetty, NNPC, (2009).

Pic. 5: Sample of Jetties in Nigeria



Source: Bonny Jetty, NNPC, (2009).

Table 2: Draught limitation of Product Receiving Jetties

Jetty	Draught
Atlas Cove	10.5
Apapa	7.4
Okrika	9.2 (outer jetty) 6.7 (inner jetty)
Warri	6.4
Calabar	7.2

Source: Pipelines Products & Marketing Company, (2008)

The Bureaucratic Involvement of many government agents are involved in the granting of clearance and free Passage to vessels discharging products into the water-fed facilities. Delays occasioned by bureaucratic process have cost implications and militate against effective supply, (RSCRPPSD, 2004).

1.8. LIMITATIONS OF THE STUDY

Sequel to the foregoing, it is important to note here that despite restricting the scope of study to the effect of government deregulation policy within the Lagos State, research of this magnitude must have some constraints; the principal constraint is personal sentiment or biasement of the respondents as well as their subjectivity in filling the questionnaires. Some felt reluctant to cooperate but the data from secondary sources helped to bridge up the gaps.

Therefore, the choice of choosing this topic is conditioned in this new development regarding availability and quality of data under the new democratic dispensation. This gives one enough optimism and encouragement to undertake this study at this moment of Nigeria's chequered Socio-political economy history.

1.9. ORGANIZATIONAL STRUCTURE OF THE THESIS

The thesis is divided into six chapters. The first chapter is the introduction which focuses on the definition of concepts, development to the background of oil in Nigeria, statement of the problems, aims and objectives of the study, research methodology, research questions, research proposition, significance of the study, scope of the study which include the study area, limitations of the study and organizational structure of the project.

The second chapter is devoted to literature review and theoretical framework of some of the major works that were scholarly carried out on policy making and deregulation, and their relevance to this present study. The third chapter concentrated on research methodology, sources of data, method of questionnaire administration, population sample/ target population, sampling techniques, and methodological challenges. Others are; research design, and research questionnaires.

The fourth chapter concentrate on deregulation policies in the downstream petroleum subsector of the oil industry, agro-economy to petroleum economy, pre 1999 regulatory policy measures in the petroleum sector, the military and the expansion of petroleum sector, structural adjustment policy, and the collapse of oil economy. Others include; politics of oil subsidy and OPEC bench mark on global crude oil pricing. The fifth chapter deals with data analysis and discussion and finally chapter six is the findings, conclusion and recommendations.

1.10. DEFINITION OF TERMS

Crude Oil: formed from Greek words: Petra-Rock and Oleum-Oil. A mixture of Hydrocarbons (carbon and hydrogen), containing other elements called impurities such as; sulphur, nitrogen and oxygen compounds. Others are; gaseous-C1-C4, Liquid C5-C15, and solid >C16-->.

Paraffinic Crude: contain saturated open chain hydrocarbon.

Naphthenic Crude: contain saturated cyclic hydrocarbon.

Aromatics Crude: is unsaturated cyclic hydrocarbon.

Light Crude oil }

Medium Crude oil } are determined by chain length, characterised by boiling point/other

Heavy crude oil } physical properties.

Oil Refinery: is an industrial processing plant where crude oil is proceeds and refined into more petroleum products, such as gasoline, diesel fuel, heating oil, kerosene and liquified petroleum gas, and asphalt base. Refineries can range in size from small units capable of processing 10,000B/D of crude to giant complexes running on 700,000B/D of crude oil.

Crude Fractionation (distillation): is the separation of crude oil in the atmospheric and vacuum distillation towers into groups of hydrocarbon compounds of differing boiling point ranges called ‘fraction’ or ‘cuts’. It is a physical process.

Economic policy: is the action statement of government pertaining to particular sectors of the economy, describing the intended objectives and how to achieve them, geared towards the improvement socio-economic welfare of the people, either in the short-run or in the long-run.

Low Capacity Utilisation: is when there is deficiency in the actual output of capacity of a system either machinery or human.

IPP: Import Price Parity: import parity pricing principle is where the domestic prices of petroleum products are indexed to the dynamics of international market fundamentals. This is applicable where a country is net importer of products.

EPP: Export Parity Pricing Principles is where the domestic price is a function of world market price. This is applicable where a country is net exporter of products.

PSF: Petroleum Support Fund; a scheme put in place by the government to cushion petroleum products price volatility in the market due to underfunding of the subsector, that is, to stabilise domestic price of products and inadequate product supply and distribution.

IPMAN: Independent Petroleum Marketers Association of Nigeria. These are custodians of the retail outlet in the country.

NARTO: National Association of Road Transport Owners.

MOMAN: Major Oil Marketers Association of Nigerian. These are Operators of upstream sector of the oil and gas industry.

DAPPMA: Depot and Petroleum Products Marketers Association of Nigeria, are operators of petroleum logistic facility (storage tanks or farm tanks), which ease distributor of petroleum products to outlets across the country.

OMCs: Oil marketing Companies.

OMO: Open market operations

Cost Plus Pricing: is applicable where the products selling price is determined on the cost of crude oil plus refiner's margin to cover the operating cost as well as a reasonable profit margin to the operator.

PENGASSAN: Petroleum and Natural Gas Senior Staff Association of Nigeria.

NUPENG: National Union of Petroleum and Natural Gas.

Over-Recovery: is the reverse of PSF, a period when the actual landing cost of a products dips below the government regulated Ex-depot price, markets make refunds to the Petroleum Support Funds (PSF).

Deregulation: is non-interference of government in the control of petroleum products activities, while allowing private participant into the petroleum business.

Regulation: in government involvement in the control of the activities of petroleum products pricing, price determination/control

Subsidy: in economics, is monetary grant giving by government to lower the price faced by producers or consumers of a good, generally because it is considered to be in public the interest. Subsidies protect the consumer from paying the full price of the good consumed, however they also prevent the consumer from receiving the full value of the thing not consumed. A subsidised society therefore is a consuming nation because it unfairly encourages consumption more than conservation.

WTI: West Texas Intermediate Crude Oil (US Benchmark).

Brent Crude: European Benchmark Crude Oil.

Bonny Light: Nigeria Benchmark Crude Oil.

PMS: Premium Motor Spirit (Petrol).

AGO: Automotive Gas Oil (Diesel).

HHK: Household Kerosene, or **DPK:** Domestic Petroleum Kerosene

Benchmarking: A comparison of environmental and social management processes, performance and reporting. Benchmarking can be used to provide detailed comparisons of operating divisions within a company or companies within a particular sector. Benchmarking can also enable comparison of global trends between highly diverse organisations and sectors.

Code of Conducts: A management tool for establishing and articulating the corporate values, responsibilities, obligations, and ethic ambitions of an organization and the way it functions. It provides guidance to employees on how to handle situations which pose a dilemma between alternative right courses of action, or when faced with pressure to consider right and wrong.

Policy: a plan of action, statement of ideas, proposal or adopted by a government, political party, corporate organisations, etc, to achieve a set objectives.

Corporate Government: The system by which business corporations are directed and controlled. The corporate government structure specifies the distribution of right and responsibilities among different participants in the corporation, such as the board, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.

Corporate Values: The purpose of the organisation's existence and against which it wants its activities to be judged by employees, customers, suppliers, investors, communities and governments.

Crisis Management: A management process devised to handle recognized potential threats to an organization.

EU Multi-Stakeholder Forum on deregulation policy: A series of Round Table meeting on Corporate Social Responsibility reporting to the EU Commission in July 2004.

A Level Play Field: A business partnership that aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better equitable conditions of business, by opportunity to competitors within same business emperies.

Focus Group: An open-ended, discursive research approach used to gain a deeper understanding of respondents' attitudes and opinions. Typically involves between 6 –

10 people, and lasts for 1 -2 hours. A key feature of the group is that participants are able interact with, and react to, each other.

RSCRPPSD: Report of the Special Committee on the Review of Petroleum Products Supply and Distribution.

IEO: International Energy Outlook

ISO 9001: The International Standards Organisation's (ISO's) main standard for quality systems covering design, development, production, installation and servicing organisations.

Return on Investment: this is an enabling business environment that gives an investor the confidence of having returns on its investment.

Knowledge Management: Knowledge management relates directly to the effectiveness with which the managed knowledge enables the members of the organization to deal with today's situations and effectively envision and create their future. Without on-demand access to managed knowledge, every situation is addressed based on what the individual or group brings to the situation is addressed with the sum total of everything anyone in the organization has ever learned about a situation of a similar nature.

NUDESA: United Nations Department of Economic and Social Affairs.

DPR License to Operate: in the oil and gas industry, the Directorate of Petroleum Resources issue a company licence to operate' is conferred by the society in which it operates and within which it should minimize any adverse environmental or social impacts.

Price Volatility: instability in petroleum products pricing as a result of short fall in supply.

Marketplace: Corporate responsibility in the marketplace is the application of responsible behaviour in managing business and consumer relationships from product development to the buying, marketing, selling and advertising of products and services. It includes consideration of the supply chain and clients and customers.

Scenario Planning: Forecasting based on different assumptions about the future of oil and gas industry within the internal and external environments.

Small and medium-sized enterprises (SMEs): are defined by the European commission as independent enterprises that have fewer than 250 employees, and an annual turnover not exceeding €40/£25 million or a balance-sheet total not exceeding €27/£17 million (extract from the 96/280/EC, European Commission Recommendation of 3 April 1996).

EPEA: Environmental Protection Agency.

Stakeholder: Stakeholders are those who either affect, or are affected by, the activities of a company. They include customers and consumers, employees, trade unions, business partners, lenders and insurers, investors, local and international NGOs, the media, and suppliers, etc.

Stakeholder Engagement: Communication and obtaining feedback from customers and consumers, employees, trade unions, business partners, lenders and insurers, investors and analysts, sector/industry experts government, regulators, host communities, local and international NGOs, the media, and suppliers.

Sustainability: Sustainability is a business approach that creates long-term shareholder value by embracing opportunities and managing risk deriving from economic, environmental and social developments. Corporate sustainability leaders harness the market's potential for sustainability products services while at the same time successfully reducing and avoiding sustainability costs and risk.

Sustainable Development: Development which meets the needs of the present without compromising the ability of future generations to meet their own needs.

Transparency: Being honest and open in all communications about an organisations' activities, Also Transparency International – an NGO whose brief is

to help companies ensure they operate in an open manner – especially in developing countries where bribery and corruption may be rife.

Triple Bottom Line: Measuring public/private establishment performance based on its combined contribution to economic property, environmental quality and social capital.

UN Global Compact: A call to businesses of all sizes in all countries around the world to help build the social-economic and political frameworks that will support the continuation of open and free markets operations, whilst giving people the right to share in the benefits that can come from a global economy originally agreed in 1999.

Zero Emission of Waste: Reducing the amount of landfill disposal to less than 1 per cent after all by-products of business activities and any other products generated (total quantity of waste discharged) have been dealt with by a variety of other methods.

FCA-Free Carrier: this means that the seller fulfils his obligation to deliver when he has handed over the goods, cleared for export into the charge of carrier named by the buyer at the named place or point. The term is frequently used when goods are to be transported by container, whether by ship, road or a combination of them.

GHG: Green House Gas.

CHAPTER TWO

LITERATURE REVIEW AND THEORETICAL FRAMEWORK

2.1. CONCEPT OF PUBLIC POLICY

According to Robinson and Tinker (1994), the concept of public policy is a guide to action to change what would otherwise occur, a decision about amounts and allocations of resources: the overall amount is a statement of commitment to certain areas of concern; the distribution of the amount shows the priorities of decision makers. Policy sets priorities and guides resource allocation. Public policy is a policy at any level of government. Some levels may have formal or legal precedence over others. Policy may be set by heads of government, legislatures, and regulatory agencies empowered by other constituted authorities. Supranational institutions' policies, as those of the World Trade Organisation or United Nations Conventions, may overrule government policies. In their expression, gave different forms of policies, thus:

- i. **Organization policy:** the policies of any organizations whether public or private, are usually subordinate to public policy, and are always shaped by taking into account the constraints and options available under public policy, for example, tax policy, environmental policy, civil rights policy, labor policy.

- ii. **Policy goals:** the goal of policymaking is to shape the course and pace of change in a preferred direction by influencing actions of public and private organizations, affecting populations, environments, and behavior. Changes in organization's decisions about their use of resources alters activities of managers, staff, clients and customers, affecting access to services, products, and information. Socio-economic policies improve the conditions under which people live; secure, safe, adequate, and sustainable livelihoods, lifestyles, and environments, including housing, education, nutrition, information exchange, child care, transportation, and necessary community and personal social and health services. Policy adequacy may be measured by its impact on population GDP (Gross Domestic Product) and NI (National Income).
- iii. **Policy making processes:** political, social, and economic processes ultimately shape the content of public policies. Understanding the nature of these activities in any jurisdiction, which can be studied in their formal and informal aspects, can support efforts to strengthen healthy public policies. Policy making is driven by organizations and groups that have an interest in the outcomes.
- iv. **Policy stakeholders/players/actors:** policies develop through the actions of identifiable players. Players are groups whose status, size (or membership), revenues or activities are affected by current and prospective policies, including political parties, the media, bureaucracies, voluntary and

commercial organizations, public interest and professional groups. They believe they can make a difference in policy choices that affect them.

- v. **Policy environment:** stakeholders must take account of the policy context, including past policymaking, socioeconomic conditions, widely expressed values, and population demographics and epidemiology. This climate affects the feasibility of influencing any specific policy, for example, policies of the 1960s, are inconceivable today. Periodic scanning of the environment provides clues to what is feasible and timely for healthy public policy initiatives.
- vi. **Policy instruments:** there are broadly accepted policy instruments (types of measures) used in policy formulation, for example, economic, regulatory, and educational measures. When the policy climate precludes more effective but politically costly tools (such as a high tax on tobacco) governments can use less effective but easier to adopt measures, for example, public education or modeling by demonstrating strong tobacco control within its own sites.
- vii. **Political strategy:** this is a plan to improve chances of success for policy adoption and implementation. It requires identifying and targeting policymakers, organizations, the media, and populations; using persuasive rationales specific to each audience; creating public debate to help "unfreeze" previously held opinions; using old and new methods of communication, persuasion, and mobilization, revising tactics as needed.

- viii. **Strategic information:** strategic (or political) information is intended to persuade more than to educate, to advocate and mobilize support, and to demonstrate the political, social and economic feasibility of a proposed policy, for example, supportive public and media opinion, organizational endorsements, model policy language, key points and examples. It is shaped to the interests of specific stakeholder groups, (Osaze, 1994).

As we move toward the 21st century, human institutions, from the local level to the global level are facing a range of ecological, economic, and social challenges. It is becoming clear that much of our industry and agriculture and our use of renewable and non-renewable natural resources are unsustainable. There are challenges associated with policies implementation; two examples suggest the global scope of the problem:

- Humans may now directly and indirectly appropriate about 40 percent of the total photosynthetic product of the planet (Vitousek et al. 1986; for marine resources, (Pauly & Christensen, 1995). This will likely stringently limit future growth in human consumption.
- If the current global population consumed resources at the same rate as the average Canadian, two additional planets would be required (Rees & Wackernagel 1994).

Such calculations suggest that global carrying capacity will soon be exceeded, if it hasn't been already, and that global adoption of industrialized countries' rates of consumption and production would simply be untenable.

Economically, change is now extremely rapid, including the disappearance of centrally planned economies; the powerful trend toward the use of market forces and market-based policies throughout the world; global economic integration, driven by trade liberalization; and the emergence of a global capital market, characterized by financial flows that dwarf flows of traded goods and services. These developments have in turn had a number of effects:

- Increased economic interdependence among nation states and reductions in national economic sovereignty;
- The emergence of global corporations and financial institutions whose activities cannot now be effectively regulated by governments;
- Highly mobile international trade and investment flows, which are felt to limit nations' freedom to raise taxes for social programs;
- Increasing pressures to maintain international competitiveness;
- Pressures to reduce the size of the public sector, to reduce (or at least not increase) taxation (especially direct taxes), and to reduce deficit financing and public debt;
- Growing structural unemployment in many industrialized countries;
- A rising and unacceptable number of people living in absolute poverty; and
- Large income disparities between richer and poorer countries and between rich and poor within both industrialized and developing countries, (Charles, 1983).

The causes of these problems are the subject of much debate, as are the most promising remedies; in some cases, the debate is about whether these phenomena are

problems at all. But current economic conditions are clearly unsustainable for a significant proportion of the world's population, in developed as well as developing countries.

Governance and other social structures are also under stress. In many market-oriented industrial societies, the system of governance is viewed with growing distrust, a sense of alienation, and even distaste. This is coupled with the failure of governments to address basic social issues, such as crime, drugs, poverty, unemployment, and homelessness, in ways that command public support. Such alienation may grow as public demands to cut taxes and reduce debt conflict with the desire to maintain social and environmental programs. The overall effect is a decline in civil society and, in many inner-city neighbourhoods, a descent toward lawlessness and ungovernability, ((Homer-Dixon, 1991).

In the former centrally planned economies, fragile structures of governance are often barely surviving the stresses and social problems accompanying the transformation to a market economy. In the developing world, poverty, rapid population growth and displacement, the replacement of a subsistence economy, other forms of economic development, and massive environmental impacts are being managed with only mixed success, perhaps best in parts of Asia and worst in parts of Africa. The major challenge in many former command economies and many developing countries faced with a rapid decline or even collapse of traditional value systems is to enlarge and strengthen a stable civil society, which at present is only embryonic. Without a stable

society, the trust and public self-confidence needed for participatory governance are limited.

Rapid population growth will continue to have major impacts on society, the market system, and the biosphere, although completed family size is now falling in some developing countries. Rapid population growth may well end by the close of the 21st century. However, the level at which global population stabilizes (and its geographical distribution) will have a massive influence on the feasibility of the dematerialization and re-socialization strategies outlined in this chapter.

The extent of these problems illustrates a form of social unsustainability in many parts of the world, we may have exceeded the “carrying capacity” of our current cultures and governance systems, (UNDP 1994; UNICEF 1994; World Bank 1994).

2.2. CONCEPT OF DEREGULATION POLICY

Deregulation of the petroleum downstream subsector has generated a lot of interest and there have been numerous studies on it ranging from political economy of oil, harnessing gas structure in Nigeria, oil as GDP determinant for economic growth, impacts of land degradation, ecology, the Petroleum Industry Bill (PIB) and its impact on the economy. Of all these studies, research on the effect of deregulation of the petroleum downstream subsector remain the most contentious, this is because most of the studies are based on assumptions and speculations. Effect of deregulation has generated interests and debate in the academia, governmental and

intergovernmental publications, independent researchers and nongovernmental organizations, each of them taking sides and pushing their agenda. Although there exist little empirical studies on effects of deregulation of the petroleum downstream subsector in core scientific journals, there exist voluminous articles and publications on deregulation from different independent and reputable organizations and researchers.

The literature sources used in this research work were carefully selected, while some are from scientific journals and publications, internet, others were derived from organizations of repute. Some of these organizations include OPEC, International Energy Journals, Nigerian National Petroleum Corporation (NNPC), Directorate of Petroleum Resources (DPR), Petroleum Pipeline & Marketing Company (PPMC), Petroleum Products Pricing Regulatory Agency (PPPRA), Ministry of Petroleum Resources, Central Bank of Nigeria (CBN). Other sources include; Personal interviews, Print & Electronic Media and internet application.

Hence, we wish to identify some key dimensions of deregulation; these are definition and nomenclature in politics and policy issues, deregulation advocacy and economics, and finally the downstream aspects of the petroleum industry, ranging from supply and distribution, price volatility, effect of subsidy on the economy, market fundamentals, investment opportunities in the sector, socio-economic development as a result of deregulation and consumer's concerns. We would discuss these subsequently in the literature.

There is no doubt on what deregulation is and most authors tend to have close and similar definitions. Deregulation is the opening up of State-owned-enterprises for private participation, that is, government creating an enabling environment for individual or corporate entity to invest with the intention of making margins, (Mike 2007 & Gidado 1998).

While scholars agree on various class definition of deregulation, there is a clear distinction between the pattern of deregulation available and in some quarters the nomenclature of applied deregulation has been a source of dispute. Deregulation can either be partial (that is, subsidizing petroleum prices, without a recourse to market fundamental principles) or full deregulation (that is, allowing economic index to determine the forces of supply and demand).

A pertinent question bothering lots of people today is; why deregulate the downstream petroleum subsector? Why have deregulation policy become so popular and a major subject of discussion. According to Mike (2007) & Gidado (1998), deregulation has received attention and has been a sustainable means for socio-economic enhancement with the potentials of developing the oil and gas sectors, reducing unemployment through job creation, and alleviating poverty and rural development by linking oil and non-oil sector for industrial development. If these are the merits of deregulation then, why is there much fuss about the policy, this is because government lacks the political will to implement the policy.

Although the above assertion is true, there is a lot of politics to deregulation, the interests and concerns of deregulation differ in developed and developing countries. Apart from its link with sustainable economic development ‘oil has a political and an economic value, both for industrialized and for developing countries’ (Randazzo & Sassi 2007). Concerns such as recent hikes in oil prices have raised serious concerns in low income countries, both due to the financial burden of higher energy import bills and potential constraints on imports of necessities like food and raw materials. Higher oil prices also have sparked energy security concerns worldwide, increasing the demand for petroleum products (Shapouri & Rosen 2008).

According to Kupolokun (2007) the global South has gotten better climatic and land resources that make crude oil production more economically viable than the North. He noted that a pact between the North and South had great opportunities for fostering international peace, security and economic development, which would be focused on an industrial block centred on deregulation.

The use of the North-South, and tropical concepts by Kupolokun (2007) bring to fore other political dimension to the deregulation discourse. Currently world energy supplies (crude oil) come from the Middle East which the global north seems uneasy with. So is deregulation a global ploy or strategy to get alternate energy supplies and reduce dependency on the Middle East or is it just to score a political point?

In response to the deregulation or regulation debate, Mayorga-Alba (1995) stated that critics of oil depletion had often been warned about a coming oil crunch due to the competition for inputs between petroleum products and food productions, however decades have passed and the doomsayers have been proven wrong, as food production increased in the USA and crude prices have been below actual cost of production. It must be mentioned that Daschle's argument is incomplete or doesn't make economic sense. If availability of petroleum products or food production has increased despite domestic prices being below production cost, it implies that government is subsidizing petroleum products or food production to avert social crises as experienced in the past.

While scholars agree on the definition of deregulation, it must be stated that there is a clear distinction between the types of public policies available and in some quarters the nomenclature of deregulation has been a source of dispute. Crude oil can either be traditional (that is, existing naturally without deliberate cultivation or could be deliberately produced for fuel production). According to African Biodiversity Network (ABN 2007), crude oil include the traditional use of biological materials for fuel, such as wood, dung, biogases etc, agro fuels however refer to the process of specifically growing crops on a large scale to produce fuels.

However, it is pertinent to stress that purposefully yielded crude oil and traditional deregulation policy are different in both scale and impacts. Traditional crude oil products are man's earliest form of energy however modern petroleum production is

raising issues that were previously unconnected to traditional bio energy, (Osu-Emmanuel, 2009).

A pertinent question bothering lots of people today is; why deregulation? Why have deregulation become so popular and a major subject of discussion. According to Hazel & Pachauri (2006) petroleum products have received attention as been a sustainable energy source with the potentials of coping with rising energy crisis, triggering industrial development, boost economic enhancement, create health competitions, offsetting environmental problems posed by global warming and Green House Gas (GHG), and alleviating poverty and rural development by linking energy and power supply. If these are the merits of deregulation then, why there is much fuss about deregulation, this is because there are other dimensions to deregulation in Nigeria.

Although the above assertion is true, there is a lot of politics to petroleum products, the interests and concerns of deregulation are different between developed and developing countries. Apart from its link with sustainable development ‘petroleum has a political and an economic value, both for industrialized and for developing countries’ (Randazzo & Sassi 2007). Concerns such as recent hikes in oil prices have raised serious concerns in low income countries, both because of the financial burden of higher energy import bills and potential constraints on imports of necessities like food and raw materials. Higher oil prices also have sparked energy security concerns worldwide, increasing the demand for petroleum products (Shapouri & Rosen 2008).

According to Mathews (2007) the global South has gotten better climatic and land resources that make petroleum products more economically viable than the North. He noted that a pact between the North and South had great opportunities for fostering international peace, security and economic development, which would be focused on an industrial block centred on crude oil.

Eijck & Romijn (2008) in their paper stated that the fast growing concern of crude oil exploration in the tropics and the expansive land requirement for crude oil production made the tropics the ideal place for crude oil production. This they argued will yield economic and environmental benefits for the participating countries not only in tackling environmental degradation and wealth creation for economic development. Using Venezuela as a case study, they did advocate the use of alternative (bio-fuel and ethanol) petroleum products.

Muller et-al. (2007) concluded that though deregulation is criticized globally for its unequal competing environment, it remained unclear on how the pattern of competition and conflict will evolve. They however noted that crude oil prices were likely to rise but growing demands for petroleum production would give consumers greater flexibility to switch between petroleum products on one side and its alternative energy commodities on the other hand. They further stated that deregulation policy could impact food security in both positive and negative ways,

higher pump prices in the short-run could while at the same time serving as a catalyst for the development of the oil and gas sector and the economy at large.

Muller et al. raised a point which can be regarded as too casual an analysis: they said deregulation would give consumers the flexibility to make choice amongst operators in the sector. This assertion is wrong for a number of reasons, first switching between operators/marketers is dependent on products availability factorised on marginal cost of refining and marginal return on investment. Most consumers in developing countries experience very low per capital income and would therefore have to make an opportunity cost to either patronise the lowest pump price of petroleum product or to buy petroleum product from where they can enjoy better service delivery (accuracy in the metre dispensing) at filling stations. Secondly even if the sector is deregulated, and where oligopoly seems to exist, operator/marketers do not have the monopoly to increase or decrease prices of petroleum products at will, as it will be automated or determined by market fundamentals.

According to the United Nations Department of Economics and Social Affairs (UNDESA, 2007), the production and utilization of petroleum products from crude oil locally enhances access to sustainable, affordable and renewable energy and economic development.

Msangi, et al. (2007) in a study of global scenarios of deregulation, impacts and implication, focused on three alternate scenarios; a *conventional* scenario which

focused on rapid global growth in the development of alternative to petro production under conventional conversion technologies; a *second-generation* scenario, which incorporates a softening of demand on petroleum products due to second-generation lignocelluloses (materials that are difficult to decompose) technologies becoming available; and a *second-generation* plus scenario, which adds petroleum productivity improvements to the second-generation scenario and essentially further reduces potentially adverse impacts from expansion of petroleum products.

The study findings revealed that the first Scenario resulted to dramatic increases in world prices of crude oil, while the second Scenario of second generation cellulosic conversion technologies and reduction of conventional petroleum products, resulted to softening effects on petroleum prices. And the third Scenario of second generation plus technologies produced petro technological investments resulting in expanded production and softening of crude oil prices.

The study by Msangi (2007) incorporates the various arguments of petroleum production phases and technologies. The study paints the expected and anticipated situation of each production phase, although the study focuses on deregulation policy, it does none the less serve as a basis on which to develop a hypothesis. Looking at the predictions of the first scenario (in which there would be a dramatic increase in world prices of both crude oil) we want to formulate some kind of research question.

The question is would deregulation of petroleum products cause increases in prices of other goods and services? Although this study is not focused on inflationary trends, projection made from the study can be used to make inferences based on simple demand and supply laws.

Quite a number of writers acknowledge the dilemma that deregulation is likely to pose. According to Naylor (2007) the potential impacts of large scale global production of petroleum products on net producers and consumers in low income and developing countries presents challenges for not only national and international crude oil policy planners but also ‘raises the question of whether sustainable development targets at a more general level will be reached’. However the study revealed that the ripple effects that will be generated by deregulation policy will depend on the country in question and policies in play. The study revealed that only in recent times have prices for other petroleum products moved systematically in the same direction, and that if the energy market began to determine the value of agricultural commodities, food producers of the rural poor will benefit in the long run.

The work of Runge & Senauer (2007) supports the above assertion, in their words ‘crude oil economy has tied petroleum and prices of consumable items together in a way that could profoundly upset the relationships between food producers, consumers, and nations in the years ahead, with potentially devastating implications for both global poverty and food security’. Accordingly they fear of the likely future hikes in food (cassava and sugarcane produces) prices in the developing countries, to

the spanning growth of ethanol industries, which are consuming more and larger shares of cassava and corn. They revealed that the emergence of cassava refining industry for ethanol would further triggered price increases in not only corn but other none related petroleum production of other crops that had been converted to cassava production which has become more profitable. This assertion seems too casual an analysis as there are other factors that may have affected crude prices such as increase in refining cost, acquisition for new technology, rising demand for petroleum products based on consumption across the globe such as India and China, global crisis such as war or communal crisis, natural disaster across the globe, etc. Ethanol may not be the sole driver of international crude prices as its remains uneconomically viable.

Studies by De La Torre Ugarte (2006) support this assertion. According to him there exist links between access to energy and poverty alleviation and development. Petroleum economies present a long term developmental opportunity for agriculture and rural areas, being an industry in which the potential demand out passed the potential supply. He noted however that a diversion to the production of petroleum compliment (ethanol) or bio energy by developed countries will have an adverse effect on global food supplies among developing countries as they would be worst hit stages in food supply and increase prices.

According to Cotulla, Dyer and Vermeulen (2008) petroleum production may offer increased income generating opportunities for the rural dwellers thereby increasing their access to agro-mechanised farming. However, competition between crude oil

and food, as an end-use of the same crop (e.g. maize, sugarcane) or as alternative land uses (e.g. oil palm versus food crops), may increase pressures over world food prices in the long-run years (Cotulla, Dyer & Vermeulen 2008). Rising crude oil prices are likely to have negative effects on access to food for poorer and more vulnerable groups. These pressures are likely to be exacerbated by the strong demographic growth and the rising urbanisation common in African, Asian and South American countries.

According to Brian Tokar et-al, (2007) the continuous adoption of regulation of petroleum products has given rise to mono-economy, of other industrial goods backed by government policies and huge investments, others such as bio fuels have translated to higher food prices, mass deforestation of tropical forests, and destruction of biodiversity.

Rosegrant (2006) revealed agriculture versus petroleum trade off in the refining of crude oil production of petroleum products without improved technological improvements. This he said could only be avoided with the development of cellulosic conversion technologies, which from his projections could come on stream in 2015. According to the Environmental Protection Encouragement Agency (EPEA, 2007) first generation product testing on ethanol as complimentary good may cause food insecurity (sugarcane/cassava) and trigger poverty but also emitting Green House Gas (GHG) to the atmosphere. These assertions are in concurrence with the findings of Msangi study on bio-fuel as alternative to petroleum products.

Having been acquainted with the deregulation debate it is important to understand the concept of the policy. Adedipe (2009) defines deregulation as ‘When all people at all times have both physical and economic access to sufficient petroleum products to meet their consumption needs for a productive economic development (Reily, 1999). This entails that availability of petroleum products’ supplies is sufficient and households have the economic power to access the petroleum products through their own production, the market or other sources.

The definition of deregulation has evolved over time, reflecting on the various perceptions and Policy dimensions and approaches to the notion and problems of products availability. The continuing evolution of deregulation as an operational concept in public policy has reflected the wider recognition of the complexity of the technical and policy issues involved (Adedipe, 2009).

The concept of Oil and Gas reform initiative originated in the mid-1970s and primarily focused on Petroleum Acts of 1974, supply and distribution problems with emphasis on availability and price stability at national and international levels. However problems of refining cost and lack of policy drive during the mid 1970s led to the recognition of vulnerable groups and a subsequent redefinition of the 1974 Petroleum Act to reflect this new reality has passed through public hearing at the National Assembly in late 2009 towards the reformation of the oil and gas industry (Lukman, cited in Marine & Petroleum Nigeria, 2010).

Deregulation was then defined as ‘open access regime, that is, availability at all times of adequate supplies of petroleum products in order to sustain a steady expansion of the oil and gas industry at an affordable price being determined by market forces’ (Kupolokun, cited in A Story of the Deregulation of the Nigerian of Downstream Oil Sector, 2008).

The concept of reform of the downstream subsector of the oil and gas sector gave an elaborate definition of deregulation as:

‘a situation in which all concerned, at all times have physical and economic access to sufficient, and safe availability of petroleum to meet the needs of citizenry and preferences for an active and healthy competition with little intervention by government’ cited in Randazzo & Sassi), producing Nations which availability of petroleum was a component and this concept was closely linked with market fundamental’ (cited in IEO, (2003).

This resulted into the adoption of different country’s opinion on deregulation policy and its application. This definition was further refined by industry scholars, the new definition is thus:

‘removing government interference on the downstream activities, that is, a situation that exists where all concerned, at all times, have physical, social and economic access to sufficient, safe and health competitive environment that will trigger economic development with a view to meet the needs and purchasing preferences of its citizenry’. (IEO, 2003).

Thus the main distinct but interrelated dimensions to deregulation are availability, access, utilization and price stability. Availability of petroleum is said to be attained when supply is at equilibrium with demand and is constantly and consistently available to people or individuals in a country or in a reasonable proximity to them or within their reach in order to meet their preferences. Petroleum utilization requires

energy sufficiency, affordability, stability, and a reliable supply of petroleum products to people at all times to consumers (Randazzo & Sassi, 2007).

A number of factors are determinants of the various dimensions of food security. Food availability is influenced by availability of arable land and agricultural production techniques and technology. Food access is directly influenced by food prices and income levels, while food stability is influenced by price volatility and natural disasters. Food utilization on the other hand is closely related to health status and access to clean water, (Abbassian, 2007).

Among the factors contributing to availability of petroleum, the most crucial component is the performance of the upstream (refining and pricing) sector. Domestic consumption of petroleum products is at the increase daily, while the local refineries have failed to meet up with the rising demand of production hence, importation becomes necessary to argument about 70 percent short-fall of the expected total consumption, (Shapouri & Rosen, 1999). This study is principally concerned with availability and affordability hence a level playing field for competitors is necessary in the sector for reasonable marginal return on investment.

The Lukman's definition covers all dimensions of deregulation policy and is therefore too open-ended, broad, or complex for this study. Consequently, this study does not seek to address open access regime impacts on all the dimension of oil and gas sector but rather it intends to address downstream activities (commercial) in a

relative manner. Hence, we adopt the definition of deregulation policy from the Nigeria perspective focusing more on the supply and distribution strategy, (Lukman, 2010).

Our working definition is based on the effect of deregulation policy on the economy of Nigeria narrowing down to Lagos State, and refers to the ability of a country to refine enough quantities of petroleum products to meet the consumption needs of her citizens. Deregulation entails ensuring that the quantity is sufficient and supply reliable without necessarily depending on foreign imports.

Therefore a country's level of sustainability of petroleum products is related to its degree of dependence or independence on fuel importations. Having looked at the various contributions of different authors to the deregulation debate, it is necessary to make some comments. There are many aspects to deregulation policy, namely: definition and nomenclature, politics and policy issues, deregulation advocacy and economics, and finally the socio-economic aspects of deregulation, ranging from competitive level playing field for competitors, availability, sustainability, price volatility, and impact of deregulation on the economy.

Lukman & Dakurun (2009) have been very instrumental in providing overview of deregulation, conflicts and promises and have expanded deregulation questions for others to follow up. Adedipe, Gbadamosi & Oluwole (2003) have been more involved in the politics and policies of deregulation but with emphasis on developing

economy. Msangi (2007) has been very instrumental in studying crude oil policy and price transmissions at the global level. Randazzo & Sassi, (2007) have contributed very extensively on the social aspect of petroleum, they discussed in detail the various effects of petroleum economy on the different aspects of social security and also elaborated more on the socio-economic impact of crude oil policies as it relates to OPEC benchmark. A major short coming of all the above studies is that none has focused on the effect of deregulation policy on a micro scale. No study has been done on a local scale to answer how social-economic factors could determine the outcome of the impacts of deregulation on the macroeconomic activities, their works have nonetheless provided a foundation on which to answer the research question.

A summary of literature on deregulation policy debate revealed the existence of three main groups; the proponents of deregulation (those who see deregulation as not been a threat to the economy), the opponents (those who view deregulation as a threat to economic development) and finally the in between group (those who perceive deregulation as been both good and bad). Based on the knowledge acquired from the debate it is believed that deregulation policy is the best reform initiative for the oil and gas sector and also for the entire macroeconomic structure, however the effect and administration is different between countries and regions.

2.3. DEREGULATION POLICY CHANGE AND ITS IMPLEMENTATION IN NIGERIA

There is great difference between policy making and implementation of public policy as observed is the linkage between a formulated policy objective and its implementation stage determines a the failures or successes. This has remained a major challenge of public policies, (Robert, 1972).

However, Ikelegbe (1994) emphasises that:

There is abundance of programme failure, resulting from the Inability to performance in terms of fulfilling of effectuating policy objectives or intentions. Policy mandate and objective are rarely achieved. The final result of implementation may resemble or may be related to the policy intentions, but may not be precisely what was intended or mandated. The implementation stage is therefore very important. It determines whether policies become realisable or aborted.

Furthermore, Robert and Clark (1982) attributed non-implementation of public policy to socio-economic and political factors. These constraints include long delay in execution of the plan, inflationary tread submerging actual cost, and sub-standard building materials used for the execution of contracts, low investment initiative due to socio-economic instabilities, unstable government policies, and unnecessary disposal of resources among a number of small uncoordinated contracts.

There are three features associated to maladministration and incompetence: lack of trained experts to actualise the complex programmes and projects of government for economic gains; lack of political will and support from public servants, technocrats,

bureaucrats and the easy manner with which some Third World bureaucrats manipulate statistical data to conform to their political aspiration or bidding.

From the economic point of view, policy implementation is hampered due to government inability to financially execute a project or implements policy thrust, as a result of large dependence on Western bloc for foreign loans and grant with stringent conditionalities to assess the loan which in most cases adversely impact negatively on the local economy. The political constraints to policy implementation can be attributed to the unprofessional policy styles of most developing economy. For instance, a situation where the per capita income of a citizen is less than a \$1, it then becomes obvious that the citizen will seek for alternative sources to augment his financial deficiency. This implies an invitation to corruption characterised by falsification of official document, inequitable distribution of power, which is often the case in plural societies. The underlined statement is that ineffective policy implementation results into economic setback.

One of the more remarkable changes in public policy in the past few decades has been the liberalization of several sectors of the Nigeria economy, including financial institution, and telecommunications industry. These changes challenge the conventional wisdom about sub-government power as well as the permanence of government agencies.

The fact that deregulation has occurred in several public sectors within the span of nine years has heightened interest in explanations of policy and regulatory change. The bureaucratic politics and economics literature suggests that it is difficult to change policy because of powerful sub-government elites, the alliances among congressional committees, the regulated interests, and the regulatory agencies. Earlier studies of policy changes, such as those by Schattschneider (1960) or Fritschler (1969), argued that change is required for the development of a large coalition of interests to overcome sub-government dominance. While this literature pointed in the right direction, it fails to account for changes in preferences within the sub government alliance partners that can be brought about by new ideas, technology, and economic developments.

Some of the most recent literature on deregulation has focused on these kinds of societal changes that undermine a unified sub government by involving other actors such as the president or the courts. The most prominent explanation postulates that ideas developed by economists and popularized by journalists created a pro-deregulation climate of opinion that convinced policy makers to support policy change Derthick and Quirk, (1985); and Quirk, (1988). The economists' argument was that regulation causes inflation and slows productivity, and that deregulation would unleash the powers of competition and spur economic growth. Presidents were elected who held this view, and they appointed people with similar beliefs so that the regulatory agencies would reduce and eliminate regulations. Legislators were also caught up in the climate of opinion favourable to deregulation and gave its approval

to changes initiated in the executive branch, despite opposition from the regulated industries and congressional oversight committees, economists held to their beliefs that policy implementation direction allows economy to strive on its own without undue policy pressure.

Another explanation of deregulation focused on economic and technical changes in society and its impact on the regulated firms (Hammond & Knott, 1988). Sometimes economic and technical changes permitted regulated firms to circumvent the regulations. In other instances economic and technical changes fostered the birth of new firms and products outside the regulatory guidelines. These firms turned to the courts to challenge the regulatory restrictions that prevented them from entering the market. In general, because regulations proved to be inflexible and unresponsive to these economic and technical developments, regulated firms were often unable to compete successfully against the unregulated firms. Congressional approval of deregulation legislation served to ratify changes that had already taken place in the economy.

The problem with these explanations is that neither regulation nor deregulation can adequately explain changes in all sectors of the economy. The economics and technical changes explanation works better for banking and telecommunications, either of these cases, there were significant lobbying for change and for the development of competitive firms through technical and economic innovation. In contrast, the climate of opinion explanation works better for public transportation and

communication, since in these two cases there were relatively little technical and economic innovation which fostered outside competition and the regulated industries opposed change. The other limiting feature of these explanations is that both fail to address the role of government institutions in determining policy change.

If government institutions fail to take an active role in policy change and also do not serve as a filter or lens to shape different policy outcomes in different sectors, as these arguments seem to imply, would we expect to find variation in policy change outcomes from one sector of regulation to another. The climate of opinion explanation would predict little variation from one economic sector to another in legislative outcomes since the deregulatory idea attacked price and entry regulation in general, not the specifics of any individual industry. But if differences in policy outcomes do appear, they should be closely associated with difference in rates of technical and economic change, if the second explanation is correct. However, both types of explanations posit a single cause, either climate of opinion or economic/technical change. Neither explanation examines the interaction among causal factors, including the role of the various institutions involved in the policy process.

From the above therefore, it should be noted that the scope and comprehensiveness of some policies might experience implementation bottleneck arising from any, or a combination, of the following: lack of appropriate technology for implementation; inadequate human and material needs; over-stretching of available resources for maximum visibility and impact at the end of which nothing may be achieved.

2.4. POLICY OF REGULATION, DEREGULATION, PRIVATIZATION AND LIBERALIZATION IN NIGERIA

Derlef (2005), the terms “liberalization” and “privatization” have been used for quite some time now to describe two interlinked developments with a notable impact on public service delivery. He examines two questions:

- What demands do these trends make on government steering capacities;
- What effects do they have on decision-making processes and on the positions of citizenry, country and leadership in the structure of power

The issue is government steering requirements and the associated shifts in power. An outline of the types and extent of liberalization and privatization is followed by examination of the major demands on government with respect to goal definition, contract design, coordination, and control in service delivery. The roles and capacities of Area Council and Governor have changed over time in the repositioning of the structure of local government. But their capacity to act is also limited when the structure is confronted by oligopolistic corporate structures.

Wohlfahrt (1999), Privatisation and liberalisation are often mentioned in one breath. This convention arises from the observation that setting a framework for competition involves both a narrow concern with economic efficiency and the presumption that the private sector “can do it better.” In addition, liberalisation has induced restructuring of the market in the infrastructural field. This has put local utilities under considerable pressure to achieve competitiveness. The reorganisation of municipal utilities has required spin-offs and privatisation to eliminate the

(cameralistic) constraints of public administration and to find strategic partners whose financial aid and technical know-how they saw prospects of holding their own in competition.

The development of a “municipal group” cannot be understood without considering the change in prevailing regulatory policy. Although New Public Management has manifested itself in Nigeria public reform in the guise of the intra-administration “New Steering Model,” the far-reaching discursive change in which privatisation has been embedded is characterised by a narrow, cost-focused pre-occupation with efficiency, by a conviction that private enterprise is internally better organised, and by efforts to draw a stronger dividing line between politico-strategic control and operative service delivery. The model underlying the discussion was that of the “ensuring State.”

Deregulation is a marked tendency for government to consider the broad topic of outsourcing and privatization against the background of financial crisis, i.e., primarily to address cost aspects and debt reduction. But, apart from fiscal considerations, what are at stake are the strategic value of the given entity and the precise specification of services. Since corrective political influence is greatly weakened once the contract has been signed, prior, detailed definition of the contracted tasks is vital. The question always arises in the political debate as to whether and, if so, what criteria are important to the municipality over and above pure economic efficiency. Such criteria include social and ecological aspects. But they can also include the deliberate promotion of local economic structures by explicitly involving local SMEs in service

delivery. Finally, the possible loss of control needs to be taken into account. Hence, the sale of public housing stock is controversial. Some cities, like Ibadan, Lagos and Kano, regard property agencies as essential tools for integrated urban development and social policy, and are therefore very skeptical about selling such municipal assets as Abuja has done, (Aremu, 2001).

A comprehensive and in-depth debate on goal definition is important prior to any form of privatization, because it is difficult to correct specifications afterwards. Tendering procedures, which, depending on the scope of the project, may be Europe-wide, need to be detailed and legally watertight to fend off any legal action by unsuccessful bidders, an increasingly frequent occurrence. The outcome of the debate on goal definition then feeds into contract negotiations, which firmly establish the future client-contractor relationship. Once contracts have been concluded, every subsequent modification to goals can face “lock-in effects” because the municipality now depends on the willingness of the private firm to accept any changes.

For all types of privatization, the specific design of contracts is a business involving high transaction costs because the specified goals and criteria are to be set out in legally binding form and the risks of service provision distributed with binding effect. Risk allocation, in particular, has a strong impact on the financing of privatization, since it is reflected in interest rates. Local authorities require either negotiating capacity of their own or bought-in expertise. The government decides on the modalities of privatization, setting price-performance ratios, determining (flexible) incentive and sanctioning mechanisms, risk allocation, inalienable rights of disposal,

and the composition and remit of shareholders' meetings, advisory boards, and management.

Once the contract has been drawn up, a third control requirement imposed by liberalisation and privatisation is the actual coordination of public service provision. In a local landscape embracing public administration, spin-offs, formal and material organisational privatisations, local authorities have to cope with the centrifugal forces generated by the individual entity's tendency to act in isolation. One possible consequence of such centrifugal service provision is a loss of the capacity to take concerted action in important cross-sectional fields such as urban development, social and economic development policy, and in dealing with demographic change. The public ensure function of the municipality would then be severally restricted. In addition to the entire contractual complex, two coordination mechanisms are currently in evidence. First, units and steering committees are established in the upper echelons of administration and interfaces developed in the relevant agencies. The administration reorganises itself internally to create the capacities needed for coordinating service delivery. Second, functional networks form in various policy areas, integrating the private, public, and quasi-private entities involved in service provision. These networks develop in obedience to the functional requirements of producing public goods and services. They can also owe their development to the desire of key local actors to establish bonds in a particular field for strategic reasons. And, finally, networking is reinforced by state, federal, and EU aid programmes in so

far as appropriate subsidy guidelines and complementary financing sources make funding contingent on cooperation between local actors.

Deregulation is different from liberalization because a liberalized market, while often having fewer and simpler regulations, can also have regulations in order to increase efficiency and protect consumers' rights, one example being anti-monopoly legislation. However, the terms are often used interchangeably within deregulated/liberalized industries, (Harrod, cited in Issa, 2001).

Under a broad perspective, Braider (2005), posited public opinion, that privatization as both deregulation is the transfer of public wealth to private management. Deregulation covers a wide spectrum, and cut across all sides of the argument. However, in the case of deregulation policy in Nigeria, some school of thoughts are doubtful about its realization whether in the oil and gas sector or other industrial sectors of the economy due to insincerity of implementers.

But Braider is optimistic of the viability and desirability of deregulation freeing government control of activities in exploration, refining, marketing, exportation and importation. He concluded by advocating for phases of deregulation policy in Nigeria so as to enable State-owned operators to attain reasonable efficiency before they are unbundled.

2.5. DEREGULATION IN DEVELOPED COUNTRIES

According to Hooper (1998), deregulation in the developed and developing economy has triggered number of theoretical discusses and intellectual controversies amongst industry scholars. These sections consequently identified two salient enduring schisms discernible in such discussion on the two concepts and link them with their historical development. However, the concept of development like many other concepts in social sciences remains ill-defined and contested. As Gerzl (1995) asserts, “There is no consensus as to what development means and requires “.The concept of development as used here suggests both a process and a condition. It is a process, in so far as attention is given to the means whereby a society may transform itself so that it achieves self –sustaining economic growth. Based on this, Dickson (1997) conceived development as “an ongoing process of qualitatively ameliorated social, political and economic change”.

The term is also used to denote the condition reached by those societies that have made the successful transition to development “as the condition in which the individuals are more aware of , and have greater access to (such) new technologies , and are induced to take advantage of their possibilities through the working of market forces “. To view development as a “multidimensional process involving changes from a less, to a more socially desirable state “.

According to Rodney (1972), development is a many sided process. At the individual level, it implies increased skill and Capacity, greater freedom, creativity, self-

discipline, and responsibility and material well-being. At the level of social groups, development implies an increasing capacity to regulate both internal and external relationships. Rogers (1969), defines development as a type of social change in which new ideas are introduced into a social system in order to produce a higher per capital income and levels of living through more modern production methods and improved social organization.

From the above definition, therefore, development involves a structural transformation of the economy, society, polity and culture of the satellite that permits the self-generating and self-perpetuating use of development of the people's potential. From the above submissions on the concept of development, in the context of competitive advantage of a nation, transformation of industries through the process of deregulation is of considerable interest to strategies researchers as well as to policy planners. As far as deregulation is concerned, developed countries such as the United States of America, Britain and rich nations with resources seem to be comparative more advanced in a deregulated economy, (Ikelegbe, 1996).

On the energy sector, Oyama (2000) argued that deregulation of petroleum and natural gas industries in the downstream divisions is a global trend and developed countries were among the first to liberalise such sector. Deregulation in developed countries had been an important driving force for the economic growth of developing countries, now a trend towards intensified protectionalism in major developed countries. While this would harm the interests of the developing countries, eventually

it would harm the developed countries as well. It was imperative that each country formulates policies for economic and social development in accordance with its own national conditions. The differences in levels of economic development should be recognised, so as not to force developing countries to remain in lock -step with developed ones in the process of deregulation or liberalization of trade investment.

World Bank Report (2005) has it that liberalization and deregulation of infrastructure services are not limited to developing countries only. These are key issues as well for developed countries. The United States of America, for example, began to deregulate its US\$215Billion electricity market in 1998. Similarly the Financial Times has reported that nine individual states (California, Montana, Illinois, Michigan, and Pennsylvania) have either finalized a prescriptive legislative or regulatory plan or began to phase in retail access to electricity, and that 24 states have begun allowing consumers and wholesalers a choice in electricity markets. The issue of deregulation in utilities is still actively debated in the USA.

The Emergency Natural Gas Act (signed February 2, 1977) was a mix of regulation in response to OPEC price hikes and deregulation and the 1973 oil crisis in the U.S. The Airline Deregulation Act is also a notable example. Its reintroduction of competitive market forces to the heavily regulated commercial airline industry was highly successful.

Communications in the United States (and internationally) is an area in which both technology and regulatory policy have been in flux. Rapid developments of computer

and communications technology particularly the internet have increased the size and variety of communications offerings. One can see an emerging era in which wireless, traditional landline telephone, and cable companies increasingly invade each others' traditional markets and compete across a broad spectrum. The Federal Communications Commission and Congress appear to be attempting to facilitate this evolution. In mainstream economic thinking, development of this competition would militate against detailed regulatory control of prices and service offerings, and hence favour 'deregulation' as to prices and entry into markets. See for this line of thinking Crandall, "Competition and Chaos U.S. Telecommunications Since the 1996 Telecom Act", Brookings Institute, 2005. On the other hand, there exists substantial concern about concentration of media ownership resulting from relaxation of historic controls on media ownership designed to safeguard diversity of viewpoint and open discussion in the society, and about what some perceive as high prices in cable company offerings at this point. See for further development of this area Telecommunications Act of 1996 and Concentration of media ownership.

The financial sector in the U.S. has evolved a great deal in recent decades, during which there have been some regulatory changes and the creation of new financial products such as the 'securitization' of loan obligations of various sorts and 'credit default swaps'. Among the most important of the regulatory changes was the Gramm-Leach-Bliley Act in 1999, which repealed the parts of the Glass-Steagall Act which had not already been repealed. This 1999 Act took down barriers to competition between traditional banks, investment banks, and insurance companies, and allowed

firms to participate in all three markets in some circumstances, (Sullivan, Arthur; Steven, Sheffrin 2003).

Australia was an early leader in deregulation with a broad programme of deregulation beginning in the early 1980s. Having announced a wide range of deregulatory policies, Labour Prime Minister Bob Hawke announced the policy of 'Minimum Effective Regulation' in 1986. This introduced now familiar requirements for 'regulatory impact statements' but it took many years before the policy was complied with by government agencies. Australia experienced deregulation of their labour market during the late 1980s under Hawke/Keating Labour governments. The country saw extensive deregulation of the labour market beginning in 2005 under John Howard's Liberal Party of Australia through their Work Choices policy. However it was reversed under the following Rudd Labour government. In 2007, the Rudd Labour Government promised extensive deregulation, particularly in the business sector, appointing Lindsay Tanner Minister for Finance and Business Deregulation.

Argentina underwent heavy economic deregulation, privatization, and had a fixed exchange rate during the Menem administration (1989–1999).

Canada experienced deregulation of her Natural Gas, with the exception of some Atlantic provinces and some pockets like Vancouver Island. Most of this deregulation happened in the mid 1980's, The province of Ontario began deregulation of electricity supply in 2002, but pulled back temporarily due to voter and consumer backlash at

the resulting price volatility, (Rose, Seely et-al, 2006). The government is still searching for a stable working regulatory framework, (Kahn, & Alfred, 1988).

The current status is a partially regulated structure in which consumers received a capped price for a portion of the publicly owned generation. The remainder of the price is market price based and there are numerous competitive energy contract providers. There is price comparison service operating in these jurisdictions. The province of Alberta has deregulated their electricity provision. Customers are free to choose which company they sign up with. However there are few companies to choose from and the price of electricity has increased substantially for consumers because the market is too small to support competition.

The air industry in Europe was deregulated in 1992 and gave carriers from one EU country the right to operate scheduled services between other EU States. The situation is not different in Japan. Since the economic bubble in 1990s collapsed, the Japanese government has seen deregulation as an effective way to lift its economy because it has a huge deficit and cannot make a large tax cut.

Russia went through wide-ranging deregulation (and concomitant privatization) efforts in the late 1990s under Yeltsin, now partially reversed under Putin. The main thrust of deregulation has been the electricity sector, with railroads and communal utilities tied in the second place. Deregulation of natural gas sector is one of the more frequent demands placed upon Russia by the United States and European Union; the taxi industry was deregulated in Ireland leading to an influx of new taxis. This was

due to the price of a license dropping overnight. The number of taxis increased dramatically. This was good for the consumer and bad for the driver;

The "Deregulation" movement of the late 20th century had substantial economic effects and engendered substantial controversy. As preceding sections of this study indicate, the movement was based on intellectual perspectives which prescribed substantial scope for market forces, and opposing perspectives have been in play in national and international discourse. The article on neoliberal thought in this encyclopaedia sets out a well documented discussion of these opposing perspectives and evidence adduced to support them.

The movement toward greater reliance on market forces has been closely related to the growth of economic and institutional globalization in the sixty year period between about 1950 and 2010. The articles on Globalization and on the anti-globalization movement in this encyclopaedia provide extensive discussions of the globalization movement and the concerns and objections which it has engendered, (Barnun, 1998)

Thierer (1998) wrote, "The first step toward creating a free market economy is to repeal the federal statutes and regulations that hinder competition and consumer choice,

2.6. DEREGULATION IN DEVELOPING COUNTRIES

Crude oil business is more of global concern; hence, it's a major determinant in socio-economic and political structure of any economy. Few instances of developing countries that have embraced deregulation are cited as follows:

Latin America's Experience: Following the first Oil shock in 1970s and 1980s, the balance of payment crises became acute in Latin America. At the same time, a combination of low growth and periodic crisis resulted on how the first overall state development strategy had been followed in the previous forty years, particularly on the state intervention and import- Substitution Policies. Disenchantment with import-Substitution policies and government intervention was deep in those countries and the trickle effect was an extreme macro-economic distortion with very low and dim prospects for sustainable growth.

In the 1970s, they implemented economic reforms that aimed not only at controlling inflation but also at changing the overall development model, with reduction on government intervention, increasing use of markets fundamental, and a greater integration into world economy. The reform packages also entailed short-term stabilization policies, as well as long-term policy aimed at progressively removing government intervention in Product and factor markets, (Corbo, 1990).

In Uruguay and particularly in Chile, the serve external shocks of 1973-1974 on these economies created the need to deregulate and opening up of their free trade capital flows, commodity and factor markets. These measures were expected to contribute to

a sustainable stabilization and benefit resource allocation, eliminate recurrent bottlenecks, and lead to higher growth. Chile went further in her economic liberalization, followed by Uruguay, while Argentina only made little progress. The initial policies successfully eliminated the barriers to balance –of- payments. (Corbo, et-al)

However, in the implementation of these reforms, political resistance has been a major impediment in relation to the public sector, the trade regime, and the labour and domestic markets with stronger opposition from rent seekers who have traditionally benefited from a large public sector gesture, (Argentina and Brazil are good examples here), and from the owners and employees of highly protected industries. Major progress has, however been achieved in controlling inflation in Bolivia, Costa Rica, Chile and Mexico at the instance of deregulation policy, (Corbo & Domilo, 1987)

Mexico, Costa Rica, Bolivia and Honduras have made inroads in the deregulation of their foreign economy, in spite of all the Socio-economic and political difficulties encountered, there is an increasing acceptance in Latin America of the notion that to facilitate growth and development of the reform programme, effort has to be sustained. The recovery of this sustainable economic growth depends on consistency in reform policies implementation that would generate more investment and higher savings. That is, recovery of investment requires a stable and predictable macro-economic environment where long-term commitments can be made. On the other hand, higher financial savings is required to boost investment and reduces external borrowing, (Easterly, 1990).

Nigeria's Experience: From the 'post oil boom era' macroeconomic indices has played vital role in the determination of economy development through its components such as level of inflation, output level of agricultural produces, level of money supply, interest rate vis-à-vis exchange rates of our country's currencies etc especially after the demise of oil boom of the '70's, the revenue allocation system remained one of the critical destabilizing factors in the Nigerian Federal experiment. The choice of oil remind tied to its status as the physical basis of Nigeria state accounting for over 80 percents of Federal Revenue and 90 percent of foreign exchange earnings. Beyond this, it feeds into struggles over control of assets and distribution of various factions of the existing rule class with revenue allocating largely implementing the allocation of oil revenue. Hence, oil remains the central focuses to politics of inter and intra-government relations. The economic crisis and transcendent of destabilizing tendencies within the system, the politics of oil determines the political economy of fiscal Federalism, confronts the power relation that underlines the authoritative allocation of resources among the various tiers of the Nigeria Federation. By the same logic, it deals with the outcomes the allocation under which it breads crises.

At the inception of Obasanjo's reign in 1999 there was the strong desire to energise the economy, hence the introduction of various reforms agenda such as; Privatization of government enterprises, Liberalization of the economy for full private participation; deregulation of the petroleum, downstream sub-sector; and the recapitalization of financial institutions, all these are macroeconomic driven policies.

Government over the years had regulated business activities in the past by being major player in commercial operation of the economy, that is, Government has always had state fiat monopoly in the operations of various industries. In a market guided economy, price is the determinant of the performance of the entire economy with respect to level of output, inflation, and money supply; Government had subsidized price in certain sectors of the economy, notable amongst them are: Petroleum sector (downstream), power (electricity), Agriculture, Telecommunication, etc; This level of subsidy and regulation of the activities of industries in these sectors had led to in-efficiency and bureaucratic bottleneck in the business of these industries and the sectors (in so doing the economy as a whole). In the other hand, if it had been only subsidy without government control of activities of business perhaps market prices would have been determined first before a guided price is negotiated by Government: so that the difference between this prices would have only be infected into the sector (market) by government as a form of subsidy.

A market guided economy could be referred to as deregulated economy, that is, when an economy is deregulated with or without government subsidy it leads to increase in national employment and output, reductions in inflation and money supply will be kept at a level of national output level and level of inflation.

Nigeria is Africa's largest producer of oil after Libya and the seventh in the world has experienced all changes associated with oil after 1995. History has recalled the series of crisis that usually heralded past period of product price adjustment with its adverse consequence on the economy whether positive or negatively it all actual

depend on one's analytical point of view. For a period of 50 years the Petroleum companies (major marketers such as Texaco, Total, Mobil etc. and the recent independent marketers, Oando, Obat, Zenon, Sahara, Ascon, Ibeto etc.) source for products themselves transported and distributed using their own retail outlets, Nigerians paid market determined prices for petroleum products, the exchange rate, hence relatively stable. In a regulated economy, prices were fixed by marketers in agreement with Government as required by section 5 subsection 1 of the petroleum product Decree of 1969. The country was then divided into 26 zones based on distance from point of supply of products to the point of sale; therefore, prices were fixed according to distance, (Madujibeya, 1976).

The downstream sector as a catalyst of supply and distribution of products across the country became an issue from 1st October, 1963 when government introduced uniform pricing of petroleum products with regards to pricing and subsidy in the long run the problem with the implementation of uniform pricing was that it was more profitable to market petroleum products around the sea ports and the main supply services such as Refineries, Depots and Jetties which is mainly in the southern part of the country. Monopolistically, the marketing companies were not willing to expand their facilities to the hinterland since their core motive is to maximise profit at minimum cost at the expense of the consumer. The establishment of petroleum equalization fund (PEF) in 1975 to intervene in the pricing structure of petroleum products was to achieve "price uniformity" without additional burden on any individual marketing company, and sooner this was done, there was failure at the

countries implementation of the fund due to corrupt practices of officers charged with the responsibility to administer it. Pricing became a perennial trauma accompanied by various crises in the sector of the economy.

This situation led the Obasanjo's regime to upwardly review petroleum products pricing in June 2000: PMS was reviewed from N20 to N30; the bandwagon effect was an industrial strike by Nigerian labour congress that almost crippled the socioeconomic activities. Following the negotiation on the latter, the prices of petroleum products were agreed as follows:

- PMS was reduced from N30-N22
- AGO was reduced from N29-N21, and
- DPK was reduced from N27-N17, (NNPC, 2000).

The argument advanced by Federal government was that, since petroleum products are economic commodity it is only commonly that market forces determine its price. However, the inconsistency associated with price volatility of petroleum products become worrisome to economists, this scenario gave room for the review of the industry activities and subsequently the deregulation of the downstream subsector in 2000.

According to Bergg (1997), Macroeconomics emphasizes the various interactions in the economy as a whole. It deliberately simplifies the individual building blocks of the complete interaction of the economy. Hence in this context, we cannot discussed the policy implementation of deregulation or liberalization of the economy as it

relates to government enterprises, without make either concrete or précised references to macroeconomic indicators that could determine a better economic policy, (Amu, 1989).

2.7. THEORETICAL FRAMEWORK

As of the time of this research no theory has been used to explain the effect of deregulation of the downstream petroleum subsector on the economy. This is due to the fact that most studies on petroleum sector focus on ecological degradations, pollution, privatisation, commercialization, liberalization and petroleum price models. These studies have not linked any theories to the effect of government's deregulation policy. However, this study will use a theoretical framework to study or explain the effect of deregulation on the economy of Nigeria with reference to Lagos. But before we introduce the theory elitism, it is imperative to highlight the Vision statement of the Nigerian deregulation program, because it serves as the basis for our choice of theory, thus:

The Nigerian deregulation vision statement as articulated by Lukman, aims to 'drive the creation of wealth for Nigerians through; Open access regime, Price liberalization; Return on investment for investors, and availability of petroleum product (NNPC, 2008).

The key elements of this vision are, private participation for wealth and job creation, sustainable development, energy self sufficiency, integrating oil and gas policy that will be environmentally friendly and developing a booming home petroleum industry. This vision statement is based on good intentions (plans), processes for executions

(actions) have drawn and results have been anticipated to be favourable. However, does the vision statement have allowances or thoughts to be given to unanticipated results? The answer is a resounding NO! It is in this light that this study adopts elitism theory as the theoretical framework for this thesis:

Elitism is the belief or attitude that those individuals who are considered members of the elite, that is, a select group of people with outstanding personal abilities, intellect, wealth, specialized training or experience, or other distinctive attribute of elites are those whose views on a matter are to be taken the most seriously or carry the most weight; whose views and/or actions are most likely to be constructive to society as a whole; or whose extraordinary skills, abilities or wisdom render them especially fit to govern. Alternatively, the term elitism may be used to describe a situation in which power is concentrated in the hands of the elite. Those opposed to elitism are considered supporters of anti-elitism, populism or the political theory of pluralism. Elite theory is the sociological or political science analysis of elite influence in society - elite theorists regard pluralism as a utopian ideal. Elitism may also refer to situations in which an elite individual assumes special privileges and responsibilities in the hope that this arrangement will benefit humanity or themselves. At times, elitism is closely related to social class and what sociologists call social stratification. Members of the upper classes are sometimes, though inaccurately, known as the social elite. The term elitism is also sometimes used to denote situations in which a group of people claiming to possess high abilities or simply an in-group or cadre grant themselves extra privileges at the expense of others. This form of elitism may be described as discrimination.

The view, that formation of élites in some sphere is desirable, and that the status and privileges of existing élites are worth protecting. Plato is the most famous advocate of the view that government is the job of those who are superior in wisdom, but since people are unlikely to recognize those wiser than themselves, this is not the usual result of democracy.(Haralambos & Holborn, 2008).

Elitism theories as propounded by the Italian school of thought, Geraint Parry (1977), Gaetano Mosca (1896), and Wright Mill (1963), all of the nineteenth and twentieth century's are conflicting theories on the role of deregulation as a public policy in both developed and developing economies. The various elitists' theories to be

examined include the System Analysis Theory by David Easton (1953); Institutional Theory by dye (1978), Group theory by Eckstein Harry (1963 cited in Guy Peter), Marx and Engels on power and the state, (cited in Haralambos & Holborn, 2008)

Mosca (1939) subsequently posited that, the ruling class was one of the first detailed statements of the claim that even in a representative democracy there are smaller circulating elites who are commissioned not only designated to rule by their affiliation to the elite class, but ought to rule. He buttresses his argument as follows:

- i. He belief that certain persons or members of certain classes or groups deserve favoured treatment by virtue of their perceived superiority, as in intellect, social status, or posses financial authority;
- ii. The sense of entitlement enjoyed by such a group or class;
- iii. Should Control, rule, or domination by such a group or class;
- iv. The belief that government ought in principle, always and everywhere, be confined to elites.
- v. The belief that government is in practice confined to elites; that this has often been justified by arguments from Plato or Schumpeter; but that this is undesirable because elite rule is in practice, rule on behalf of the vested interests of (usually economic) elites;
- vi. The belief that government is in practice confined to elites; that, following a maxim of Hume, 'ought to implies can' (in other words, that there is no point in saying that government ought to be controlled by the people if in practice it

cannot). These views are especially associated with Mosca, Pareto in the early twentieth century, and Schumpeter in mid-century. All three writers shade into elitism theory because they produce normative justifications of rule by elites in a democracy. However, their earlier arguments do not in themselves imply that if democratic control of the government were somehow achievable it would be undesirable.

Mosca, a scholar whose contribution to political science cannot be ignored, observed that all but the most primitive societies are ruled in fact, if not in theory, by a numerical minority, which he named as political class. Mosca together with Vilfredo Pareto, Wright Mill, Robert Dahl (1961), Michael Maggiotto (1983) and Thomas Dye (1976), developed the theory of Elitism and the doctrine of Political Class. (Gaetano Mosca, the Free Encyclopedia, 2007).

Mosca systematically disregard Marx and Engels argument on classical democratic thought on majority rule, he insisted on the impossibility of majority rule that every society is divided into those who rule and those who are ruled he noted; and the rulers constitute only a small minority of any society. He argued further that Aristotle's classification, which divided political systems into three types (rule by one, rule by a few, and rule by the many), does not fit into reality either, for no man is capable of ruling by himself, and the many. It is the few, under any political system, who exercise effective control.

Mosca disproved Marx and Engels argument on class struggle that in the end (following the victory of the working class) leads to social harmony in a classless

society, he saw this assertion to be wrong also, that history features are continuing struggle among elites. That struggle will never end, and a classless society cannot be created. Moreover, to the pioneers in the development of elitist theory, Marx placed too much emphasis on economics and not enough on politics, which could be autonomous, (Aydinonat, 2008).

However, Marx, Engels and the Italian scholars seem to have same bases of argument. The Marxist theorists also agree with those elite theorist who sees power being used to further the interests of the powerful. They noted further that the powerful and the powerless have different interests and that these differences may lead to conflict in the society. Unlike the elite theory, although Marxist approaches do not assume that power rests with those who occupy key positions in the state, they see the source of power lying elsewhere in the society. That is, they see elites as those who control the state through economic resources, and have different approach. (Marx and Engels cited in Haralambose & Holborn, 2008).

The elite theory is founded on the platform of basic political principles centred on the submissions of classical or liberal rational expectation. The elite include those who occupy political power or seek to influence governmental decisions. This theory therefore holds the view that in every society there exist a minority of the population, which takes major decisions that are usually referred to as political decisions. The theory posited that public policy such as deregulation reflects the values and preferences of the elites, rather than the demands of the masses. The elites own their positions to the control of productive resources of the society such as wealth,

economic might, power and education. By this policy of deregulation, the elites assume it can render assistance in revamping the industrial order (oil and gas) for all sectors of the economy, which could provide the much desired resources required for the growth of nations especially developing countries such as Nigeria, (Easton, 1953).

Geraint (1977) noted that the elites have common interest in the preservation of *status quo*, hence, most policies are conservative, non-innovative and marginally driven, rather than those with bold and high change features. In buttressing his argument further, he queried that policies might often time be the interest of the masses, even though the long term interest may be that of the elites, but this happens as concessions to or reaction by the elites to threats of the status quo by the masses.

There is consensus among the elites on the survival and stability of the society and fundamental values. The consensus is based on individualism and vested interest in the protection of their status quo. The elites sustain and stabilize the system in several ways. It signs up citizens who challenge the system into the elite's class so long as they accept the basic elite accord. The elite provide a slow, gradual but some access to the elite class so that change and stress could be averted. In order to preserve self-status, avoid change and stress, elite concedes to some welfare policies and public demand.

Economically, based on the principle of demand and supply, the exponents of this theory have argued that any public decision that changes the price of a commodity or the relative income of an actor will create an incentive or disincentive to acquire

more or less of the products. In the elite theory analysis, the policy of deregulation was viewed within the framework of changes in rates of returns on investment across sectors until such returns equalises across and within the economy.

2.6.1. Justification of Theory:

This theoretical wrapping up is borne out of the fact that the elite theory directs our attention to the source of policy thrust and whose interest public policies serve. The theory attempts to proffer a realistic explanation of the resources of policy by predicting it in the elites rather than the proletariats. Classical democratic theories assume that public preferences articulated by representatives are the main source of policy thrust. Realistically, the citizenry does not have any considerable influence on public policies. These schools of thoughts (elite theorists) have tended to see elite power as cumulative and pervasive in all aspects of society. To them, the same few wield power in all areas (Eckstein, 1963).

The concept of deregulation, according to Gbadamosi (2007), completes opening up of all the segments of the downstream sector of the oil industry to completion where economic market fundamentals dictate prices. Whenever market prices are at unacceptable levels, stakeholders (perhaps the most responsible of them all) can only intervene through the market variables of demand and supply, and not administratively. He believed that deregulation is expected to remove the barriers in products' distribution, which will lead to efficient resources utilization. At the heart

of the deregulation of the petroleum downstream sub-sector is the controversy over pricing volatility of petroleum products in Nigeria. The extremes have been whether the prices should reflect their full cost or contain subsidies, especially against obvious abuses and sharp practices in product sourcing and distribution.

Barendranath (2005) posits that deregulation is logically conceived as “an instrument used to trigger entrepreneurial activities, introduce disorder, change the rules of the game and alter power of buyers and suppliers”. According to him, in the process of deregulation, the threat of external players, imports and substitute products becomes real and the strategy of the local players (the incumbents) may be found wanting, as their competitiveness introduced by deregulation is severely tested at the boundary conditions of export and import, as well as at the edges of local market by close followers and new fleet-footed players in which some industry leaders may actually get dislodged. In the process, Barendranath (2005) also argues that new enterprising and “nimble player” may emerge, and the structure of the industry could undergo transformation, often with other cascading changes predominantly in terms of fragmentation or concentration.

From the oil sector perspective, deregulation, according to NNPC (2003), “is the opening up of the downstream sector of the petroleum industry to competition among all players in the industry”. It means allowing every player the opportunity to refine or import petroleum products for use in the country in so far as the products so refined or imported meet quality specifications. It involves removal of entry barriers

into the supply and distribution of petroleum products. Under the policy of deregulation, no qualified and competent person and corporate body are prevented from participating.

The policy of deregulation as viewed by Saliu (1998) “principally involves the liberalization of the logistic and pricing of goods and services”. According to him, it is supported by the economic theory that a free market will result in the optimum deployment of economic resource, but the theory derives from a simplistic model in which time is not a variable and oscillatory phenomena, therefore cannot exist.

Munirat (2003) described deregulation policy as the removal of monopolistic control, which should lead to the creation of level-playing ground, given rise to competition, which ultimately should lead to better and efficient services to consumers at the most beneficial rate. In a related development, Stewart (1986:68) viewed deregulation as a major key to improving greater investment and economic growth in all productive sectors of the economy, in the sense that it will help in enthroning democratic and popular capitalism, encourage competition and accountability, reduce mismanagement and favouritism and allow efficient allocation and utilization of resources.

Furthermore, since the main feature of any public policy is toward national development particularly, for developing nations of the world such as Nigeria, without enough basic capital and other resources to invest simultaneously in all sector

of the economy, then deregulation policy investment becomes imperative. If the government wants to contribute their quota in assisting in achieving economic growth in Nigeria and a higher level of efficiency in the oil and gas sector, the industry must be deregulated. The nature of the deregulation programme should not be based upon 'productivity investment', even from the commercial point of view, it is a total wastage. But, so long the policy serves the purpose of increasing demand, the purpose is achieved.

CHAPTER THREE

RESEARCH METHODOLOGY

This segment of the study examine the method, design and characteristics of the study population, sampling procedure, determination of the sample size, data collection and procedure for processing and analysing the collected data. On this research, we relied heavily on quantitative and qualitative primary and secondary sources of data as further examined in chapter three.

3.1. RESEARCH DESIGN

Assessing the effect of deregulation of the downstream petroleum sector is quite a new field and as evident from literature, most of the studies are qualitative. Presenting an empirical work has been a challenge, however by combining works from literature, government publications and data from the international energy journal, federal bureau of statistical division; we have been able to answer key questions. The definition of deregulation was used to depict the various dimension of product availability; investment security provided the knowledge which we used to adopt the working definition for the purpose of this study.

Investment security for the purpose of this study is the ability of a country to produce enough quantities of petroleum products to meet the consumption needs of her citizens. It entails ensuring that the quantity is sufficient, the supply is reliable and products are at affordable price without necessarily depending on foreign imports.

Using this definition of deregulation, deductions would be made logically from findings from literature, government action plan and prevailing crude price and economic conditions to answer the research question.

3.2. SOURCES OF DATA

The recent posture of government on the need to deregulate the downstream subsector and the absence of empirical research (especially quantitative research) on the effect of deregulation present a major challenge for a desk study. Most studies on deregulation are mainly qualitative and generalized. Assessing the potential effect of deregulation on global economic activities require an understanding of the policy used and the region as well as the types of demand- supply substitution most sensitive to the convergence of agriculture and crude oil, although there are qualitative methods/models for explanations, quantitative models are limited, (Naylor, 2007).

The only quantitative study that touched potential petroleum economy was by Msangi et al. (2007), the main aim of the study was to investigate the interactions of crude oil demand and refining of petroleum products for industrialisation, in order to see how scenarios for projected growth in petroleum products supply could enhance the availability of petroleum products to the final consumer. The effects of deregulation is used to capture salient issues on the changes that occur within the petroleum

reform initiatives as it affects the demand, supply and distribution of petroleum products, as well as trade at the global (OPEC) level.

Few studies have been carried out in Latin America, Uruguay, Mexico, Costa Rica, Bolivia and lately El Salvador by International Energy Agency (IEA) to ascertain the effect of deregulation on the oil and gas sector. Using government policy frameworks and action plans as well as ongoing activities by key actors (stakeholders) and making inferences from the combination of the two mentioned factors, researchers will be able to produce the possible potential effect of government deregulation's policy on the downstream petroleum subsector and the possible effect on livelihood of Nigerians. The research style will be similar to the above but with some additions and modifications.

This study focused on the effect of deregulation on the Nigeria economy with reference to Lagos State, the commercial city of the country, and the methodology of the study is based on two methods namely:

- i. Primary sources of data (administration of questionnaires)
- ii. Secondary sources of data (In-depth literature review), adopting descriptive statistics tables, graphs and charts.

Descriptive statistics is used to describe the main features of data (Bower, 1996). A descriptive Statistics provides simple summaries about the sample and it involves the use of means, average growth rates and frequency distributions (Manyongm, 2005). Various techniques are used in descriptive statistics, these include a graphical display

of the data in which graphs and frequency distributions summarizing the characteristics of the data comparisons between samples or tabular description in which tables of numbers are summarized.

Key components to this research question are on domestic production/ consumption, import and exports of the designated petroleum products. The main data are sourced from; NNPC, DPR, CBN, PPPRA and Federal Bureau of Statistic. The data has been housed in 1999-2007 statistical year books. These corporate organisations' statistical division assembles and disseminates statistical data on the effects of deregulation of the downstream petroleum subsector on the Nigeria economy, with reference to Lagos State. Nigeria corporate goals with OPEC countries have improved the coverage, consistency and quality of the data sourced within the oil and gas industry, hence, the federal government determination to develop and improve the statistical data for the petroleum commercial sector of the oil and gas industry. This corporate database remains the most genuine source of data on oil and gas matters and related activities especially on developing countries.

The Nigerian Federal Bureau of Statistics referral is usually made to public oil sector when looking for petroleum related data on Nigerian oil and gas. The petroleum distribution indicators database prepared by Nigerian National Petroleum Corporation (NNPC), Directorate of Petroleum Resources (DPR), Petroleum Products Pricing Regulatory Agency (PPPRA), Central Bank of Nigeria (CBN) Statistical year book adjudged from other countries deregulation experience were used in our analysis.

The following indices have been identified as being important in providing answers to our research question(s). This study takes an appraisal of the deregulation policy of Nigeria with consideration on Lagos State economy and also looks at the total population change during the study period and the change in population engaged in petroleum consumption as well as the urban population change during the study period.

Attention is focused on the expected policy gains on deregulation, effect of deregulation on Nigeria economy vis-a-vis Lagos State, the sorry state of our refineries, supply and distribution mechanism, price volatility of petroleum products, impact of subsidy on the national economy, consumption pattern, and import regime of petroleum products during the period under study.

All these indices were then discussed together with the oil and gas policy in contextual manner as it relates to Nigeria and the deregulation debate. It also gives an indication of the inadequacy of existing oil and gas law act of 1974.

The data for our study falls within 8 year time frame (1999-2007), this is due to the fact that there were no adequate data during the military era for 1986-1999, while the data from 2000-2007 were comprehensive on a lot of parameters used. We believe that a 10 year time frame is not short for this kind of study.

Data on oil and gas activities are also drawn from the OPEC database/ website. This is needed so as to be able to forecast relative changes in petroleum policy taking into account the plan of the government policy reform initiatives on the downstream subsector of the oil and gas industry. The government's deregulation programme document has been a major tool in this research, this document states government plans and line of action for the deregulation programme. This document in combination with the current Petroleum Industry Bill (PIB) of 2005, which has gone through public hearing at the National Assembly, are be used to make inferences on what the possible and potential effects deregulation policy has on the Nigeria economy.

Methodologically, theoretical and empirical framework for this study anchored extensively on the effect of government deregulation policy of the downstream petroleum subsector on the Nigeria economy, theories of petroleum products pricing, supply/distribution and the of petroleum support fund (PSF) policy to cushion price volatility in the market. This is attained through the use of statistical tables, charts, and graphical analyses.

On this study, we rely on the primary and secondary sources of data as further explained:

i. Primary Sources of Data

The sources of primary data on which the findings of this study were based are the survey method using questionnaire administration on the respondents, and observations. According to Scheuren et-al (2004), defined survey method as

the gathering of information from a sample of individual, this sample is usually just a fraction of the population being studied. A written questionnaire was adopted and administered as primary instruments within the target population. This being so, a description of the target population, the sample and the sampling size, techniques and analytical tools employed and the reason behind the choice techniques are imperative for discussion. Sampling size is a statistical quality used for research findings; this, in turn, relates to how the result will be used. There is no sample size that can be used for all survey; much depends on the professional and financial resources available.

ii. Secondary Sources of Data

The secondary data are diverse existing research work comprising relevant articles in journals, conference proceedings papers, position papers, government gazettes and law, output of commissioned research, all of which were framed to reflect the direct need of this study. Data collated were harmonised on the basis of its relevance to constitute a better review of literature for this work.

3.3. TARGET POPULATION

The target population covered in this study were stakeholders, policy makers, organised labour groups, economic scholars, industry experts in the petroleum sector, consumers, high government functionaries, and respected members of the academia who are very vast in the subject matter of this research work through learning, practice and directly confronted with the agony of price volatility associated with

scarcity/hoarding of petroleum products, low capacity utilisation from the refineries, policy direction/decision and changes in all the twenty (20) Local Government Councils of Lagos State mentioned previously will enable us to elucidate the effects of government deregulation policy on the Nigeria economy.

3.4. POPULATION SAMPLE

According to Aakaer and Day as reported in Ibekwe (1999), sampling is an arithmetic tool used to analyse generated information from a relevant segment of a population. A sample is part of a given population, and may or may likely not be seen as full representatives of the population. Hence, this study is not intending to examine the entire population of the sample frame due to the inaccuracy of a comprehensive census of the population and consequently the limitation associated in obtaining holistic information from the entire population.

3.5. SAMPLE AND SAMPLING TECHNIQUES.

A sample is a subset of the population which is being investigated or studied with the aim of generalising the outcome of the entire population. An adequate sample size which represents the diverse characteristic of the population is thus taken. However, there is the need to carefully watch against large sample size to avoid repeated answers by respondents. Thus, sample sizes of 900 persons were drawn using random sampling techniques, meaning that sample was drawn across both sexes and occupation. That is, an equally unbiased method is used to reach the relevant

respondents. Applying the table of random numbers, choosing without replacement where applicable and selecting the names to be covered to achieve this. The questionnaire was thus being administered in this regards.

The population and sample frame is further illustrated in a tabular form as shown in table 3 below:

Table.3.

Population Sampled Cases

S/NO	SAMPLE CASES	NUMBER OF RESPONDENTS	RETURNED QUESTIONNAIRE
1	PENGASSAN	100	90
2	NUPENG	100	96
3	OIL COMPANIES	300	281
4	PUBLIC OPINION	400	390
	TOTAL	900	857

Source: Sample survey, March, 2010.

3.5.1. Questionnaire

In a bid to approach this study, the questionnaires were designed and administered to sampled population. Structure and compressed to arrive at combination of both open-ended and closed-ended questions. The structure questions will help to reduce variability in the meaning of the question with a view to ensuring comparability of responses. In some instances, where the researcher was not sure of the possible range of answers and wants the response to be exhaustive, the questions are open-ended. This will create the enabling environment for freedom of personal judgement by respondents. Nine hundred questionnaires (900) were administered, four hundred (400) being questionnaires in respect of the respondent's data drawn from twenty

(20) Local Government Areas of Lagos State, comprises: Badagry; Ajeromi-ifelodun, Amuwo-Odofin, Ojo, Epe, Ibeju-Lekki, Agege, Ikeja, Alimosho, Ifako-Ijaiye, Kosofe, Mushin, Oshodi-Isolo, Somolu, Ikorodu, Apapa, Eti-Osa, Lagos Island, Lagos Mainland and Surulere to give a true representation sample of the respondents' opinions of the civil society which cut across; traders, National Union of Road Transport Workers (NURTW), academia and others 300 hundred questionnaires were administered to Oil Companies, comprises Major and Independent Marketers, while the remaining two hundred (200) questionnaires were administered to the labour Executive arm of PENGASSAN and NUPENG members, (Elizabeth, 2007).

3.5.2. Method of Questionnaire Administration

Except for the secondary information/data embodied in the literature review, most of the data employed in this work came through the administration of questionnaires on respondents. Structure questionnaire method; that is, randomly staggered sampling technique was used for all respondents. Care was taken in drawing up questions to ensure better understanding for the respondents as well as to appraise the right response for the study.

In addition, personal observation was also carried out with a view to monitor as well as assess the level of availability of the three white petroleum products (PMS, AGO & HHK) at selected dispensary stations within Lagos State and its impact on the economy.

3.6. METHODOLOGICAL CHALLENGES

Some of the expected challenges of this research are the time period differential under study and data sources (statistical). Hence, it is important to note here that despite restricting the scope of study to the effect of government deregulation policy within Lagos State, research of this magnitude might have some challenges:

- i. Personal sentiment or bias of the respondents as well as their subjectivity in filling the questionnaires; and
- ii. There are likelihood of minimal inadequacy in data sourcing;

Thus, we believe that this will not significantly affect our findings since even if we had all the years we would have done some smoothening to produce trends. The omission is not substantial to affect the result of the finding and its validity; hence, the data from secondary sources will help to bridge up the gaps.

3.7. METHOD OF DATA ANALYSIS

James (1990) defined Data Analysis as a process of inspecting, cleaning, transforming, and modelling data with the goal of highlighting useful information, suggesting conclusions, and supporting decision making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, in different business, science, and social science domains. The term data analysis is

sometimes used as a synonym for data modelling. However, in the course of this study, Content analysis was utilized as the major method of data analysis.

It should be noted that content analysis is a research tool used to determine the presence of certain words or concepts within texts or sets of texts. Researchers quantify and analyze the presence, meanings and relationships of such words and concepts, then make inferences about the messages within the texts, the writer(s), the audience, and even the culture and time of which these are a part. Content Analysis cuts across very good qualitative development categories, that is, existing primarily quantitative analysis, related literatures on oil and gas downstream subsector, achiever documentations, text books, or speech, journals, websites and newspaper to see what themes emerge, see how themes relate to each other, find latent emphases, political view of writers, which is implicit or look at surface level - overt emphasis. There are two broad aspects of content analysis normally used in research studies – conceptual and relational.

Conceptual analysis begins with identifying research questions and choosing a sample or samples. In this study, the application of the conceptual method of content analysis enabled us to summarise, analyse and categorise data within our disposal to arrive at a precise conclusion.

CHAPTER FOUR

DEREGULATION POLICIES IN THE NIGERIA PETROLEUM DOWNSREAM SUBSECTOR

4.1. COLONIAL ERA

Prior to independence in 1960, Nigeria showed great potential of being a prosperous nation on account of the abundant human and natural resources. The outlook was further brightened by the emergence of crude oil reserves in early 1970s. Consequently, a great deal of emphasis was placed by the government on the implementation of series of ambitious developmental plans aimed at ensuring rapid economic growth and development. In early 1970s, the overall economic performance was impressive as the rate of growth of GDP for instance, averaged about 8.8 percent between 1970 and 1974, massive inflow of foreign exchange earnings from improved Petroleum prices as well as high rate of domestic and foreign investments which helped to sustain the GDP growth rate, (Adelman, 1978).

However, the Agricultural Sector which used to be the back bone of the economy in the 1960s, was neglected and consequently, its share in total domestic output dropped from nearly 60 percent in the 1960s to about 35 percent in 1975. On the External Sector, the country enjoyed a favourable balance of payments position during the period, owing to the significant boost from Crude Oil exports even though non-oil exports became virtually extinct. With the huge earnings from crude oil exports, government became the prime mover of the economy through direct participation in

basic production of goods and services as well as in the provision of infrastructure, (Olukoshi, 1990).

From agro-economy to petroleum economy (the oil boom), this study sought to assess the effects of government deregulation policy in the petroleum subsector in Nigerian economy with a case study of Lagos State of Nigeria. Hence, the Nigeria socioeconomic situation could be likened to elitism theory as observed by Geraint Parry (1977), Eckstein Harry (1963), and Gaetano Mosca, (Wikipedia, the Free Encyclopaedia, 2007), whose view in this study is patterned to all but the most primitive societies are ruled, if not in theory, but a numerical minority, which he described as “the ruling political class.”

The transition from agricultural based economy to petroleum based economy would not be justified without mentioning the role of agricultural sector in the Nigerian economy. This significant change relied heavily on the new economic transformation (crude oil) and impact of such a change on our foreign policy is significant. After the civil war, (1970) Agriculture was completely out-stripped by Petroleum as the main engine of growth. In a country that is in a hurry, with high priority given to development, revenue from Petroleum exports provided the source of financing various development programmes. The principal indicator in economic growth from 1970 showed that the Agricultural Sector was already overtaken by Petroleum industry, which then entered a period of boom. Export earnings from Petroleum were used to offset the deficit and lapses from the other Sectors, especially Agriculture. For instance, in 1974 when Petroleum contributed about N5, 317.6 million, the

contribution of the Agricultural Sector was below N5million. Since 1973, more than 75 percent of Nigerian's foreign earning has come from Petroleum, (Hamilton, 1989).

Nigeria was lucky to have discovered quantities of oil at a time she needed her foreign exchange most. As a result of the strong International Market, Petroleum was exploited to the fullest in the 1970's to provide the needed foreign exchange with which to carry out her development programmes. The change from Agriculture to one solely dependent on Petroleum required a new adjustment to the external world around us, it therefore indicates the tune and hence justifies any changes in the country's external and internal policies. It was on this platform that Nigeria became a member of the Oil Producing Nations (OPEC) of the world in 1970 if their interest as a nation is to be protected. Nigerians were expected to make good use of the opportunity offered by Oil and use the revenue offered to better the economy and the standard of living of Nigerians. Nevertheless, the change to a shadowed sense of reasoning and corrupt practices in the country seemed to have proved such assertion wrong.

It was the oil money that gave Nigerian Military leaders the opportunity to be heard in the continent of Africa and the rest of the World. In order to lessen the pressure of economic dependence on external sources, the first National Development Plan (1962-68), about N1, 307 million was expended for developmental programmes. The wide price fluctuation that characterised Agricultural produce could not adequately finance the development plan; hence government had to borrow 50 percent of the

estimate budget from the international community to cushion the proceeds from agriculture, (Amu, 1982).

4.2. THE MILITARY REGIMES AND EXPANSION OF THE NIGERIAN PETROLEUM INDUSTRY

The aftermath of the Nigerian civil war saw the emergence of the activist state as symbolised by the formation of the second National development plan (1970-1974). The plan was essentially on the then reigning ideology of development with the state cast as the prime mover. In addition, the war brought to the fore the growing consciousness among Nigeria policy makers of the strategic importance of oil not only in terms of engendering support for the government's war efforts but also in financing the ambitious three "Rs" programme, *'Reconciliation, Rehabilitation and Reconstruction'* initiated by the military administration of General Gowon at the end of civil war in 1970. The oil was only realistic source of the huge fund required for all the above, as oil production in the country exceeded the one million barrels per day for the first time. To give an additional boost to process of the creeping statism, the first two refineries were established one in Port Harcourt and Warri in the 1970s while additional petrochemicals plants was established in Kaduna and Port Harcourt, the economic nationalism that had characterised the first decade of independence was given legal expression during the war and its immediate aftermath. First was the promulgation of the Company and Allied Matters Act (CAMA) in 1968, which forced all companies to be incorporated in Nigeria and provided the government

greater access to their accounts. This was immediately followed by the indigenisation Act early in 1972, which in the absence of any significant private indigenous entrepreneurs led to the government eventually filling up the vacuum in many enterprises, (Olurunfemi, 1983).

The above provided the background for the extensive and far reaching involvement of the Nigerian State in the country's oil and gas industry. It is not untrue that the Petroleum Act of 1969 which provided the central legal framework for the sector was promulgated by the military in the midst of the Nigerian civil war. The Act not only formally vested control of oil resources in the Nigerian State but provided the basis for all subsequent subsidiary legislation for the industry. More significantly, it set the stage extensive institutional framework that would eventually develop to manage the growing fiscal and equity interest of the Nigerian State in oil and gas industry.

The Nigerian National Oil Corporation (NNOC) Act No. 18 of 1971 was promulgated by the military in April, to provide Nigeria with a state owned Company, which later became the Nigerian National Petroleum Corporation (NNPC) through the NNPC Act No. 33 of 1977. This created a vehicle for the subsequent equity participation that would not only energise the State owned Corporation into the biggest player in the industry but generate very fundamental consequences for growth and control of the industry. The process of equity acquisition gradually unfolded peaking at the end of the 1970s. In fact, even before the establishment of the State Oil Company; Agip Oil Company, a subsidiary of the Italian giant had in 1962 offered the Nigerian Government a one third (1/3) stake in the Nigerian Agip Oil

Company (NAOC), being part of Enrico Mattei's deliberate policy of undercutting the major international oil companies in producing countries. This option was immediately actualised into NNOC. Alson acquired at the same time was 35 percent stake of the French Company Safrap being a barely concealed punitive measure for France's support of Biafra rebellion. More significantly in this direction was the declaration in February 1972 that henceforth no new concessions would be sold wholly to foreign concerns and that all unallocated and/or abandoned oil acreage would become the assets of the State, (Hamilton, 1989).

The above was followed by series of negotiation equity acquisitions starting with a 35 percent stake in Shell-BP, Gulf and Mobil in 1973. This was upgraded to 55 percent in Shell, Gulf now Elf, Mobil, and Agip/ Phillips in 1974. Others are Texaco and Pan Ocean in 1975 and 1978 respectively. In fact, by July 1979 the Nigerian State had acquired 60 percent of all the above oil companies. In the case of Shell the stake of the State grew to 80 percent when the assets of BP was nationalised due to its involvement with the apartheid regime in South Africa in August of 1979, this was reduced to 60 percent ten years later in 1989. By the end of the decade, the joint venture arrangement accounted for over 90 percent of daily crude oil production in the country and Nigerian State through the NNPC controls 60 percent of the total output. This situation persisted until the new millennium when the large offshore acreages governed by Production Sharing Contracts (PSCs) started producing, (Hamilton, 1989).

The problem of the oil and gas industry is that the Nigerian State intervened profoundly into the industry without building the required capacity in policy making, regulation and commercial activities in such a highly complex industry. Ineffective and inefficient State control of all the major processes of the industry has stunted its growth and development. An example is the facts that while all its peers are gradually transforming into International National Oil Companies (INOCs) with extensive operations abroad, our National Oil Company is still grappling with funding the few resources and facilities available to it at home. The trickle effect is very obvious today in Nigeria economy. The end result of the aforementioned is that the scope of change in the oil and gas industry over the years, both globally and in the domestic sphere, called into question the adequacy of the policy, regulatory, operational, and fiscal and structure frameworks that govern the country's Oil industry. The NNPC, for instance, has grown over the years to assume multiple, and often times conflicting roles, including those of policy formulation, regulation, commercial operation and national assets management. It is embarrassing therefore that the NNPC as a Corporation over the years has evolved into huge cost centre without the required strategic commercial focus. This has given credence to low capacity utilisation and its inability to perform its role as International, Integrated, Commercial Oil and Gas Company, (Okota and Douglas, 2001).

Likewise, the National Petroleum Assets Management Services (NPAMS) was established with clear expectation of its being in the forefront of our take over, as operator, of our joint ventures. Evidently, this expectation is far from being met, over

four and the half decades is gone after the signing of the Joint Operating Agreement (JOA), NNPC has failed to make any significant impact towards this direction, despite being empowered by the joint agreement. Successive regimes simply grappled with our cash call obligation in the ventures on coming to power in 1985, the General Ibrahim Babangida Administration brought to alter the rules by which the Nigeria's economic game have been played. The administration's policies of NNPC as regards oil and gas sectors were designed to place greater emphasis on production rather than mere trade to promote investment rather than consumption and to establish more firmly the necessary link between effort and reward. Implementing these policies led to a comprehensive reform programme, involving political, legal and bureaucratic changes all aimed at breaking down the aged-old system within the economy and unleashing the enormous creative and entrepreneurial potentials of the Nigerian people, (Gusau, 2008).

The administration's policies and programmes, however, though initially acclaimed by-cage and diverse segment of the population, so began to attract severe criticism. For with the programme, came an unprecedented level of socio-economic suffering. The group hardest hit was the socially visible and politically local middle class, which enforced ever rising executors from the oil boom, while many members of this class and the public generally, appeared to have under estimated the seriousness of the country's economic predicament and the harshness of the adjustment and securities that needed to be made merely to halt the slid the administration itself contributed in no-small measure to the crisis of confidence which was soon to

envelop its own programme and subsequently flagged off a national debate on the derivability or otherwise of an IMF structural adjustment facility. The adoption of this strategy (i.e., involving the public in the decision making process) earned of a measure of esteem for the administration on the part of the public. It, however set a precedent of mass public involvement aimed at decision making which in the circumstances, simply could not be sustained, When as was inevitable, the government began to take major decisions, either without prior public debate or in apparent defiance of public opinion, opposition to these policies and programmes mattered. This was especially so as the policies were not only decidedly and necessarily harsh their implementation, particularly left a great deal to be desired in the “Nigeria’s Political and Economic Agenda” the African Economy, (Olukoshi, 1990).

Another source of opposition was the widely shared perception that the understanding which the government has persistently demanded of the people appeared not to be equitably distributed. It was perceived by the general public that some concerted effort was made to firm the lifestyles of those who served in government shoddy policy implementation, combined with outright favouritisms, gave the impression that the friend of those in power were somehow immune to the prevailing winds of belt-tightening segments of the population including the press, academia, labour, lawyers a stately increasing number of” human right bodies and other public citizens. It also led to request wage dispute industrial actions and occasional acts of civil disobedience.

No doubt, the administration recorded fair achievement, in implementing certain aspects of its structural adjustment programme (SAP) successfully; it also established a number of Economic Development Agencies such as the Directorate For Food, Road and Rural Infrastructure (to Shift the focus of development to rural developers) a National Directorates of Employment and encourage self employment and creativity and thus, shift the burden of job creation from government to the public and the Raw Materials Research and Development Council (to reduce import dependence and encourage the use of local source raid materials by industries). Unfortunately, the achievements of these initiates were severely undermined by the administration annulment of 12Th June, 1993 Presidential Election, an action, which provoked wide spread civil disobedient, severe disruption of economic activities, especially in the strategic petroleum industry and the imposition of a range of sanctions by the Western Industrialized countries, (Anyanwu, 1993).

The regime of General Sani Abacha, from November 1993 to June 1998 significantly aggravated the problems of the nation's political economy. While the regime at inception declared its commitment to divided deregulation of the Nigeria economy, physical discipline and the encouragement of "home grown" development efforts, its record in reality was far cry from those lofty ideals. By the time General Abacha died on June 8, 1998, the nation had progressed further down the road to ruin. Vital economic infrastructure, such as the petroleum refineries were in serious disrepairs, compelling the nation to import refined petroleum products for local consumption

from abroad at the international determined prices. This created an unprecedented leverage to public corruption in the oil and gas sector.

At the assumption of General Abdul salami Abubakar in office as Head of State, his major challenge was to manage the short political transition programme than sanitizing the economy and repositioning it on the path of long-time growth and development.

The most glaring evidence of the problems of governance framework in the country's oil and gas industry for the ordinary Nigerian remained with the provisioning of petroleum products. The refineries and the nation's logistic facilities have remained epileptic plugging the nation into a dependant cycle.

4.3. STRUCTURAL ADJUSTMENT PROGRAMME AND THE NIGERIAN OIL INDUSTRY

Over the years, the objectives of Monetary Policy have remained the attainment of internal and external balance. However, emphasis on techniques/instruments to achieve those objectives changed over the years. These have been two major phases in the pursuit of monetary policy, namely, before 1986 and since 1986, 1990s and 2000s. The first phase placed emphasis on direct Monetary Controls, the second relies on Market Mechanism and the third reform was a Re-capitalization of the Financial Institutions about the tune of 25 billion Naira, (CBN, 2001).

The structural Adjustment programme (SAP) was one of Babangida regime economic reforms programme adopted in July 1986 against the crash in the international oil market and the resultant deteriorating economic conditions in the country. The monetary policy (SAP) was designed to achieve fiscal balance and balance of payment viability by altering and restructuring the production and consumption patterns of the economy, eliminating price distortions, reducing the heavy dependence on crude oil exports and consumer goods imports, enhancing the non-oil export base and achieving sustainable growth. Other aims were to rationalise the role of the public sector and accelerate the growth potentials of the private sector, (Olukoshi, 1990)

The main strategies of the programme were the deregulation of external trade and payments arrangements, the adoption of a Market-determined Exchange Rate for Naira, substantial reduction in Complex Price and Administrative Controls and more reliance on Market Forces as a major determinant of economic activity.

The objectives of monetary policy since 1986 have remained the same as in the earlier period in the stimulation of output and employment, and the promotion of domestic and external stability. In line with the general philosophy of economic management under SAP, Monetary Policy was aimed at inducing the emergence of a Market-based Framework in the Open Market Operations (OMO). This is complimented by reserve requirements and discount window operations. The adoption of a market based framework such as OMO in an economy that had been under direct control of government could not yield the expected objectives due to

ineffective policy implementation. Thus, given required substantial improvement in the Macroeconomic, legal and regulatory environment upon which deregulation of the Petroleum Downstream Subsector was anchored in the millennium year of 2000s, (CBN, 2003).

In order to improve the macroeconomic stability, efforts were directed at the management of excess liquidity; thus, a number of measures were introduced to reduce liquidity in the system. These included the reduction in the medium ceiling on credit growth allowed for Banks;

The recall of the special deposits requirements against outstanding external payment arrears to CBN from banks, abolition of the use of foreign guarantees/currency deposits as collaterals for Naira loans and withdrawals of public sector deposits from banks to CBN. In addition, effective from August 1990, the use of stabilization securities for purposes of reducing the bulging size of excess liquidity in banks was re-introduced. Commercial banks cash reserves requirements were increased in 1989, 1990, 1992, 1996, 1998, 1999, 2000 and 2004. The rising level of fiscal deficits was identified as a major source of macroeconomic instability. Consequently, government agreed not only to reduce the size of its deficits but also to synchronize fiscal and monetary policies. But this was by inducing efficiency and encouraging a good measure of flexibility in banks credit operations, the regulatory environment was improved, hence, the sector specific credit allocation targets were compressed into four sectors in 1986, all mandatory credit allocation mechanism were abolished. The Commercial and Merchant Banks were subject to equal treatment since their

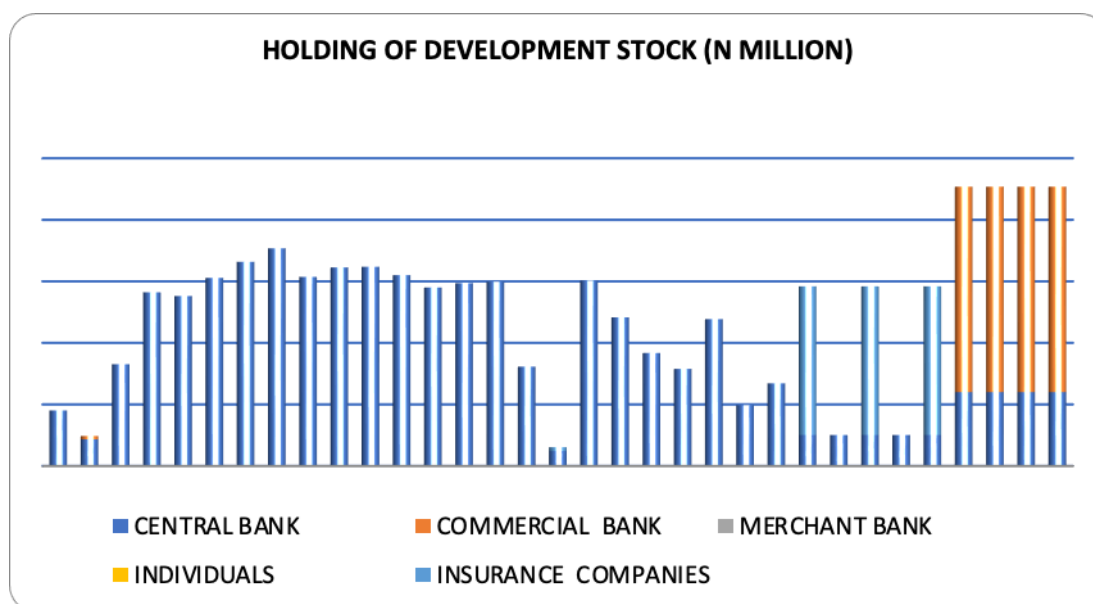
operations were found to produce similar effects on the monetary process. Areas of perceived disadvantages to Merchant Banks were harmonized in line with the need to create an enabling environment for their operations, (see **table 4**).

Table 4: HOLDING OF BANK DEVELOPMENT STOCK (N MILLION)

	Column1	Column2	Column3	Column4	Column5
YEAR	CENTRAL	COMMERCIAL	MERCHANT	INDIVIDUALS	INSURANCE
QUARTER	BANK	BANKS	BANKS		COMPANIES
1976	451.9	142.1		1.8	38.7
1977	216.3	243.4	6.6	1.6	57.3
1978	826.6	143.5	0.5	1.7	69.3
1979	1410.8	272.4	0.5	2.2	75
1980	1381.3	524.8	1.5	2.4	82.4
1981	1529.1	361.9	1.5	4.8	103.7
1982	1658.6	328.8	1.9	3.6	99.4
1983	1768.6	301.6	3.3	5.2	104.4
1984	1536.6	272.1	1.1	5.2	100.9
1985	1613.4	395.7	33	8	152.5
1986	1618.3	545.7	11.7	10.5	190.4
1987	1550.3	537.2	5.1	44.6	194.4
1988	1450.5	404.9	13.6	8.3	216.8
1989	1484.9	39.5	6.1	8	228.1
1990	1497.8	156.8	6.7	6.9	157.6
1991	807.9	33.5	6.4	6.7	163.2
1992	121.6	29.5	3.6	6.1	152.8
1993	1506.2	156		5.9	1119.3
1994	1207.5			5.2	10.6
1995	918.1	14.7	0	4.5	75.6
1996	789	471.1	0	5.1	101.8
1997	1193.3	14	157.8	4.2	75
1998	494.4	13	0	4.4	74.2
1999	671.6	4	0	3.8	109.6
2000	251.3	0	0	58	1460
Q1 2001	251.3	4	0	58	79.9
Q2	251.3	0	0	58	1460
Q3	251.3	4	0	58	79.9
Q4	251.3	0	0	58	1460
Q1 2002	600.3	2269.5	0	63	1473
Q2	600.3	2269.5	0	63	1473
Q3	600.3	2269.5	0	63	1473
Q4	600.3	2269.5	0	63	1473

Source: CBN Statistical Bulletin Volume 13. December 2002.

Fig. 4.3.1. HOLDING OF BANK DEVELOPMENT STOCK (N MILLION).



Source: CBN, Statistical Bulletin Volume 13, 2002

Note:

i. Consolidation of development stocks figures available from 1976-2002. Foreign holdings of Development stocks are negligible. Also, Merchant Bank ceased after adoption of Universal Monetary Policy, practice 2001.

ii. Executive N20 billion Treasury Bonds issued in March 1999. In recognition of the fact that well-capitalised banks would strengthen the banking system for effective Monetary Management, the Monetary Authority increased the minimum paid up capital of 1990 to 50 and 40 million from 20 and 12 million, respectively. Distressed banks whose capital fell below existing requirement were expected to comply by 31st March 1997 or face liquidation. Twenty-six of such banks comprising 13 each of Commercial and Merchant Banks were liquidated in

January 1998. Minimum paid up of Merchant and Commercial Banks was raised to a uniform level of 500 million with effect from 1st January 1997, and by December 1998, All existing Banks were to recapitalise. The CBN brought into force the Risk Weighted Measure of Capital adequacy recommended by the Basic committee of the Bank for International settlements in 1990. Before then, capital adequacy was measured by ratio of adjusted capital to total loans and advances outstanding. The CBN in 1990 introduced a set of prudential guidelines for licensed Banks, which were complimentary to both the Capital Adequacy Requirement and statement of Standard Accounting Practices. The prudential guidelines among others, spelt out criteria to be employed by Banks in order to promote stable banking system. In addition, the Banks handle the problems of distressed and illiquid Banks. The CBN encourages mergers and acquisitions. In an effort to improve the operations of the money market, an auction-base market for treasury instruments were made bearer bills to enhance transferability and promote secondary trading.

Furthermore, by Mid-1992, the major hurdle to the introduction OMO remained the continued imposition of credit ceiling on individual Banks that met CBN specified criteria on selective basis in respect of statutory minimum paid-up capital, capital adequacy ratio, cash reserve and liquidity ratio requirements, prudent guidelines, sartorial credit allocation and sound management. Meanwhile, the use of stabilisation securities for mopping excess reserves in banks was intensified and three discount houses opened their doors for business transaction

from March 1993. A fourth discount house commenced operation in 1995 and the fifth one in 1996. On the 30th of January 1993, the CBN commenced OMO in treasury securities with banks through discount houses on a weekly basis. OMO has remained a major tool of monetary policy in Nigeria with its effective use in moderating the system liquidity, (CBN, 2002).

In the bid to redirect, refocus and strengthen the economy, the Obasanjo's economic reform policy, saddled by the former Governor of CBN, Charles Soludo, and the recapitalization to Commercial Banks to the tune of N25 billion naira in 2004 and 2005 respectively, brought to bear, the need to reappraise the Nigerian economy.

4.4. THE COLLAPSE OF NIGERIAN OIL ECONOMY, 1980-1995

The Nigerian economic witnessed four National Development Plans between 1962 and 1985, designed to enhance the economic performance and the well-being of its citizenry. The development plans were for the period, 1962-1974, 1975-1980 and 1981-1985 for the first second, third and fourth, respectively. There was no additional development plans until 1999 when former President Olusegun Obasanjo's regime decided to reposition the public sectors.

Nigeria is a major producer of petroleum production accounting for about 30 percent of gross domestic product (GDP), 90 percent of foreign exchange receipts and about 70 percent of government revenues. There is also vast Natural Gas which provides

about one-fifth of the world's entire primary energy requirement. Prior to the oil boom in the 1970s, Nigeria depended largely on primary commodity exports, such as cocoa, palm oil, rubber, cotton and groundnut for its national income. The country at that time was self-sufficient in food production and even a net exporter of agricultural produce. In addition, available statistics showed that approximately 60 percent of the labour force earned their Livelihood from farming.

Between the periods of 1970-1985, there was a significant expansion in the socio-economic infrastructures of the country even though they were and continued to be far from adequate in both quantitative and qualitative terms. But due to the oil contribution the nation's Gross Domestic Products (GDP) and National Income (NI), educational infrastructure at various levels were vastly expanded and so was health services. The transportation and communication network were also expanded and so were Power, Public-Water supply and Housing. The Financial Sector was not left out, as it witnessed great expansion as well as increased sophistication. There were at the end of 1985 1,297 Commercial Bank compared to 302 in 1970. This growth largely attributed to the outcome of Rural Banking Programme introduced within the aforementioned years. In 1977, in addition to the existing commercial banks, 126 Merchant Banks and 4 Development Banks, two of which merged in the 1970s were established. The Capital Bank also expanded considerably in terms of number of stocks quoted and traded as well as the number of firms registered to deal on the exchange. Regulation and development of the market was furthermore enhanced by the setting up Nigerian Securities and Exchange Commission in 1978, (CBN, 2001).

Suffice to note, that despite the expansion of various infrastructures and institutional developments, the economy witnessed poor performance, especially in 1978. While real GDP grew by an average of 7.3 percent per year in the period of 1970 to 1977, the performance from 1970 to 1985 showed a decline of an average of 2.2 percent. Thus, the declining trend observed in domestic output in 1980, continued in 1984, following the adverse developments in the international oil market in the early 1980s, which resulted in a sharp fall in oil prices. Consequently, Nigeria's export revenue and budgetary receipts dropped significantly, as public spending did not slow down proportionately during this period. This led to a build-up of large fiscal and external deficits. In the bid to finance the domestic deficits, Government decided to borrow heavily from the Central Bank, while the financing of foreign deficit led to massive foreign borrowing and the depleting of the external reserves.

The gradual decline of the foreign exchange led to accumulation of huge trade arrears. The bandwagon effect was the stagnation of the non-oil sector of the country while the accrued oil revenue was not sufficient enough to stimulate the desired growth levels and sustainable economic development.

Efforts to tackle this economic scourge as well as reducing the country's financial imbalance, led to the rounds of budget –tightening, such as Austerity Measure in the early 1980s and later the Babangida's regime Structural Adjustment Program (SAP) in mid 1980s that ran through early 1990s (Adedipe, 2004).

In 1981-1985 Nigerian witnessed serious economic downturn and stringent monetary and fiscal measures were ineffective in addressing the economic problems. The

adoption of structural adjustment programme (SAP), initially for two years (July 1986-June 1988), was the major reaction to the dwindling oil resources, macroeconomic policy distortions and the increasing need to diversify the production base of the economy. The economy also witnessed a number of policy reversals between 1988 and 1989 in an attempt to cushion the adverse effects of the belt-tightening measures implemented in 1986 and 1987 respectively. Consequently, some of the gains of economic adjustment in those two years gradually eroded its objectives.

Several policy changes also took place between 1986 and early 1980s, designed to restructure and diversify the productive base of the economy in order to increase efficiency and reduce dependence on the oil sector. There was the need to achieve fiscal and balance of payment viability that would lay the basis for sustained economic growth and to improve the efficiency of public sector investments and to concentrate government efforts on increasing the growth potential of the private sector. These policy reforms were in the areas of exchange rate, foreign trade policy, banking/financial Sector reforms, as well as commercialisation and privatisation of government owned companies and parastatals. The outcome of the implementation of these reforms indicated considerable improvements in the performance of the Nigerian economy. For instance between 1987-1992, the manufacturing sector, agricultural sector and oil Sectors experienced positive growth with an average GDP growth rate of about 5 percent per annum. However, the relative shares of the three Sectors show much variation over the years. There was also substantial growth in the

number of non-banks financial institutions, especially incurrence companies, while the state-owned refineries continued to experience sharp decline in product output as a result of capacity utilisation of our refineries, there were salient features responsible for this inefficiency. These are summarised as follows:

- i. **Outdated legal framework:** the legal and governance structures that have been designed since the 1970s cannot adequately cater for the requirements of contemporary oil and gas industry. For example, though amended in many instances, the Petroleum Act (1969) remains a forty year old document that was designed for the industry at its infancy. Similarly, the NNPC Act (1977) despite the various amendments, it's still an old fashion piece of legislation against global standard/practices.
- ii. **Faulty Institutional Structure:** the above also applies to virtually all the institution of the industry. The Ministry of Petroleum (though currently integrated into larger Ministry of Energy) remains essentially a Civil Service outfit that is ill-equipped to conceive and formulate the require policies for such a complex and sophisticated industry. The regulatory body, the Department of Petroleum Resources (DPR) is, by and large, similarly constrained being a body tucked away within the Ministry.
- iii. **Absence of Strict Commercial Orientation in Business Process:** The National Oil Company, the Nigerian National Petroleum Corporation (NNPC), in particular, has been made to operate as a typical Nigerian government

agency that operate at huge amorphous cost centre with little or no sensitivity to the bottom-line therefore out of tune with contemporary business realities.

- iv. Limited Linkages to the Larger Economy: the industry has remained an enclave with little or no linkages to the larger economy (both forward and backward), (Olukoshi, 1988).

The NNPC has grown to become such a big monopolistic leading role in the oil and gas industry; which became a source of worry to the government and the entire citizenry because of its perceived level of inefficiency. Access to petroleum products can no longer be taken for granted, hence, government continuous involvement in the regulating of the downstream activities can no longer be sustained, (Obaseki, 1996).

It was in the bid to liberalise the downstream subsector that the Federal Government inaugurated a special committee on the Review of Petroleum, Products Supply and Distribution in August 2000 with terms of reference to review the entire spectrum of the downstream sector of the industry and subsequently the liberalization of the downstream subsector. The highlights of the Committee's recommendations were the deregulation of the downstream subsector, unbundling of existing logistic facilities across the country, ensure availability of petroleum products, and the open access regime. This metamorphosed into Petroleum Products Pricing Regulatory Committee (PPPRA), which later metamorphosed into the Petroleum Products Pricing Regulatory Agency (PPPRA) in June of 2003, (RSCRPSD, 2000).

4.5. PETROLEUM PRODUCTS PRICES AND SUBSIDIES IN NIGERIA.

Petroleum product subsidies have increased in recent years. Many countries did not fully pass through the sharp increases in international petroleum product prices that occurred in 2007 and early 2008, resulting in a marked increase in subsidies. After declining along with oil prices during the second half of 2008, subsidies have again started to rise, renewing concerns about the fiscal costs. These concerns have been reinforced by the need in many countries to formulate an exit strategy from the recent crisis-related accumulation of public debt. The international community has also targeted the reform of fossil fuel subsidies as part of efforts to confront global warming, with the September 2009 G-20 Pittsburgh communiqué calling for a phase-out of these subsidies, (Adeoye, 2010).

The prices of petroleum products in Nigeria have been a source of contention and controversy. This study proposes to clarify the actual total cost by adding the costs of all components in retail supply of Premium Motor Spirit (PMS aka Petrol or Gasoline) the most widely demanded and utilized petroleum product. The cost components are exploring, developing, producing, refining, distributing and marketing. The amount of subsidy on the retail price is then determined by the difference between the actual cost and the retail price.

The method adopted for this cost determination is similar to that used by the American Petroleum Institute (API) for the analysis of the actual total cost of petroleum (PMS) in Nigeria. It splits the retail cost into the major components: cost

of crude oil, the cost of refining and marketing and the sum of all taxes. This method is simple and accurate.

The most accurate industry data has been obtained from and confirmed independently for this effort by industry experts. The draft paper was also reviewed and endorsed by several other experts. The data and analysis herein are as at October, 2005. Exchange rate applied is N130/USD.

4.5.1. Component Costs

Crude oil is first discovered (explored), developed (Field Development) and produced (Production Operations). It is then refined into petroleum products, distributed to the end-users. The costs of exploration, field development, production operations, refining, distribution and Marketing (Retail sales) are identified herein. The sum of all product cost components is the actual cost of the product.

4.5.2. Exploration Costs

Exploration costs typically include seismic acquisition and interpretation costs. Exploratory well costs can be included in development costs since the exploratory well can be easily converted to a development well. 3D Seismic acquisition costs vary based on contractor, coverage, terrain, time, season, water depth, methods, commercial terms, special considerations, etc. Typical costs range from 20 – 70,000 USD/KM². Interpretation costs range typically from 2-8,000 USD/KM². We will use 50,000 USD/KM² as estimated cost of 3D seismic acquisition and interpretation. For

a 10 KM² field with 20 Million barrels recovery; exploration costs can be estimated to be about: - 0.025 USD/Bbl. This is equivalent to, 0.02 N/Litre, (NAPE, 2005).

4.5.3. Development Costs

Opportunity development costs depend on field location, size, development philosophy and concept. Development cost will include capital costs of field facilities design, procurement, transportation, installation and commissioning. Cost of wells and pipelines to existing terminals are also included. It will typically vary from 2-5 USD/Bbl.

At the NAPE (National Association of Petroleum Explorationists) annual conference in 2005, an offshore development cost was indicated as 5 USD/Bbl. However, historical data for completed projects offshore are closer to 3 USD/Bbl.

Onshore development costs are also significantly lower than offshore costs. To averagely represent the entire JV operational environment scenarios (offshore and onshore) this paper captures development cost as: - 4 USD/Bbl. This is equivalent to, 3.27 N/Litre.

4.5.4. Operational Costs

Current production operation costs of major oil companies surveyed indicated a range of 1.5-4 USD/Bbl. This includes all overhead costs across relevant functions. This captures OPEX as: - 3.0 USD/Bbl which is equivalent to, 2.45 N/Litre.

Therefore, actual crude oil production cost to the Nigerian JV can then be estimated as: $(0.025 + 4.0 + 3.0) \text{ USD/Bbl} = 7.025 \text{ USD/Bbl}$.

$(0.02 + 3.27 + 2.45) \text{ N/Litre} = 5.74 \text{ N/Litre}$.

Previous government (NNPC) estimates (1994 - '98) yielded 5 USD/Bbl. The difference in these estimates can be attributed to rising oil industry service costs due to international market dynamics, inflation and or to estimate basis differences.

4.5.5. Refining Costs for Petroleum Products

Initial installed refining capacity of the four refineries in Nigeria is estimated at about 445,000 Barrels per day (BPD). The capacity breaks down of each of the refineries are as follows:

- Old Port Harcourt Refinery - 60,000 BPD
- New Port Harcourt Refinery - 150,000 BPD
- Warri Refinery - 125,000 BPD (Upgraded from 100)
- Kaduna Refinery - 110,000 BPD (Two trains, 60+50)

Source: RSPCRPSD, 2000.

It is indeed saddened that the current capacity utilizations of the four local refineries in the country as at 2010 are between 15,000-20,000 bpd, (Thisday Newspaper, August 2005).

To estimate refining costs, we can rely on the international industry data from similar refineries. Contemporary refining technology is of the fluid catalytic cracking (FCC) process. This process requires fluidizing the solid catalyst and re-circulating it continuously from the reaction section of the cracker to the catalyst regeneration section and back to the reaction section.

The American Petroleum Institute (API) estimates gross refining and distribution/marketing costs and profits at \$1.00 per gallon in October 2005. Using a 50/50 split as established by historical U.S. cost trends, it can be clearly concluded that refining costs and Profits, account for \$0.50 per gallon. This value includes the profits of the refineries.

The estimate can be used for this determination since it is from mostly FCC process based refineries just as most Nigerian refineries. Actual refining costs may be lower in Nigeria since labour costs are significantly lower in Nigeria. \$0.50 per gallon translates to \$21/Bbl that is, refining costs of \$21/Bbl will give us its equivalent of 17.17 N/Litre. (API, 2005).

4.5.6. Distribution Margin

Distribution margins in Nigeria are established by regulation. This is the cost margin allotted to road trucking of petroleum product from the depots to the retail outlets. As at October 2005, it was, 2.42 N/Litre.

4.5.7. Marketing Margins

Marketing margins are also established by regulation. This is the cost margins allowed for oil marketing companies input alongside at retail outlets pump price. In 2005, marketers' margin was 5.87 N/Litre.

4.5.8. Total Cost

The total cost can then be determined as the summation of all relevant cost components previously estimated viz., exploration, development, production operations, refining, distribution and marketing:

$$\text{Total Cost} = (6.04 + 17.17 + 2.42 + 5.87) = \mathbf{31.50 \text{ N/Litre}}$$

Therefore, we can conclude that the Average cost of the Petroleum products dispensed at retail stations in Nigeria is 31.50 N/Litre.

4.5.9. Effect/Politics of oil Subsidy on the Economy Nigeria

The choice of oil tied to its status as the physical basis of Nigeria state accounting for over 80 percent of Federal Government revenue and 90 percent of foreign earnings. Beyond this, there has being class struggles over control of assets and distribution of various factions of the ruling class with revenue accrued largely implementing the allocation of oil revenues. Oil, therefore, is central to the politics of inter-governmental relations in Nigeria, the economic crisis and the transcendence of

destabilizing tendencies within the system, the politics of oil determines the political economy of fiscal federalism, confronts the power relation that underlines the authoritative allocation of resources among the various tiers of the Nigerian federation. By the same logic, it deals with the outcomes, the locative process and the condition under which it breeds crises.

Suffice to note that the Nigerian state served the interest of global accumulation periphery through the local extraction and transfer of resources to the Metropolis as such; it exculpated local differences and spawned un-even development through vertical channel of extraction, accumulation and transfer of wealth, (Kunle, 1998).

This situation gave room for regional disparity in the emergence of local elite in the area of concentration and accumulation of commerce, created cleavages, distrust and rivalry. This was worsened by decentralized nature of colonial patrimonialism, which gave elite factions of numerically dominated ethnic groups a head start in the sharing of spoils within the colonial state. This situation gave Nigerian federalism a divisive and regionalized character with ethnicity a ready tool for access to power and resources, class formation and politics alongside the structural inequities embedded in the colonial state, the stage was already set for a troubled federating process in Nigeria.

Nigeria handily fought for the establishment of the OAU in the late seventies, ECOWAS, and the liberalization of apartheid South Africa in the 1990. It has also been observed that crude oil policy is of great virtues in determining a country's local and international polity, that is, a country that has a say in international politics must have a strong economic might, (Jared and Garrett, 1968).

Petroleum Pricing will remain a night-mare until the needful is done concerning the petroleum downstream subsector of the industry. Hence, we see Price as an economic incentive, that is, a factor that either lead to equilibrium or disequilibrium of demand or supply schedules. The supply gap in products that came into resurgence when Import Price Parity (IPP) cost became more than domestic selling Prices of Petroleum Products was due to the fact that prevailing Prices then were a little rigid and quite uncompetitive and above all, it is not at all in tune with the concert of cost recovery. That government intention to bridge the gap between refining costs and pump price of petroleum products through (subsidy) Petroleum Support Fund (PSF), has become a conduit-pipe for massive corruption by the administrating agency.

Had this subsidy been effectively administered in the past there should have been no gap between cost (either production or import parity) and pump price, hence, the recent introduction of the Petroleum Supply Fund (PSF) to be administered by Petroleum Products Pricing Regulatory Agency (PPPRA) and other Stakeholders in the industry. As such the Sector would have been a little more competitive for supply; but due to high import parity, low capacity utilisation of the refineries and domestic prices (fixed by fiat), the only party that can import at these circumstances will ultimately be the state, (Robert, Kaplan, and Hanson, 1997).

The overwhelming impact of forex rate and cost of borrowing funds from the banks on petroleum products prices. Also with an increasing spot price of crude, the local pump prices of these petroleum products are bound to fluctuate. Import parity relies on the inter play of the forces of demand and supply to determine the cost of supply

of the products of the market. The implication is that, Nigerian consumer will have to be exposed to the competitive fuel supplies and prices in the international market. Hence, it will be very fair to speak in economic perspective and allow the sector to be price competitive like the rest of the global-world economy, (Dakouru, 2007).

According to former President of Nigeria, Chief Obasanjo, in his inaugural speech in 1999, he said that he could not make sense out of the justification of about ₦250 billion spent on crude oil quarterly. Instead such money should be used to add value to other sectors of the economy. He further argued that if the subsidy continues it will only affect the lives style of few Nigerians at the detriment of the targeted populaces, (PPPRA, 2007).

Over the period of 50 year, the Petroleum marketing companies source products themselves, transported and distributed themselves using their own distribution and retail outlets, Nigerians paid market determined prices for petroleum products, the exchange rate were relatively stable in Nigeria and around the world. Prices are fixed by marketers in agreement with government as required by section 5 (1) of the Petroleum product decree of 1969. The country was then divided into 26 zones based on distance from point of supply of products to the point of sale; hence prices were fixed according to distance. The downstream subsector as a catalyst of supply and distribution of products across the country became an issue from 1st October 1963 when government introduced uniform pricing of petroleum products with regards to pricing and subsidy in the long run. The problem with the implementation of uniform pricing was that it was more profitable to market petroleum products around the

Seaports and the main supply services such as Refineries, Depots and Jetties, which is mainly in the southern part of the country. Monopolistically, the marketing companies were not willing to expand their facilities to the hinterland since their core motive is to maximize profit at minimum cost at the expense of the consumer. The PEF was introduced in 1975 to intervene in the pricing of petroleum products so as to achieve price uniformity without additional burden on any individual marketing company. This was achieved in 1986 with the introduction of SAP and the devaluation of Naira. The issue of pricing has been perennial, vexing and traumatic accompanied by various public protests and strikes that had devastating effect on the Nigerian economy. This led to the upward review of Petroleum products price (white products) in June 2000 PMS from ~~₦20~~ - ~~₦30~~ this increase was justified due to high market Price of crude oil and the need for higher margins for NNPC to meet operational capital cost.

However, there was a sharp reaction by NLC resulting in nationwide industrial action. In order to curtail this social crisis Government negotiating team was set up to dialogue with the NLC team. Following the negotiation, the prices of petroleum products were agreed as follows:

- i. PMS was reduced from ~~₦30~~ – ~~₦22~~;
- ii. AGO was reduced from ~~₦29~~ – ~~₦21~~;
- iii. DPK was reduced from ~~₦27~~ – ~~₦17~~.

Source: (RSPCPPSD et al).

The inconsistency in the pricing of petroleum products became worrisome to the Obasanjo administration in 1999 as it took a long drive to review the activities of the downstream sub sector in 1999 and the need for deregulation of the sub sector was obvious. Since the inception of deregulation as a policy the general economic activities have triggered towards industrialization as a result of the availability of energy supply (petroleum products). The policy has been able to establish parameter code of conduct for which all operators in the downstream sub sector operate as well as enforcement of sanction on defaulters. Deregulation has been able to unravel the arbitrary pricing of petroleum products, identify macro economic factors related to pricing of petroleum products, and maintain constant surveillance relevant to key indices of pricing policies. Development of downstream oil sector in Nigeria has been able to sail and harmonize all economic activities towards the empowerment of small and medium enterprises, eliminating scarcity, sanitization of the oil industry and creating enabling environment for investment where investors will conveniently recoup returns on investment, (RSCRPPSD, 2000).

The removal of subsidy is beneficial to the Nigerian economy as it enables government to redirect the accrued windfall to the Federation account for the purpose of economic development. Implied in the proceeding argument is that no country in the world willing to develop will continue to re-deploy the accrued profit for ostentatious spending. The federal government of Nigeria could not continue to subsidize the petroleum sector and still be obliged to her social responsibilities. Beyond this, the hikes in prices were also mean to curb the large-scale smuggling of

Nigeria relatively cheaper petroleum products to neighbouring countries. Since the inception of the deregulation of the downstream sector in 1999 there has been a tremendous evolution in the economy such as deregulation of the port authority, development of the agricultural sector, improvement in social infrastructure such as healthcare, procurement of drugs, maintenance of roads by FEMA, recapitalisation of the banking sector to the tune of ~~N~~=25billion, improvement in small and medium scale industries, expansion of skill acquisition, improvement of science and technology (Nigeria Sat 1), just to mention a few. The removal of subsidy has also encouraged ‘Open Access’ in the downstream sub sector where there are many players, both indigenous and foreign. This has given leverage to supply and distribution of petroleum products across the country. Most importantly, the reform in the downstream sector has enhanced the Nigerian policy internationally. This implicit goal of government in the removal of subsidy has replicated the global political economic system in Nigeria, (PPPRA, 2005).

Furthermore, recent challenges posed by the continued subsidising of petroleum products will not help matter as the Federal Government had queried the rational for NNPC proposed N1.115 trillion outstanding claims by the State Corporation. The argument forwarded by NNPC was that:

Since they are responsible for bulk imported fuel consumed in the country, they have in the past stopped importation to protest the non-payment of subsidy. Besides, subsidy is at the heart of the argument for “appropriate pricing” of petroleum, a euphemism for price increase, (NNPC, 2009).

At retail outlets in the country, petroleum products sell for N65 per litre, but marketers are campaigning for a higher price because of the Landing cost. This situation has prompted the Federal Government to set-up independent audit panel to ascertain such claim of one sector of the economy that almost equated the national budget of about N2.5 trillion which was employed for subsidy in 2006, (PPPRA, 2007).

4.6. DEREGULATION POLICY IN NIGERIA

Past governments conceived deregulating downstream subsector of the oil and gas either as “appropriate pricing” or “price adjustment”. Those were mere palliatives and not the solution to the comatose process of supply and distribution of petroleum products in the country. By the time this government completely opens the sector for competition, scarcity will be a thing of the past. The present proposal will allow for competitive pricing which will break up the monopoly being enjoyed by Nigeria National Petroleum Corporation (NNPC), government further argued.

At the inception of President Olusegun Obasanjo’s regime in 1999 and in a bid to reposition the socio-economic and political structure of the Nigerian economy, he inaugurated the National Council on Privatization on July 20th 1999 with the following words:

As you all are aware, we are not starting privatization/ commercialization of government owned enterprises from the scratch. Previous administrators have done some work. There is also a pool of knowledge and experience we can

draw from other countries that have successfully privatized their state-owned enterprises. Where such previous exercises will promote the integrity and transparency of our privatization exercise, they will be adopted and built upon, (Obasanjo, 1999).

The first step to be adopted was dispose of government equities quoted on the Lagos stock exchange namely, in cement and banking, which are relatively easy to evaluate. In doing so, the absorptive capacity of the market will be closely watched and efforts would be made to encourage core investors to take preferential allocation.

Another group that will be included in the ongoing economic reforms is the core group investors. These are experienced groups who possess the capabilities for adding value to an enterprise and made it operatively efficiently in the face of international competition. The core groups must not only possess the technical know-how in relation to the activities of the enterprise they wish to invest in but also possess the financial capacity to pay competitive price for the enterprise and increase their capital base, (National Council on Privatisation,2000).

The Bureau of Public Enterprise (BPE) is accountable to the council for implementation of the programme under the general policy oversight and other directions of council. Amidst these, the Council is saddled with the implementation of the objectives below:

- i. To send a clear message to the local and International Community that a new transport Nigeria is now open for business;

- ii. To restructure and rationalize the public sector in order to substantially reduce the dominance of the unproductive government investment in the sector;
- iii. To change the orientation of all public enterprise engaged in economic activities towards a new horizon of performance improvement ,viability and overall efficiency;
- iv. To raise funds for financing socially- oriented program such areas as poverty eradication, health, education, infrastructure and better standard of the economy;
- v. To ensure positive returns on public sector investments in commercialized enterprises, through more efficient private sector- oriented management;
- vi. To check the present absolute dependence on the treasury for funding by otherwise commercially oriented Parastatals and so encourage their approach to the Nigerian and international capital markets to meet their funding needs;
- vii. To initiate the process of gradual cession to the private sector of public enterprises which are better operated by the private sector;
- viii. To create jobs, acquire new knowledge, skill and technology, expose Nigeria to international competition, (National Council on Privatisation, 2000).

In the light of the aforementioned emerged the deregulatory policy of the downstream petroleum subsector in Nigeria. Various schools of thought define deregulation.

Deregulation as a concept, according to Lukman (2002), means allowing harmonised competition that is a level playing ground opportunity to refine or import petroleum products for use in the country in-so-far-as the products so refined imported meet

quality specifications. It involves the removal of entry barriers into the supply and distribution of petroleum products. He further noted that, in the process of implementing the policy, the threat of external players, imports and substitute products become real and the strategy of the local players (stakeholders) may be found to be wanting as their level and involvement in the new competitive environment is severely tested at the import price parity (IPP) market, as well as contending with indigenous independent marketers, while new fleet-footed players emerged.

Akinlaja (2001) posits a radical view, that deregulation means the removal of restrictions on the establishment and operation of petroleum logistics as it will give marketers the enabling environment for marketers to purchase Crude Oil from local and international sources for processing in the refineries; and allows Government to hand – off fixing of prices of Petroleum Products and Player in the industry. At the heart of deregulation of the petroleum downstream subsector is the controversy over appropriate pricing of petroleum products in Nigeria. The question is that should the prices of petroleum products reflect their full cost or contain subsidies, especially against the abuses and sharp in the products sourcing, supply and distribution of petroleum products, (Akinlaja, cited in Oluwole, 2003).

From the view point of stakeholders (marketers) in the oil and gas sector, deregulation will boost the strength of the economy, as there will be regional and trans-boarder exchange of currencies, which will accrue more funds to the federation account sharing among the three tiers of government for developmental purposes, it

will trigger multi-economic activities in both the oil and gas industry, manufacturing industries, agro-allied sector, promotes small and medium scale enterprises and a general economy growth.

According to Daukoru (2003):

We never seem to get it right. Something always seems to be missing between the Government policies, implementation and public expectation (or public perception of constitute the common good). On the other hand policy and its implementation may be either too far or short in scope, lopsided or mistimed. On the other hand, public expectations may be unrealistic, utopian and misguided, or misinformed. As a result we stagger from one confrontation to the next between policy maker, regulators, actors and customers.

In the lexicon of downstream, between Government, Major and Independent Marketers, Dealers, Distributors, Unions and Consumers, most time even internally within these sets of players. For instance, between the Department of Petroleum Resources (DPR) Staff and Government; National Association of Road Transport Owners (NARTO) & National Union of Petroleum & Natural Gas Workers (NUPENG), serving as umbrella for drivers; or Nigerian Labour Congress (NLC); and the Government. I am yet to mention marketers lobbying Nigerian National Petroleum Corporation (NNPC) for better margins. (Daukoru, cited in NNPC,2007).

He defined deregulation as global strategy for enhancing productivity and economic growth. The euphoria of deregulation has touched several countries across the globe. In most Western industrial Countries, the deregulation of economic activities – particularly the removal of political and economic barriers to the market, the decontrol of prices and the liberalization of investment decisions has become an important component of domestic public policy.

The policy of deregulation as viewed by NLC & PENGASSAN (2001), principally involves the liberalisation of the logistic and pricing of products; liberalisation has been identified as essential policy instrument for vibrant economy, hence, they encourage the government to liberalise the downstream subsector with utmost sincerity and transparency in order to ensure that the benefits accruing therefore are felt in the real and social sector of the economy with emphases on capacity utilisation, improvement in social infrastructure via health, education and public transportation et cetera.

Deregulation ensures that the liberty of the individual as guaranteed by every democratic constitution be exercised in the market place. Moreover, deregulation improves the functioning of marketers and strengthens competitive forces with a view toward enhancing dynamic efficiency and economic welfare. At stake is the elimination of serious micro-economic vapidities stemming from inappropriate intervention by government or self-regulating bodies. Consequently deregulation stands as pillars of supply-side policies that came into increasing use in the 1980's after widespread disillusionment with the capability of Keynesian macroeconomic policies both to tackle the problem of productivity slow down and high unemployment, and to secure international competitiveness of the domestic economy in the context of a progressive globalization of markets and production, (Comrade Oshiomohle, cited in Areme, 2000).

According to Button (2005):

Recent years have witnessed a whole range of measures aimed at reducing government intervention in oil and gas markets. Major elements of this

international movement have been significant shifts of responsibility for provision from the public to the private sector. While many aspects of deregulation of the petroleum downstream subsector have been examined, and matters of equity and traditional economic efficiency have been explored, rather less attention has been paid to ownership matters. Further, the analysis which has been conducted has focused almost exclusively on matters relating to the internal market changes which are brought about. Equally, with respect to deregulation there have been studies of internal economic efficiency and distribution impacts but wider safety and market volatility matters have received less attention. This paper looks at the impacts that privatization and deregulation of the commercial sector of the oil and gas may both directly and indirectly (in terms of influencing industrial production) have on the economy.

The most radical deregulation policy was implemented in the United States in the late 1970's and early 1980's Derthick and Quirl (1985), Niskanen (1989). In Europe, Great Britain it was known to be the front runner, combining the deregulation of markets with the privatization of Public companies and Germany only recently joined the deregulation movement in late 90's.

In the last four decades, several developing countries including India, South Africa, Angola, Egypt, Trinidad and Tobago, Iran and Nigeria, have also joined the deregulation movement aimed at expanding private sector participation in economic activities and by implication, reducing government participation which may appear justifiable considering the enormous waste and inefficiency associated with government economic activities. However, some of the countries notably Hungary, Poland and Venezuela to some extent, Nigeria adopted this radical approach of gradual deregulation, while others such as Czech Republic and Russia adopted that of rapid deregulation, Furthermore, several Asian countries have also substantially

deregulated their economies while a few African countries have done likewise as earlier enumerated.

From the above scenario, deregulation of the petroleum downstream sector can simply be put to be a process by which government removes selected regulations on oil business in order to stimulate efficiency in market operations. The policy is that, little regulations will lead to raise level of competitiveness, therefore higher yield of petroleum products, leading to efficiency and moderate prices volatility of products over all.

Deregulatory policy when properly implemented will encourage more people to get involved in the marketing and distribution of petroleum products. For example, NNPC in erecting merger petrol stations across the country and Shell is re-entering the petroleum products distribution industry. In their opinion, the deregulation of petroleum downstream sector of the industry in Nigeria should be implemented in phases, so to allow the state-owned monopolies compete efficiently with other stakeholders in the sector.

Since the early days of the on-going transition from military dictatorship to reasonable democracy, the Federal Government set up a team, led by a technocrat in the Presidency, Funsho Kupolokun, (appointed as the Group Managing Director of the state-owned national oil company, NNPC), to explain certain key issues of liberalization, and to counter the arguments of those opposed to the notion and concept of deregulation of the downstream sector of Nigeria's petroleum industry, (Braide, 1997).

Reactions to the government-sponsored enlightenment campaign range from outright objection to cynical disinterest through cautious empathy and dogmatic assertion of the inevitability of deregulation of the downstream petroleum industry. Here, we will consider and make realistic assessments of probable scenarios of deregulation in the downstream sector of the Nigerian petroleum industry, against the general background of global trends in deregulation and restructuring in the petroleum industry, coupled with the current level of public awareness, and government's posturing on the issue of deregulation in Nigeria. Five (5) likely scenarios, or probable modes of implementation of the deregulation process in Nigeria, are summarized as follows:

- i. Supply side deregulation;
- ii. Demand side deregulation;
- iii. Complete deregulation;
- iv. Phased deregulation, starting from the upstream sector;
- v. Retention of the status quo, (Ajakaiye, 2001).

The time frame of implementation of workable petroleum industry reforms, the potential effects on both Major and Independent petroleum products marketers, the role of both the currently dysfunctional state-owned refineries and prospective private refineries, salient factors of acquisition of the existing state-owned facilities, and the criteria for identifying suitable players in a deregulated downstream sector of the Nigerian petroleum industry, are all crucial to the success of the deregulation process,

and are therefore considered here. Below are highlights of the five (5) likely policies of deregulation in Nigeria:

a. Deregulation based on supply side

The inherent assumptions of this policy are that:

- i. The Federal Government is sensitive to the inadequacies of the existing state-owned petroleum refining, and refined products supply and distribution systems in Nigeria and desires to maximize supply sources for the refined products market in the country.
- ii. Federal Government monopoly of refining, pipeline operations, and primary distribution from the state-owned storage depots would be completely unbundled, and abolished.
- iii. Local and foreign private investors would be willing to take over the state-owned facilities (refineries, depots, and pipeline systems) in their current state of dilapidation, disrepair and poor performance, and operate them efficiently and profitably thereafter.
- iv. Private refineries would procure crude oil at competitive rates, and sell their refined products profitably, and at international prices, both in Nigeria and beyond, as desired by the refiner.
- v. Private importers would procure refined petroleum products and sell such products at deregulated prices, in line with prevailing market prices.

- vi. Barriers to new entrants into private refining, pipelines and depot operations would be eliminated, (Ajakaiye, et-al).

Hypothetically, with anti-monopoly policies (which are not yet in place in Nigeria), and with competition among private refiners, the demand for petroleum products could be met and sustained. However, because of the low buying power of the consumers in the Nigerian market, the demand for petroleum products, sold at international market rates, would be reduced significantly.

Profitability of business at the retail end of the downstream sector would be dictated mainly by economies of scale: only the big players in the petroleum products marketing sub-sector would survive. Consequently, up to 95% of existing Independent marketers may cease to be in their present form. Alternatively, there could be mergers among weaker Independent marketers (with between 1 ~ 10 outlets) to compete with the present top Independent players, on the one hand, and individual Major marketers, on the other. In short, the market would be segmented into individual Majors, individual current top Independents, and groups of merged minor Independent marketers of petroleum products.

Essentially, the federal government holds on tenuously to "fine-tuning" an evidently inefficient state-owned business that goes through a long drawn out process of slow and progressive extinction. In a sense, the medium to long-term consequences of Scenario one on KRPC, WRPC and PHRC is that they would decay slowly, and finally die under government protectionist cover.

The first generation of post-deregulation private refineries in Nigeria would be the stand-alone type: In this scenario, private refineries would manufacture petroleum products, and distribute them to targeted segments of the Nigerian market (most likely, regional) from their loading facilities within the refinery complex. In other words, there will be no private pipeline operating companies to move refined products from such private refineries to their markets.

The predominant mode of refined products distribution would be outlet-specific truck loading, mainly to domestic retail affiliates of the refiner. In short, private Nigerian refiners would initially secure their market, built around the retail outlets of groups of Independent marketers, while potential private foreign refiners, if any, would preferably target their distribution at both the Nigerian, and export markets, possibly through the Majors.

b. Deregulation based on Demand Side

The inherent assumptions of these elites class is that:

- i. The federal government, though fully aware of the glaring inadequacies of the existing state-owned supply and distribution systems in Nigeria, would prefer to restructure the decrepit refineries, pipelines and depots, so as to enable them compete in tandem with the proposed new refineries that would be built, and managed by private investors.
- ii. Federal Government control and coordination of petroleum products importation would stop.

- iii. Private investors would have open access to state-owned facilities like petroleum reception jetties at Okrika, Effurun, Calabar, Escravos, and Atlas Cove (Lagos), including the storage tanks at PHRC, WRPC, and KRPC, and at non-discriminating tariffs, for expediting the logistics of importing petroleum products into Nigeria.
- iv. Private products marketing companies would form strategic alliances or mergers in order to optimize operating costs.
- v. Price fixing, "uniform pricing", and so-called "bridging" subsidies by the Federal Government would stop.
- vi. Barriers to new entrants into wholesale and retail marketing of petroleum products would be eliminated by law. (Oluleye, 2003).

Clearly, because of the lead-time to effective attainment of improved performance, and adequate supply of refined products by the existing state-owned refineries, coupled with the lead-time necessary to build and operate new private refineries to complement existing supply sources, the availability of refined products may not be much different from what obtains currently. Therefore, the market segments (Majors and Independents) may also alter very marginally.

However, opportunities exist for private importers to complement shortfalls in product stocks. With this scenario, there may be an upsurge in private importation of petroleum products. Recent acquisition of import reception facilities by Independent marketers indicates a potentially competitive market for both marketer groups:

Majors and Independents. This scenario forces mergers on the existing Independent marketers in order for them to be cost-effective.

The emergence of post-deregulation private refineries in Nigeria would be very dependent on the policies of the Federal government with respect to the price of crude oil allowed both private refiners, and the state owned refining companies. With the current disparity between the open market price of crude oil and that conceded to the state-owned refineries, it is not likely for private refiners to invest under such conditions. In this scenario, the state-owned refineries would remain protected, probably selling their products at international rates. Though pipeline operations may still be monopolized by NNPC, very likely, "bridging" and "uniform pricing" could cease to apply. Potential private Nigerian and foreign refiners would not be attracted to invest under such policy regimes. Consequently, the only possibility for expansion of refining capacity would be dependent on new state-owned refineries that may be added to the existing pool, (Adedipe, 2004).

c. Complete Deregulation of the Downstream Sector.

The inherent assumptions of this policy are that:

- i. The Federal Government is conscious of the gross inadequacies of the downstream sector of the Nigerian petroleum industry. However, government would restructure all state-owned refineries, pipelines, and storage depots, prior to their unbundling, and final acquisition by private investors.

- ii. The Federal Government desires to maximize supply sources for the refined products market in Nigeria, including the build-up of a so-called "strategic nation reserve" of refined petroleum products.
- iii. A critical mass of qualified private Nigerian investors exists that can take over the state-owned downstream petroleum businesses, now ran by NNPC, and manage them efficiently and profitably.
- iv. Two (2) separate and independent downstream policy formulation and enforcement agencies would be established by the Federal Government to monitor the sector effectively, post de-regulation.
- v. Private businesses may import refined petroleum products and sell such products at competitive prices.
- vi. Barriers to new entrants into all segments of the downstream sector would be eliminated.
- vii. Unnecessary (legal and illegal) impediments, including the existing overbearing procedures for granting licenses to private refiners, and other potential investors in the downstream sector, must be abolished by law, with maximum dispatch.
- viii. There must be open access to state-owned monopolistic facilities such as jetties, storage tanks, and pipelines, through non-discriminatory tariffs to private operators.
- ix. Price fixing in any guise by government must stop, (Gbadamosi, cited in Oluleye, 2003).

As in phase 2, because of the lead-time to attainment of improved performance and adequate supply of refined products by the existing state-owned refineries, the availability of refined products may not be much different from what obtains currently. Therefore, the market segments (Majors and Independents) may only alter very marginally in the short to medium terms. However, if and whenever full price deregulation starts to apply, opportunities could emerge for private investors to move in and compete effectively.

With this phase, there would be an initial inertia in private sector participation, to be followed by a trickle of private refiners, and operators of existing state-owned product pipeline networks (if any). With such private refineries, effectively competing at global pricing and other standards, refineries would be retail outlet-specific. This scenario forces mergers on the existing Independent marketers in order for them to be cost-effective. The scenario would also result in Major marketer refiners preferentially directing their distribution to their own outlets. In this scenario, the supply and primary distribution of refined petroleum products in Nigeria would very likely be under the control of the Major marketers, ultimately.

d. The "Do Nothing Option Policy":

The inherent assumptions of this policy posited by this school of thought are that:

- i. Deregulation of the Nigerian oil industry is not in the "security, and overall national interest" of the country, and therefore, not desirable.

- ii. Existing inefficient government-owned facilities in the downstream sector can be satisfactorily upgraded.
- iii. In a sense, the "Do Nothing Option" represents the worst-case scenario, and is also the most probable scenario in Nigeria. In this scenario, the status quo remains: i.e. "Business unusual, as usual".
- iv. Private players are not, (and will not be) motivated to invest under the prevailing state-protectionist regulatory framework. The chances of improved performance in the state-controlled petroleum refining, and refined products supply and distribution systems, are near-zero, with no meaningful competition to the existing sick, and severely dilapidated refineries, and product pipeline infrastructure, (Ajakaiye, 2001).

Predictably, the entire Nigerian petroleum industry becomes progressively moribund, unattractive to both Nigerian and foreign investors alike, in both the upstream and downstream sectors, then comes to a grinding halt, and finally collapses.

The role of the Federal Government, “vis-à-vis” the Nigerian petroleum industry, is being redefined, little by little. Possibly, state-owned monopolies like NNPC may, in the end, be dismantled completely. State interventions, such as the Petroleum Equalization Fund (PEF), price fixing, uniform pricing, including the so-called "bridging reimbursements" may, one day, cease to be, and, hopefully, the Nigerian petroleum products market could be meaningfully reformed and effectively deregulated ultimately. Maybe, indeed, opening up crude oil and petroleum products markets to transparent competition is not easy. Nevertheless, it is central to the

successful implementation of petroleum industry reforms worldwide. This involves facilitating access to capable importers and exporters of both crude oil, and refined petroleum products, consequently forcing the local (private or state-owned) refineries, and products marketing companies to face serious and meaningful competition, which must be in place, a priori, for the deregulation process to succeed.

Deregulating the downstream sector of the Nigerian petroleum industry requires a change in pricing policy. Product prices, before tax, must be set in line with economic border prices. Taxation must not discriminate between local and foreign investors. However, several sub-Saharan, Latin American, Caribbean and Asian countries have allowed for a short transition phase that ultimately led to full deregulation in the downstream sector. It is therefore necessary to design a systematic basis for introducing economic pricing before price deregulation, so as to ensure the continued meaningful participation of private operators in the business.

Distortions in the prices of petroleum products need to be reviewed. For Nigeria, as sub-regional integration progresses within the ECOWAS sub-region, cross-border prices will become increasingly harmonized, while the usual excuses, indeed, the very notion of smuggling of petroleum products within the sub-region will become progressively meaningless. (Oshiomole, 2001).

4.7. EFFECTS OF DEREGULATION ON LAGOS STATE ECONOMY

Lagos State was created on May 27, 1967 by virtue of State (Creation and Transitional Provisions) Decree No. 14 of 1967, which restructured Nigeria's Federation into 12 States. Prior to this, Lagos Municipality had been administered by the Federal Government through the Federal Ministry of Lagos Affairs as the regional authority, while the Lagos City Council (LCC) governed the City of Lagos. Equally, the metropolitan areas (Colony Province) of Ikeja, Agege, Mushin, Ikorodu, Epe and Badagry were administered by the Western Region.

The State took off as an administrative entity on April 11, 1968 with Lagos Island serving the dual role of being the State and Federal Capital. However, with the creation of the Federal Capital Territory of Abuja in 1976, Lagos Island ceased to be the capital of the State which was moved to Ikeja. Equally, with the formal relocation of the seat of the Federal Government to Abuja on 12th December, 1991, Lagos ceased to be Nigeria's political capital.

Nevertheless, Lagos remains the nation's economic and commercial capital. According to extant political records, "Lagos is to the people of Nigeria, what the head is to the body of an individual."

Lagos State is inhabited by the Aworis and Ogus in Ikeja and Badagry Divisions respectively, with the Ogus being found mainly in Badagry. While the indigenous population of Lagos are Aworis, there is, nevertheless, an admixture of other pioneer

immigrant settlers collectively call Lagosians but more appropriately the Ekos. The indigenes of Ikorodu and Epe Divisions are mainly the Ijebus with pockets of Eko-Awori settlers along the coastland and riverine areas. While the State is essentially a Yoruba speaking environment, it is nevertheless a socio-cultural melting pot attracting both Nigerians and foreigners alike, (Encyclopaedia, 2005).

The Lagos State is currently witnessing a tremendous socio-economic transformation as a result of the hall of activities in the downstream petroleum subsector. Deregulation policy has diversified sectoral growth of the economy through the optimal process of resources allocation and utilization. A State of a population of 6-7 million people has managed the ideas of open regime operation that is being able to develop an economy that creates opportunity for competition.

Lagosians see deregulation policy as a welcome development in the oil and gas sector, but, sustaining it and making it to function is quite a different matter all together. From the foregoing, what has being the contributing impact of deregulation policy in the economy of Lagos.

In Lagos, it is believed that deregulation will bring in healthy competition that in the long-run stabilize prices of the products and will subsequently abolish monopoly, enable fuel products to be available at retail outlet and at affordable prices, and give consumers the right to make choice. Deregulation in Lagos has eliminated scarcity resulting from disruption in the channels of supply and distribution through import parity pricing. That is the disruptive impact of the prolonged nationwide scarcity on other sectors of the economy will be teamed to its barest minimum. Fuel queues at

filling stations have relatively disappeared within Lagos State and indeed the nation at large. Price volatility does not only affect micro and macroeconomic activities, it also has a negative impact on purchasing power of Nigerians irrespective of one's financial status as indicated on the World Fact Book of 2005/2006 estimating 60 percent Nigerians living less than a \$1 (dollar), (Mike, 2007).

Khan (2005), asserted further that deregulation policy has caused series of political disruption within the system because an average Nigerian believes that low petroleum pricing is their birth-right, and have protected through various labour strikes each time there is an increase in pump prices in the last few years. As observed by Khan on the aforementioned, the widespread strive has crippled the socio-economic activities, creating a very wrong signal and fear that this instability might trigger the appetite of the military to take over power as was the precedent of the past. The vision and goal of the government in adhering to the policy principles of deregulation is determined by the successive precedence of other countries on deregulation, (Kupolokun, 2003).

Deregulation of the commercial sector the petroleum industry has strengthened Lagos economy in the following ways:

- i. The policy has eliminated monopolistic tentacles that might be hindrances to competitive prices level in the downstream sector;
- ii. It has generated revenue to the state government through taxes from operative oil companies;

- iii. It has created jobs for lots of Lagosians through lots of investment of oil servicing companies or logistic facilities companies.
- iv. Deregulation has reposition the oil and gas industry in lagos for the economic growth of Lagos State, (Kupolokun, et-al).

The government is not unaware of the inherent problems associated with the downstream sector and its potential effects on the labour market. Job losses is likely to be prominent during the deregulation if the policy is not well implemented, Schipke (2001).

The over-dependence on petroleum oil is more vivid in the external sector trends. The penchant for imports reflects in the current account balances, whose oil component expanded by an annual average of 57.7 percent during 1971 to 1980, 43 percent in 1981-1990 and 40.3 percent in 1991-1998. The current account balance grew with the oil revenue trend, reflecting import expansion as oil earnings grew. In 1982, reflecting the crash in oil earnings and the tight rein on international trade through the Stabilization Act implementation, current account balances dropped by 22.7 percent in 1982 and further by 14.6 percent in 1983. The advent of the Buhari military administration enforced fiscal discipline in the public sector, but soon gave way to the Babangida military government whose softening of trade policies resulted in current account balance growth by 22.8 percent. (See table 5).

TABLE 5: NIGERIA BALANCE OF PAYMENT OF OIL AND NON-OIL

	CURRENT ACCOUNT			CAPITAL ACCOUNT			CHANGES IN RESERVE S
YEARS	Oil	Non-Oil	Total	Oil	Non-oil	Total	
1970	386.6	-433.6	1923	-130.4	179.6	49.2	-46.6
1971	600.6	-830	1741.6	4	289.4	293.4	-177.6
1972	612.3	-935	1649.3	195.8	73.4	269.2	-57.2
1973	1,338.80	-1,286.10	2025.7	64.5	80.3	144.8	-192
1974	5,057.10	-385.6	6645.5	135.8	-141.7	-5.9	-3,102.20
1975	4,069.00	-4,026.40	2017.6	121.4	19.7	141.1	-157.5
1976	5,280.40	-5,538.80	1717.6	-42	-8.6	-50.6	339
1977	6,468.00	-7,115.50	1329.5	147.5	2.9	150.4	527.2
1978	5,649.80	-6,807.20	820.6	92.1	1,019.80	1111.9	-1,293.60
1979	8,987.90	439.40	11406.3	-4.4	817.6	813.2	-1,868.90
1980	12,814.20	243.70	15037.9	-541.8	-639.2	-1181	-2,402.20
1981	10,067.20	3.10	12051.3	149	780.5	929.5	-3,020.80
1982	7,777.70	203.20	9962.9	135.7	3,335.20	3470.9	1,398.30
1983	6,639.60	1,122.70	9745.3	146.1	2,589.60	2735.7	301.30
1984	8,152.30	82.00	10218.3	-402.1	574.1	172	-354.90
1985	10,401.40	337.50	12723.9	-13,610.00	-1,194.00	-14,804.00	-349.10
1986	28,208.60	552.10	30746.7	1,740.10	-3,641.00	-1,900.90	784.30
1987	28,435.40	-11,070.40	19352	-4,405.50	-12,338.10	-16,743.60	-159.20
1988	28,435.40	3,150.70	33574.1	-28,435.40	3,150.70	-25,284.70	2,294.10
1989	54,989.40	4,122.20	61100.6	-4,525.10	-25,696.80	-30,221.90	-8,727.80
1990	106,626.50	-26,816.40	81800.1	-26,551.10	-22,593.80	-49,144.90	-18,498.20
1991	109,063.90	-57,094.10	53960.8	-16,687.60	-10,795.00	-27,482.60	-5,959.60
1992	181,823.30	-88,142.80	95672.5	75,174.10	-63,581.50	11,592.60	-65,271.80
1993	115,533.20	-149,947.90	-32421.7	-6,041.40	-17,019.20	-23,060.60	-13,615.90
1994	104,095.10	-156,399.40	-50310.3	104,094.10	156,399.40	-52,305.30	-7,194.90
1995	412,844.40	-598,929.00	-184090	121,807.80	118,553.80	-3,254.00	15,325.10
1996	670,158.30	-429,978.30	242176	256,583.00	-33,617.50	290,200.50	-183,950.60
1997	664,016.90	-627,983.30	38030.6	-85,294.30	54,803.80	-30,490.50	-251,593.00
1998	278,853.10	-608,961.80	-328111	-70,258.60	45,145.10	-25,113.50	36.950.3

SOURCE: CBN, 2001

Since the advent of deregulation policy in Nigeria the trends in interest rate, and exchange rate has positively reflected the internal policy structure of the oil and gas industry towards increase in money supply which is a reflection of Nigerian attitude towards handling of large cash due to cash-and-carry system of doing business in Nigeria. This socio-cultural attitude had made the movements of interest rates every erratic at a times, to correlate with oil revenue pattern. The mismanagement of oil revenue and non implementation of macroeconomic indices has triggered macroeconomic instability in the economy.

According to CBN report in 2004, it shows that the exchange value of the Nigerian currency (Naira) depreciated significantly from US\$0.1010/N in 2000 to \$0.0123/N in 2003, at this point, the government had to adopt what he termed is called “ partial or guided deregulation”. This led to artificial instability and the aftermath is that domestic currency has persistently depreciated 30-40 percent; exchanging rate is \$1to N150. The implication is that Bank lending rate had an upward increase to the tune of about 30 percent per annual. however, spot chicks in the money market between 2000 and later 2009 revealed the highest banking rate in the history of Nigerian banking at about 80 percent per annual., at a time the non-bank financial institutions were doing up to 15 percent flat (.i.e., 180 percent per annual.). This was the period of the second experiment of Nigeria with the deregulation of interest rate. While the banking institutions still lends above 20 percent and up to about 32 percent (effective), the near collapse of the non-sector of the financial system in the 2000s has the rates available in the that segment. Interest rates remain grossly sticky downwards because

the cost of funds and other determinants are adverse. Nigeria commodity prices are generally sensitive to exchange rate movements than they are to change in interest rates. However, according to Adedipe (2004), correlated the Nigerian inflationary trend with the following arguments:

- i. Increase proceeds in oil revenue and its immediate monetization. The excess is rarely devoted to building up reserves or committed to specific and projects;
- ii. Growth of money supply;
- iii. Movements in exchange rates;
- iv. Persistent increases in prices of refined petroleum products.

Adedipe further buttressed his position, by analysing major challenges that deregulatory policy is likely to pose to monetary policy in Nigeria is with respect to liquidity management, thus:

The penchant of Nigerian Governments for monetization of oil receipts tasked the management of the apex bank, tore between administrative and market-based instrument. In the years of economic buoyancy, triggered by robust oil earnings, the Central Bank relied more on administrative tools. That includes: Fixing of interest rates; Reserve requirements that has little relevance to liquidity management because they remained fixed over long intervals; Credit allocation on Sectoral basis and designation of preferred sectors; Foreign exchange allocation through import licensing; and dual exchange rate mechanism.(Adedipe,2004),

These policies according to him, created distortions as well as strange business opportunities that rent seekers found easy to exploit. The collapse of crude prices in the 1980's started a process of rethinking of monetary in Nigeria, in line with the reforms that were launched in 1986.

From the above scenario, there is virtually no exchange rate system that Nigeria has not tried in order to find a realistic exchange value for the Naira. The difficulty is simply that of Nigeria being a net importer, whose external earnings derive largely from mono-product (crude oil) economy. Currently, the rates are fully deregulated, with the Central Bank relying heavily on the reserve requirements of Minimum Discounts Rate (MRR), minimum liquidity ratio and cash reserve ratio for banks as well as moral suasion. Another important monetary technique is Open Market Operation (OMO) to compliment other mentioned fiscal tools earlier explained, (CBN, 2004).

The external debt scenario was not different. Nigeria's debt capacity expanded with oil earnings and its future prospects. Credits of all kinds were extended to Nigerian governments and commercial enterprises, some under Government guarantee. These culminated in burgeoning debt burden that was sustained by a combination of factors:

- i. High propensity to consume imports – Nigeria is reputed to be a major market for the products of certain global companies.
- ii. Strong cash flow from crude oil sale that boosted confidence of creditors in Nigeria's capacity to service credit facilities and repay.
- iii. Fiscal indiscipline coupled with corruption, resulting in diversion and squandering of most of the funds borrowed.
- iv. Capitalization of interest payments that were past due.

- v. Debt rescheduling that multiplies the debt burden eventually, (CBN, et-al).

The efforts at repayment and debt servicing have been insufficient to bring a drop in the debt stock, which ranged from \$27.09 billion to \$33.36 billion during 1991 to 2003. This observation made President Obasanjo to remark recently that Nigeria's commitment to debt obligations over the years has not brought about a reduction in the debt stock and its cost implications. However, this has to do more with lack of external support in debt reduction, than with the punitive capitalization of unfulfilled interest obligations.

Juke (2007) posited that deregulation of the oil sector has subsequently triggered speculation and high demand for money, thereby forcing the prices of stock upward and pressurising interest rate to maintain a down ward position. This scenario imputatively adjusted commodity pricing to take an upward view, despites the introduction of these techniques, there was still no appreciable real economic growth. Over time, CBN has become more pro-active in curbing up the excess liquidity from circulation through the OMO and monetary policy generally became more restrictive.

4.8. CONSTRAINTS TO DEREGULATION POLICY IN NIGERIA

The downstream subsector of the Petroleum industry is characterized by a wide range of constraints among operators of the sector; this includes: Retailers; Major and Independent Marketers. All stands as an entity. The early investment opportunities tapped by those major marketers today account for their consolidation and

domination of the sector both in retail outlets spread and percentage market share in business nationwide. Thus:

- **Retail Operation**

The retail outlet is commonly known as a petrol station or filling station and it is a multi-purpose-marketing centre where petroleum product/auto-related services are sold and delivered to the public. Investment in the retail outlet is the most conspicuous and common business area in the downstream sector.

Their operational activities have the following challenges:

- i. **Location:** - a functional retail outlet must be strategically located at a commercial point, close to offices, homes or highways;
- ii. **Appearance:-** a standard retail outlet must be clean, bright, functional and attractive to customers;
- iii. **Structure:** - the building of a retail outlet should be simple but well designed with adequate facilities;
- iv. **Human Resources:** - work force is the key to any successful enterprise. Personnel should be skilled, pleasant, clean, smart, and friendly;

- v. **Margin;** - this is an allocated amount to marketers, dealers and transporters expected to cover expenses incurred on products distribution which also include PEF [bridging funds] to take care of uniform pricing of products across the nation called bridging funds. Margins are therefore expected to be their returns on investment. The existence of margin [especially on the pricing template] is to recover full cost of investment, (PPMC, 2005).

In products marketing, price/quality differentiations are in two dimensions; i.e. the product itself and the selling activities. These two incorporate quantities added for a particular style, associated services strategies. Those specific selling strategies make up the marketing aspect of the product, which gives an overview of the performance of a product in the market.

When the inherent characteristics of a product are different, especially when the products are the same, the consumer can be persuaded through advertising or other selling activities to show that the products are different, this is called product differentiation. Product differentiation is intended to distinguish the product of one producer to another:

- **Major Marketers:**

- i. A progressive growth rate of 5-10 percent in volume sale, turnover and project.
- ii. Improve capital and asset base, management, operational and marketing strategies.

- iii. Continued technical and after sale support, research/development and operational back up by foreign franchise holders.
- iv. No serious competition from the indigenous independent marketers as a group to challenge the industry (NNPC, et-al).

- **Independent Marketers:**

- i. Continued apathy of the indigenous marketers to seek professional advice and support from experienced technocrats;
- ii. Inadequate and poor knowledge of the industry in general;
- iii. Lack of business focus, poor management style, operational and marketing strategies;
- iv. Dearth of information on the diverse business opportunities for diversification;
- v. Inadequate professional support from the government, NNPC, and competent consultants in the industry.

Comparatively, the major marketers control over 75 percent of the fuel business and over 95 percent of the lubricant market while the independent marketers account for the balance. No doubt, the competition is stiff; and few of the independents marketers are struggling to survive while vast majority are gradually dying when compared with the major marketers' heavy financial base. In these circumstances, the indigenous companies need to gear up their financial base in order to meet up with the existing business challenges and approach the venture with the necessary dexterity, seriousness and drive.

In the absence of significant growth in the petro-economic activities, it is fair to say that consumption levels follow the Petroleum Pricing Parity. Such conclusion is in support of Price liberalization which of course an average Nigerian seems to be apprehensive about when the sector is completely deregulated, this apprehension fear of possible changes in Petroleum Products Pricing.

- **Consumption of Petroleum Products in Nigeria:**

The production yield from the four domestic refineries with an installed capacity to process 445,000 barrel of crude include premium motor spirit (PMS) Dual Purpose Kerosene (DPK), Jet A1 for plan, Liquefied Petroleum Gas (LPG), Automotive Gas Oil (AGO-diesel), High Pour Fuel Oil (HPFO), Low Pour Fuel Oil (LPFO) and base oils for the domestic market. However, the heavier oil (LPFO, HPFO, base oil e.t.c.) is intended for export market, (CBN, 1996).

The output of petroleum products from the refineries has fluctuated over the years, giving its disequilibrium in the increase in the demand of the three white petroleum products as a result of increase in population growth and increase in the use of alternative energy sources (generator). The average daily consumption of petroleum products across the country is about: PMS (38-40 million litres); AGO (26-28 million litres); and DPK (18-21 million litres). Together they account for more than 60 percent of the total consumption of petroleum products. The situation largely reflected the interplay of a myriad of factors, which are operational in nature as the equation of supply to demand is complemented with petroleum importation. The

inadequate supply of petroleum products brought about constrain in price volatility over the year under review, (RSCRPPSD, 2000).

4.8.1 The Impact of petroleum products pricing on the economy

The Petroleum industry is a major anchor of the Nigerian economy. Over the year, its importance has become more noticeable in terms of its massive revenue generation capability for national development as well as spin-off effects of its downstream activities. These have largely being in the areas of industrialization through the provision of industrial inputs, energy for powering productive activities as well as employment generation. Revenue from the sub sector has been used to finance major core industrial projects like the steel complexes, fertilizer plants, petrochemical plants and aluminium smelter plant as well social infrastructure. Because of its international nature significance, the industry has experienced revolutionary changes and challenges. Notably among these was the Oil Price Shock of the early 1970's which was triggered by crude oil pricing decision, traditionally initiated by the international oil companies was taken over by OPEC Members. The initial increase in the oil pricing by exporting Countries led to a cut down in a demand and eventual global economic depression. The resultant rapid fall include oil prices led to large shrinkage in oil revenue of the Exporting Nations including Nigeria in the 1980's.

Arising from these developments, many programmes embarked upon during the oil boom period have remained uncompleted while those completed could not be adequately maintained.

This chapter in an attempt to analyze pricing economies in relation to petroleum industry is an attempt to practically address the subject matter, and not merely scholarly/intellectual exercise. The chapter also identified the contributory outstanding constraint, which includes the public control of the industry inefficiency in production and distribution, and low-level investment in the industry and price, (Adeoye, 2010).

- **Price:**

Price is the amount of money charged for a product or service the sum of the values that consumers exchange for the benefit of having or using the product or service. More broadly defined, price is the sum of all the values that consumers exchange for the benefit of having or using the product or service. Historically, price has been the major factor affecting buyer choice. This is still true in developing nations, and with commodity products, (Cotler, 1999).

Throughout price history, prices were set by negotiation between buyers and sellers.

- **Internal Factors Affecting Pricing Decision:**

These are internal features that affect pricing decisions:

- i. Marketing objectives;
- ii. Marketing mix strategy;
- iii. Cost of production.

Marketing objectives-, common objectives to the companies include survival, current profit maximization, and market share leadership. Companies set survival as their major objectives if they are troubled by too much capacity, heavy competition or changing consumer wants. To keep a plant going, a company may set a low price, hoping to increase demand. In the long-term, however, the firm must learn how to add value that consumers will pay for or face extinction.

For the current profit maximization objective, the companies estimate demand and costs at the different levels and set the price that will produce the maximum current profit cash flow, or returns on investment while others that want a share leadership set their prices as low as possible. However, those that are after product quality leadership normally charge high prices to cover higher performance quality and high cost of research and development.

Still on objectives, a company can use price to attain other more specific objectives where it can set prices low to prevent competitors from entering the market or set prices at competitors' levels to stabilize the market.

Price is only one of the marketing mix tools that a company uses to achieve its marketing objectives. Price decisions must be coordinated with product design, distribution, promotion decisions to form a consistent and effective marketing program for example, promotion as a marketing mix is to position the product on high performance quality, which entails charging a higher price to cover higher costs. Hence, pricing that starts with an ideal selling price than target costs that will ensure that the price is met.

Cost of production: costs set the floor for the price that the company can charge. The company wants to charge a price that both covers all its costs for producing, distribution and selling the product and delivers a fair rate of return for its effort and risk. A company's cost is an important element in its pricing strategy, (Pride & Ferrell, 1985).

- **External Factors Affecting Pricing Decision:-**

- i. These include the nature of the market and demand, competition and other environmental elements: - The market and demand: - whereas costs set the lower limit of prices, the market and demand set the upper limit. Both consumer and industrial buyers balance the price of a product or service against the benefits of owning it. Thus, it is imperative that the producer should understand the relationship between price and demand for its product before setting its price;
- ii. Competitors' costs, price and offers: - Another external factor affecting the company's pricing decisions are competitors' costs, prices, and possible competitor reactions to the company's own pricing moves. The company's pricing strategy may also affect the nature of the competition it faces, it means that if a company follows high price, high margin strategy, it may attract competition. A low price, low margin strategy, however may stop competitors or drive them out of the market thereby creating room for monopoly;

- iii. Other external factors: - economic conditions can have a strong impact on the firms' pricing strategies. Economic factors such as boom or recession, inflation, and interest rates affect pricing decisions because they affect both the cost of producing a product and consumer perceptions of the products' price and value. The company must consider the impact its prices will have on other parties in the environment.
- iv. The government is another important external influence in pricing decisions. Finally, social concerns may have to be taken into account. For this reason, a company's short-term sales, market share and profit goals may have to be broader societal considerations, (Pride & Ferrell, et al).

- **Pricing Mechanism:**

Under pricing mechanism, we evaluated the relationships between price and consumer's perception of the price and value, and demand analysis:

- i. **Consumer perception of price and value:** - the consumer will decide whether a Product's Price is right. Pricing decision like other marketing mix decisions must be buyer oriented. When consumers buy a product, they exchange something of value [the price] to get something of value [the benefit of having or using the product]. This means that the producer should understand the

value consumers place on its product and they should charge the price that fits this value;

- ii. **Price-demand relationship:** - each price the company will charge will lead to a different level of demand. The relationship between a price and demand is inversely proportional. The demand curve shows the number of units the market will buy in a given time period, at different prices that might be charged. Normally, demand and Price are inversely related, that is, the higher the Price, the lower the demand. In measuring the Price demand relationship the market researcher must not allow other factors affecting demand to vary. Therefore, the producer should charge the price that will enable him sell more for a maximum revenue objective of the company;

- iii. **Price elasticity of demand:** - marketers also need to know price elasticity [how responsive demand will be to a change in price]. That is, it is a measure of the sensitivity of demand to changes in price. If the demand hardly changes with a small change in price, we say the demand is inelastic. The price elasticity of demand is given by the following formula, (Anyanwu, 1993).

The less elastic the demand, the more it pays the seller to raise the price while the more elastic the demand, the more it pays the seller to lower the price, (Adam Smith, cited in Miller, 1979).

- **Current petroleum (PMS) pump Price in Nigeria**

Current retail Price as established by regulation has been N65/Litre since 2005. This regulated price is split to cost components in line with the following benchmarks;

- i. N56.71 - Depot Price.
- ii. N2.42 - Transportation Margin.
- iii. N1.15 - Dealer's Margin.
- iv. N 4.72 - Marketing Company Margin.

= 65.00 Retail Price. (PPPRA, 2008).

4.8.2. Analysis of Changes in Petroleum Pump prices in Nigeria

From January 1966 to September 1975, during the eras of General Aguiyi Ironsi, Yakubu Gowon and Murtala Mohammed, price of petrol stood at 8.5k. In 1978, General Obasanjo increased the price of petrol by 73.9 percent to 15.3k in April 1982, and President Shehu Shagari increased the price by 31 percent to 20k per litre

Also during the regime of General Ibrahim Babangida, precisely March 31, 1986, petrol price was increased by 97.5 percent pushing it to 39.5k and on April 10, 1988 there was another increase of 6.0 percent and that took Petrol Price to 42.5k. In January 1989 there was yet another increase by the Babangida administration of 43 percent which hiked prices to 60k per litre, while in March 16, 1991 there was yet another increase by 16.6 percent per litre of Petrol.

During the interim National Government of Chief Earnest Shonekan in 1993, petrol price was increased by 61.4 percent shooting the price to ₦ 5.00k per litre. That same year after General Sani Abacha had taken over; there was a reversal of 35 percent bringing the price down to ₦3.25. In October 1994 there was an increase by 36 percent, which shot price of petrol to ₦15.00 per litre. After a protest by Nigerians, government reduced the price by 26 percent to ₦11.00 litre.

After the demise of Abacha and the ascension of General Abdulsalam Abubakar, the government in December 1998 announced an increase of 127 percent spurring the price to ₦25.00 per litre. After a public outcry, the prices came down by 20 percent to ₦20.00 per litre on January 16, 1999.

In June 2000, President Olusegun Obasanjo increased the price of petrol by 50 percent to ₦ 30.00 per litre; the increase was followed by a nation-wide strike by NLC which forced the price down by 16.6 percent to ₦25.00 per litre. In June 2000 there was another reduction in the price of petrol due to continued resistance by Labour, these was by 12 percent which brought down the price to ₦22.00 in January 2002, there was an increase of 18.2 percent to ₦ 26.00 per litre. In June 2003, was also another increase by 53 percent to ₦40.00 per litre. After a nationwide protest by Labour, government reduced the price of petrol by 15 percent to ₦ 34.00 per litre. In October 2003, the government announced an increase of 23.5 percent pushing the price to ₦ 42.00 per litre. In May 2004, there was another increase of 18.81 percent to ₦49.90 per litre. As usual, it was followed by a strike action. On December 21, 2004, PPPRA announced a reduction of 3.81 percent, which brought price of petrol down to

₦ 48.00 per litre. In January 2005, petrol price was raised by 5.20 percent to ₦50.50 and last but not the least came in August 2005 by 28.71 percent to ₦65.00 per litre, (Sunday Vanguard, October, 2009).

When you take a comparative analysis of the data above, we have had about 18 petrol price increases and 7 petrol price reversals. In all the increases totalling 1454.8 percent, General Obasanjo as military head of state effected 73.9 percent increase, Shagari 31 percent, IBB 179 percent, Shonekan 614 percent, Abacha 300 percent, Abubakar 107 percent and chief Obasanjo 149.95 percent. Looking at the petrol reversals, we had a total of 128.4 percent. The first reversals, was made in 1993 during the time of Abacha by 61 percent and then Abubakar by 20 percent and Obasanjo by 47.47 percent. Crude oil prices have been soaring over the past three years due to global events such as war in Iraq, increased demand from China and India, hurricanes Katrina and Rita vandalization of oil installations of August 2005. speculation by oil analysts and refinery bottlenecks among others have contributed to the sky-price of crude oil to about \$70 a barrel; an all time high and because our domestic price is based on import parity, we have to be where the wind blows.

Therefore, if you take a good look at the histogram you will find out that chief Earnest Shonekan made the highest price increase within 3 months of 614 percent almost half of the total price increases. The next was General Sani Abacha with 300 percent increase within a period of 5 years. Next was General Ibrahim Babangida with 179 percent increase over a period of eight years. And Obasanjo with 149.95 percent increase within a period of 5 years. There have been more Price increases in during

this administration but the fact is that it is not the utmost in terms of value or quantity. (See table 6)

Table 6: ANALYSIS OF CHANGES IN PETROLEUM PUMP PRICES IN NIGERIA FROM 1966-2007

	Column1	Column2	Column3
DATE	PRICE PER LITRE (N/k)	REGIME	INCREASE (%)
Jan.1966-Sept.1978	8.5	Gen.Aguiyi Ironsi	NIL- -
		Gen.Yakubu Gowon	NIL
		Gen.M.Murutala	NIL
Oct. 1 st 1978.	15	Gen. Obasanjo	73.9
April 20 th 1982	20 kobo	Alh.Shehu Shagari	13
March 31,1986	39.5	Gen.Ibrahim Babangida	97.5
April 10 th , 1988	42.5	“ “	6
Jan 1 st , 1989	42 kobo for Commercial & 60 kobo for private vehicle	“ “	43
Dec.19 th , 1989	60kobo	“ “	43
March 16 th , 1991	70 kobo	“ “	16.6
Nov. 8 th , 1993	5	Chief, Earnest Shonekan	61.4
Nov. 22, 1993	3.25	Gen. Sani Abacha	-35
Oct. 2 1994	15	“ “	361
Nov. 4, 1994	11	“ “	-26

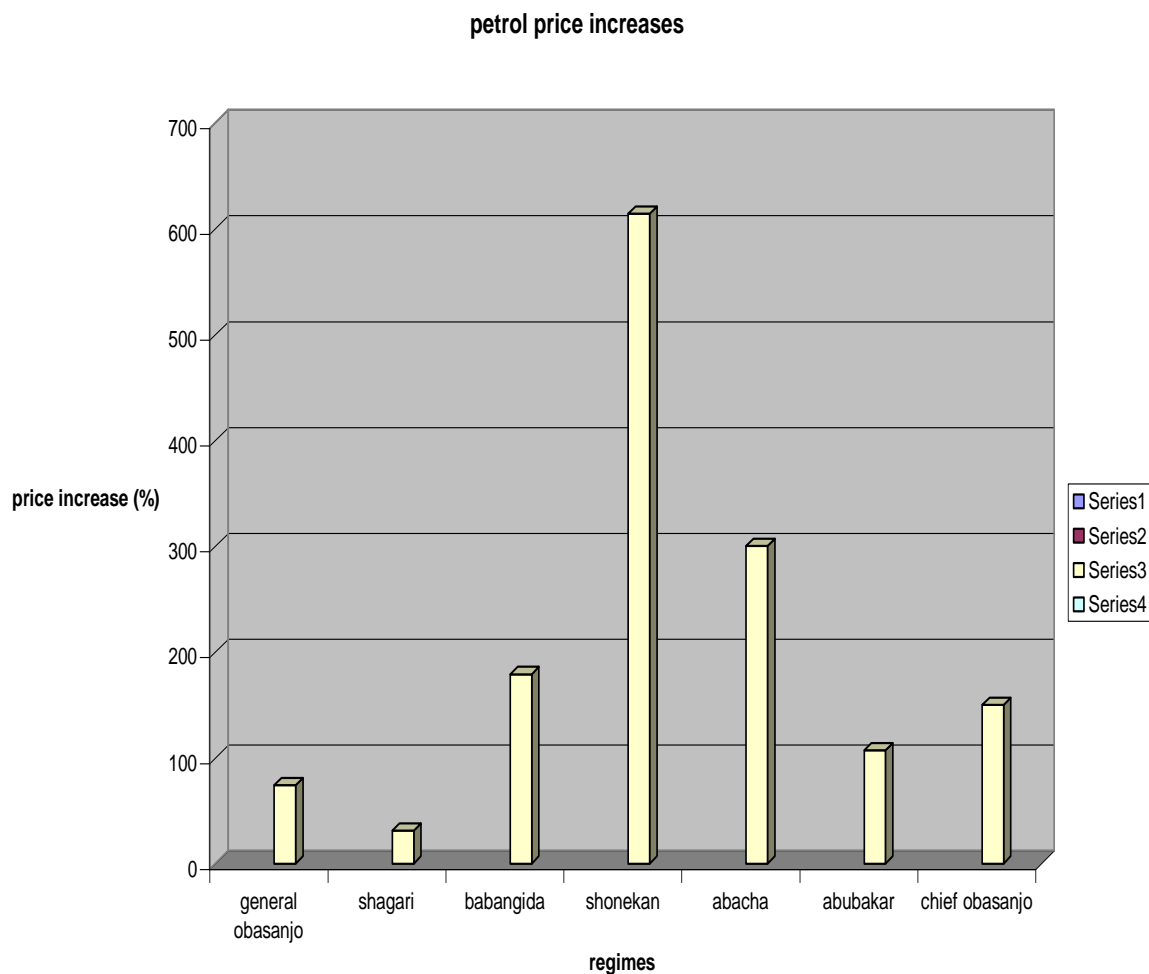
Dec.20th, 1998	25	Gen. A. Abubakar	127
Jan.6th, 1999	20	“ “	-20
Jun 1st, 2000	30	Chief Olusegun Obasanjo	50
Jun 8th, 2000	25	“ “	-16.66
Jun 13th, 2000	22	“ “	-12
Jan.1st, 2002	26	“ “	18.2
Jun 20th, 2003	40	“ “	53
July 9th, 2003	34	“ “	-15
Oct.1st, 2003	42	“ “	23.5
May 29th, 2004	49.9	“ “	18.81
Dec.21st, 2004	48	“ “	-3.81
Jan.2005	50.5	“ “	5.2
Aug.2005 to	65	“ “	28.71
2006 to May 2007	65	“ “	28.71
May 25th, 2007	75	“ “	28.71
June 24th, 2007	70	Yara'dua Umaru	25.69

Source: Sunday Vanguard, October 18, 2009.

NOTE: Total Price Increase = 1454.85
Total Price Decrease = 128.47

<u>Regimes</u>	<u>Price increases</u>	<u>Price decrease</u>
Olusegun Obasanjo	= 73.9 %	-
Shehu Shagari	= 31.0%	-
Ibrahim Babangida	= 179%	-
Ernest Shonekan	= 614%	-
Sani Abacha	= 300%	-
Abdulsalami Abubakar	=107%	-
Olusegun Obasanjo	= 149.95%	-
Umuru Yaradua	= NIL	-
TOTAL	=<u>1454.85</u>	<u>128.47</u>

Fig. 4.8.1.



Source: Sunday Vanguard, October 18, 2009.

Further justification for the realisation of full deregulatory policy as argued by Oluleye (2004), were based:

- i.** Prompt response to the dynamics of market fundamentals;
- ii.** Sustainable margin to all stakeholders (i.e. transporters/dealers, marketers);
- iii.** Competitive cross-border pricing of products leading to elimination/reduction of smuggling activities.
- iv.** Deregulation is the elimination of hoard;

- v. Modulation with a view to moderate international price volatility in order to stabilise domestic prices;
- vi. Deregulation is fairness to end users; and
- vii. Consistency with the nation's economic and social policies.

Table 6 above shows an abrupt removal of subsidy (AGO) from June 2003 by a 54 percent price increase as part of deregulation process that cause dislocation to price of the product particularly in Lagos State because with high demand, and inadequate supply the price sky rocketed leading as mentioned earlier to labour strikes and chaos and threat of insecurity in the country.

The government has decided to go ahead with the policy even against widespread disapproval on the part of ordinary citizens. It is worth noting that the biggest gain will be in savings generated from divesting in the sector which will subsequently free up government funds for other activities. Potential savings in the downstream sector are defined as the difference between the actual cost of supplying petroleum products to consumers (either through imports or by refining crude) and a benchmark cost corresponding to the procurement of these products from world markets under competitive conditions; and are subdivided into three categories: procurement, refining and distribution. (World Bank, 2004).

4.8.3. Effect of Exchange Rate on Petroleum Pricing

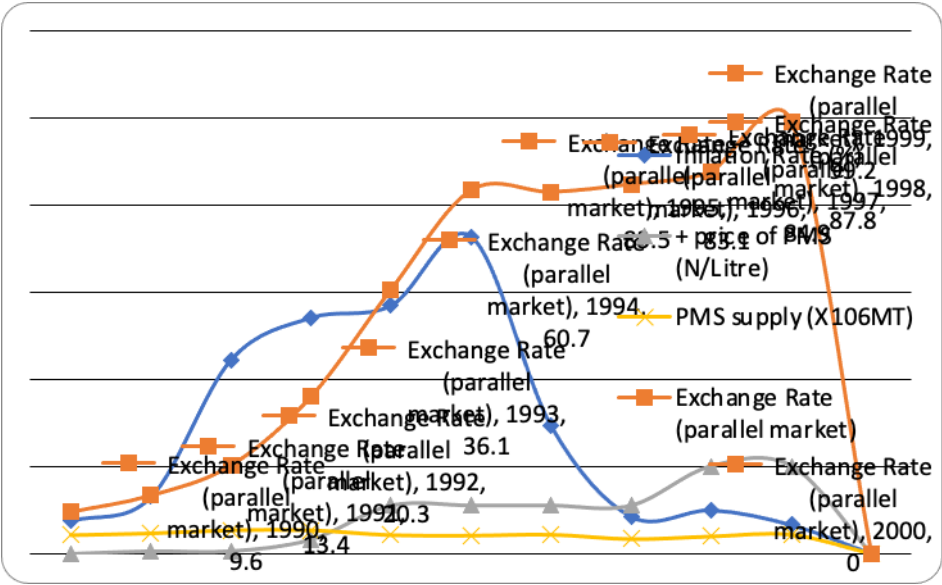
In 1973, the Price of PMS (Premium Motor Spirit) was 9.5k/litre, it rose by an average of a 2.8k/litre to 60k/litre in 1991, and this was within a period of 18 years of cosmetics reasons to impress the International Monetary Fund (IMF) especially towards the end of the Second Republic in 1982/83. From 1991 to 1992, the exchange rate against the dollar nearly double from N9.9 to over N17, inflation rate shot up from 13 percent to 44.5 percent, the economy was taking a drip, debt burden that has become a national issue and lenders had started to want to see some real belt –tightening policy. A jump from 6k/litre to N3.25/litre was experienced in 1993 leading steeply at a rate of N2.37/year to the Millennium level of N22/litre (see table 7).

TABLE 7: PMS Supply Price & other Market Indicators

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Inflation Rate (%)	7.5	13.0	44.5	54.2	57.0	72.8	29.3	8.5	10.0	6.6	
Exchange Rate (parallel market)	9.6	13.4	20.3	36.1	60.7	83.5	83.1	84.9	87.8	99.2	120.40
+ price of PMS (N/Litre)	0.51	0.6	0.6	3.25	11.0	11.0	11.0	11.0	20.0	20.0	
PMS supply (X10⁶MT)	4.2	4.6	5.3	5.3	4.2	4.1	4.3	3.3	3.9	4.3	

Source: Central Bank + Committee on Review of Petroleum Products Supply/Distribution, 2001.

Fig.4.8.2.



Line Chart On PMS Supply Vs Other Indicators

Source: Central Bank + Committee on Review of Petroleum Products Supply/Distribution, 2001.

These past 11 years have thus been the most painful period of Petroleum Price Management, basically we might say, the price of policy complacency has been as high as the Price of Product, (Darkoru, 2003).

The world economy over time has improved marginally by 0.2 percent in 2003 as the industrial countries of Western Europe experienced an economy showdown during the first half of the year. Global output grew by 3.2 percent, compared with the 3.0 percent achieved in 2002. The marginal improvement was traceable to reduced inflationary pressure, which led to the easing of macroeconomic policies in order to support economic recovery during the second half of the year.

Other contributory factors were increased export as well as the financial and economic responses introduced by various countries during the year. OPEC's production policy, which was dictated by market consideration, helped to maintain an average basket Price of US \$28.14 per barrel, representing a 15.5 percent increase over the level in 2002.

IMF facilities totalling Special Drawing Rights (SDR; having the financial ability to borrow from other countries) of 76.5 billion was granted to members in 2003, while SDR 69.8 billion or 91.2 percent was sourced from the General Resource Account (GRA). African countries purchased GRA totally SDR 1.9billion. The World Bank Group's total commitment to developing countries in 2003 was UD\$ 18.5billion, representing a 5.4 percent decline from the level recorded in the preceding year.

The Authority of Heads of State and Government of the West African Monetary Zone (WAMZ), at its sixth summit in Accra, Ghana, in December 2003, agreed that member countries should redouble their criteria. The Authority also decided that the proposed Headquarters of the West African Central Banks (WACB) be sited in Ghana and that all WAMZ Member Countries would be eligible to express interest to host the Headquarters of the propose ECOWAS Central Bank. The Committee of Governors of the Central Banks of ECOWAS Member States, at its 13th meeting in Accra, Ghana, in December 2003, agreed among others, to transfer the management of the ECOWAS Travellers' Cheque Scheme to a Private Sector Operator in order to improve the operations of the West African Monetary Agency (WAMA), just like the existing Petroleum Products Pricing Regulatory Agency (PPPRA) in Nigeria

responsible for the regulation of activities under the Petroleum Downstream Sub sector, (CBN,2003)

Though, the approach government has chosen to deregulate is quite interesting because it is unusual among the Third World. The Government recently sent a bill to the Senate for the approval of reform in the upstream sector, which makes it mandatory for oil companies operating in Nigeria, that is, Exxon Mobil, Chevron, Elf and Shell to engage in the activities of refining to the tune about 50 percent of their crude oil in the country. What it implies is that, there will be more suppliers in the Nigeria market, thereby encouraging competition and attendant lower cost. The oil majors are not too thrilled about this but it is a price they have to pay if they want to remain in the Nigerian market.

Nigeria is heading towards realising her potentials in the long run if the pursuance of deregulation of the downstream subsector is effectively implemented. However, current macroeconomic policies are currently showcasing the benefits of maintaining a good fiscal policy in Nigeria; this has given Government the opportunity to re-diversify her resources into other sectors of the economy as against absolute dependence on oil revenues. Against the backdrop of the international community agreeing to write off debt of most developing countries of which Nigeria was a prime beneficiary of this gesture. The condition for such privileges is that the IMF must approve of the domestic policy plan, for instance, the National Economic Empowerment Development Strategy (NEEDS), after it was scrutinized, the IMF

subsequently approved the Policy Support Instrument (PSI), a negotiating instrument employed by IMF to dictate to debtor country on what policies to adopt or implore.

In 2004, the 'Paris Club' gave Nigeria a debt relieve package of the sum of \$18 billion, in the same vein agreed to allow Nigeria to buy back \$6 billion. However, the Government had to pay arrears of about \$6.4 billion within a specified period. And at the same time government should implore aggressive reform policy plan that will develop the economy. The combined effects of savings from deregulation and debt relief is going to free huge resources to the government and people.

Khan (2005), noted key issues in the impact of deregulation are those of profitability, efficiency; unemployment and capital market development:

- i. Profitability: this is likely to occur to once the deregulation fully commenced, but may be due more debt write off by government, in order to give the company a fresh start;
- ii. Efficiency: Normally after deregulation, the downstream sector returns to being efficient as costs are reduced and redundant employees are retrenched;
- iii. Unemployment: this cannot be avoided, but as explained earlier government can create effective safety nets so as to handle welfare matters arising;
- iv. Capital Market Development: as 45 percent will be sold through the stock exchange, this will strengthen the operations of the capital market and funds will be raised through the stock issue. Thus making government derive more revenue, (PPPRA, 2007).

4.9. MACRO-ECONOMIC INDICATOR OF DEREGULATION

According to Stanley Fisher and Rudiger Dornbusch; Macroeconomics emphasizes the various interactions in the economy as a whole. It deliberately simplifies the individual building blocks of the complete interaction of the economy, (Daniel, 1997).

Hence in this context, we cannot discussed the policy implementation of deregulation or liberalization of the economy as it relates to government owe establishment, without make either concrete or précised references to macroeconomic indicators that could determine a better economic policy. (See table 8).

Table 8: Selected Macroeconomic Indicators

INDICATORS	1999	2000	2001	2002 ^{1/}	2003 ^{2/}
a.) DOMESTIC OUTPUT PRICES					
Real GDP Growth (Growth Rate %)	0.9	5.4	4.6	3.5	10.2
Oil Sector	-7.5	11.3	5.2	-5.7	23.9
Non-Oil Sector	4.4	2.9	4.3	7.9	4.5
Non-Production (Mbd)	2	2.2	2.2	2.1	2.3
Manufacturing Capacity Utilisation	35.9	36.1	39.6	44.3	46.2
Gross National Savings (% of GDP)	21.6	23.1	19.3	19.5	25.7
Gross Fixed Capital Formation (% of GDP)	11	12.2	8.8	10.2	8.8
Inflation Rate (%) Moving Average)	6.6	6.9	18.9	12.9	14
Inflation Rate (%) (Year-0n-Year)	0.2	14.2	16.5	12.2	23.8
(b) FEDERAL GOVERNMENT FINANCE (% OF GDP):					
Overall Financial balance	-8.9	-2.3	-4.3	-5.5	-2.8
Primary Balance	6.6	3	4.2	0.5	0.5
Retained Revenue	20.7	13.1	15.4	13.1	13.9
Total Expenditure	29.7	15.4	19.6	18.6	16.7
Domestic Debt Stock	24.8	19.8	19.6	21.31	18.1
External Debt Stock	80.5	68.1	61.2	72	61.1
(C) MONEY AND CREDIT (GROWTH RATE %):					
Net Domestic Credit	30	-25.3	79.9	64.6	32.7
Credit to Government	32	-170.1	95.2	63,206	47.9
Credit to Private Sectors	29.2	30.9	43.5	19.7	27.1
Narrow Money (M1)	18	62.2	38.1	15.9	29.5
Broad Money (M2)	31.7	48.1	27	21.6	24.1
(d) EXTERNAL SECTOR:					
Over Balance	-10.2	6.9	0.5	-10.3	-2.2
Current Account Balance (% GDP)	1.4	15.7	4.7	0.7	6.9
Capital and Financial Account Balance (% of GDP)	-11.5	-8.6	-4.1	-10.9	-9
External Reserves (US \$ / barrel)	5,450.00	9,910.40	10,415.60	7,681.10	7,467.80
Average Crude Oil (US \$ / barrel)	18	28.6	24.5	25	29.2
Average AFEM/DAS (N/\$ 1.00)	92.3	101.7	111.9	121	129.3
Average Bureau de Change Exchange Rate (N/\$)	99.3	111.1	133	136.9	141.4
(e) SOCIAL INDICATORS:					
GDP Per Capital (N)	1,038.80	1,046.80	1,062.50	1,065.4	1,028.50
Population Growth Rate (%)	2.83	2.83	2.83	2.83	2.83
Life Expectancy at Birth (Years)	54	54	54	54	54
Adult Literacy Rate (%)	57	57	57	57	57
Human Development Index 3/	0.4	0.4	0.4	0.4	0.4

SOURCE: CBN, (2003).

From the above table, there is a strong correlation between commodity pricing and economic activities, hence, the need to properly justify and understand the role of macro-economic activities (indicator) better economic policing. If there is an increase in oil Prices it may relatively decline or reduces consumption parthen that is, forcing patronage on the use of smaller petrol efficient cars to regulate the quantity of oil consumption.

For instance, when the Oil Consuming Countries knew about the OPEC Countries Prices of Oil, the International Energy Agency (IEA) enjoined its entire Members' States to build up enough oil reserves capacity that will cushion short fall in domestic demands as a result of sudden Price shocks. This strategy proved successful but walked against the Oil Producing States (OPEC). The situation was worsened by Oil discoveries from other non-oil exporting countries such as Alaska, Arctic Island, New Found Land, Mexico and China.

Increase in World Oil supply helped to lessen the dependence of Oil Consumers on the Organisation of Oil Producing Countries (OPEC). This Development created the oil glut that affected the economic base of the OPEC countries, erratically Nigeria.

Beside, after the growth of economic activities in the world in the 1970s, the economy of the World generally witnessed a downward trend. The situation became worsen since 1980 when Japan growth rate fell below 1.5 percent for most organisations for Economic Cooperation and Development (ECD) Countries. Increased efficiency in the use of oil produced a deadline in oil Consumption but

helped to create the glut. The result was that by the 1980s many third world States were the worst hit.

As a result of the world glut, the production policy was no longer influenced by the level of the country's reserve and economic needs but was been controlled by the external influence, that is, the world oil market. The situation introduced complication on the ability to Plan Nigeria's oil production and affected the development programmes in the country. The balance on current account which showed a surplus of ₦7,062.5 million in 1974 turned to a deficit of ~~₦~~2,380.4 million in 1978.(see table 9).

Table 9: Current Revenue of the Federal Government (₦MILLION)

SOURCES	1970	1971	1972	1973
Total Federally Collected Revenue	634.0	1168.8	1405.1	1695.3
Oil Reserve	166.6	510.1	764.3	1016.0
Petroleum Profit Tax and Royalties	97.7	383.1	540.5	769.2
Others 2/	68.9	127.0	223.8	246.8
Non-oil Revenue	467.4	658.7	640.8	679.3
Company Income Tax	45.8	67.5	80.4	80.8
Custom & Excise Duties	370.0	491.0	481.1	516.2
Value-Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue 3/	51.6	100.2	79.3	82.3
AFEM Surplus Revenue	-	-	-	-
Others 4/	-	-	-	-
Allocation To :	582.4	1068.6	1325.8	1613.0
Federation Account 5/	-	-	-	-
VAT Pool Account	-	-	-	-
AFEM Surplus Account	-	-	-	-
Petroleum Trust Fund	-	-	-	-
JVC Payments Account	-	-	-	-
External Debt Service Funds	-	-	-	-
National Priority Projects Funds	-	-	-	-
Others 6/	-	-	-	-
Federal Government Retained Revenue	448.8	1168.8	1404.8	1695.3
Federation Account	397.2	1068.6	1325.5	1613.0

Value Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue	51.6	100.2	79.3	82.3
PTF	-	-	-	-
National Priority Projects	-	-	-	-
External Debt Service Funds	-	-	-	-
AFEM Surplus Intervention Fund	-	-	-	-
Grant	-	-	-	-
Others 7/	-	-	-	-
SOURCES	1974	1975	1976	1977
Total Federally Collected Revenue	4537.4	5514.7	6765.9	8042.4
Oil Reserve	3724.0	4271.5	5365.2	6080.6
Petroleum Profit Tax and Royalties	2870.1	2707.5	3624.9	
Others 2/	853.9	1564.0	1740.3	1749.8
Non-oil Revenue	813.4	1243.2	1400.7	1961.8
Company Income Tax	148.8	261.9	222.2	476.9
Custom & Excise Duties	498.3	760.7	882.7	1145.6
Value-Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue 3/	166.3	220.6	295.8	339.3
AFEM Surplus Revenue	-	-	-	-
Others 4/	-	-	-	-
Allocation To :	4371.1	5294.1	6470.1	7703.1
Federation Account 5/	4371.1	5294.1	6470.1	7703.1
VAT Pool Account	-	-	-	-
AFEM Surplus Account	-	-	-	-
Petroleum Trust Fund	-	-	-	-
JVC Payments Account	-	-	-	-
External Debt Service Funds	-	-	-	-
National Priority Projects Funds	-	-	-	-
Others 6/	-	-	-	-
Federal Government Retained Revenue	4537.0	5514.7	6765.9	8042.4
Federation Account	4370.7	5294.1	6470.1	7703.1
Value Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue	166.3	220.6	295.8	339.3
PTF	-	-	-	-
National Priority Projects	-	-	-	-
External Debt Service Funds	-	-	-	-
AFEM Surplus Intervention Fund	-	-	-	-
Grant				
Others 7/	-	-	-	-
SOURCES	1978	1979	1980	1981
Total Federally Collected Revenue	7371.0	10912.4	15233.5	13290.5
Oil Reserve	4555.8	8880.8	12353.3	8564.4
Petroleum Profit Tax and Royalties	3415.7	5164.1	8564.3	6325.8
Others 2/	1140.1	3716.7	3789.0	2238.6

Non-oil Revenue	2815.2	2013.6	2880.2	4726.1
Company Income Tax	527.4	575.1	579.2	403.0
Custom & Excise Duties	1698.2	1143.9	1813.5	2325.8
Value-Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue 3/	589.6	312.6	487.5	1997.3
AFEM Surplus Revenue	-	-	-	-
Others 4/	-	-	-	-
Allocation To :	6781.4	10599.8	14746.5	10182.8
Federation Account 5/	6781.4	10599.8	14746.5	10182.8
VAT Pool Account	-	-	-	-
AFEM Surplus Account	-	-	-	-
Petroleum Trust Fund	-	-	-	-
JVC Payments Account	-	-	-	-
External Debt Service Funds	-	-	-	-
National Priority Projects Funds	-	-	-	-
Others 6/	-	-	-	-
Federal Government Retained Revenue	5178.1	8868.4	12993.3	7511.6
Federation Account	4588.5	8555.8	12505.8	5514.3
Value Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue	589.6	312.6	487.5	1997.3
PTF	-	-	-	-
National Priority Projects	-	-	-	-
External Debt Service Funds	-	-	-	-
AFEM Surplus Intervention Fund	-	-	-	-
Grant				
Others 7/	-	-	-	-
SOURCES	1982	1983	1984	1985
Total Federally Collected Revenue	11433.7	10508.7	11253.3	15050.4
Oil Reserve	7814.9	7253.0	8269.2	10923.7
Petroleum Profit Tax and Royalties	4846.4	3746.9	4761.4	6711.0
Others 2/	2968.5	3506.1	3507.8	4212.7
Non-oil Revenue	3618.8	3255.7	2984.1	4126.7
Company Income Tax	550.0	561.5	787.2	1004.3
Custom & Excise Duties	2336.0	1984.1	1616.0	2183.5
Value-Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue 3/	732.8	710.1	580.9	938.9
AFEM Surplus Revenue	-	-	-	-
Others 4/	-	-	-	-
Allocation To :	9884.9	9798.6	10672.4	13750.2
Federation Account 5/	9884.9	9798.6	10672.4	13750.2
VAT Pool Account	-	-	-	-
AFEM Surplus Account	-	-	-	-
Petroleum Trust Fund	-	-	-	-
JVC Payments Account	-	-	-	-
External Debt Service Funds	-	-	-	-
National Priority Projects Funds	-	-	-	-
Others 6/	-	-	-	-

Federal Government Retained Revenue	5819.1	6272.0	7267.2	10001.4
Federation Account	5086.3	5561.9	6686.3	9062.5
Value Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue	-	-	-	-
PTF	-	-	-	-
National Priority Projects	-	-	-	-
External Debt Service Funds	-	-	-	-
AFEM Surplus Intervention Fund	-	-	-	-
Grant				
Others 7/	-	-	-	-
SOURCES	1986	1987	1988	1989
Total Federally Collected Revenue	12595.8	25380.6	27596.7	53870.4
Oil Reserve	8107.3	19027.0	19831.7	39130.5
Petroleum Profit Tax and Royalties	4811.0	12504.0	6814.4	10598.1
Others 2/	3296.3	6523.0	13017.3	28532.4
Non-oil Revenue	4488.5	6353.6	7765.0	14739.9
Company Income Tax	1102.5	1235.2	1550.8	1914.3
Custom & Excise Duties	1728.2	3540.8	5672.0	5815.5
Value-Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue 3/	433.7	407.6	540.5	938.0
AFEM Surplus Revenue	-	-	-	-
Others 4/	1224.1	1170.0	1.7	6072.1
Allocation To :	11868.3	24692.2	26770.3	46860.3
Federation Account 5/	11868.3	24692.2	26770.3	46860.3
VAT Pool Account	-	-	-	-
AFEM Surplus Account	-	-	-	-
Petroleum Trust Fund	-	-	-	-
JVC Payments Account	-	-	-	-
External Debt Service Funds	-	-	-	-
National Priority Projects Funds	-	-	-	-
Others 6/	-	-	-	-
Federal Government Retained Revenue	7969.4	16129.0	15588.6	25893.6
Federation Account	6311.6	14551.4	15046.4	18752.1
Value Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue	433.7	407.6	540.5	938.0
PTF	-	-	-	-
National Priority Projects	-	-	-	-
External Debt Service Funds	-	-	-	-
AFEM Surplus Intervention Fund	-	-	-	-
Grant	-	-	-	-
Others 7/	1224.1	1170.0	1.7	6072.1
SOURCES	1990	1991	1992	1993
Total Federally Collected Revenue	98102.4	100991.6	190453.2	192769.4

Oil Reserve	71887.1	82666.4	164078.1	162102.4
Petroleum Profit Tax and Royalties	26909.0	38615.9	51476.7	59207.6
Others 2/	44978.1	44050.5	112601.4	102894.8
Non-oil Revenue	26215.3	18325.2	26375.1	30667.0
Company Income Tax	2997.3	3827.9	5417.2	9554.1
Custom & Excise Duties	8640.9	11456.9	16054.8	15486.4
Value-Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue 3/	1724.0	3040.4	4903.1	5626.5
AFEM Surplus Revenue	-	-	-	-
Others 4/	12853.1	-	-	-
Allocation To :	84735.4	76350.9	126486.4	162746.4
Federation Account 5/	68064.2	54000.0	77800.0	106799.4
VAT Pool Account	-	-	-	-
AFEM Surplus Account	-	-	-	-
Petroleum Trust Fund	-	-	-	-
JVC Payments Account	16671.2	22350.9	48686.4	55947.0
External Debt Service Funds	-	-	-	-
National Priority Projects Funds	-	-	-	-
Others 6/	-	-	-	-
Federal Government Retained Revenue	38152.1	30829.2	53264.9	126071.2
Federation Account	23575.0	27788.8	38240.0	51797.7
Value Added Tax (VAT)	-	-	-	-
Federal Government Independence Revenue	1724.0	3040.4	4903.1	5626.5
PTF	-	-	-	-
National Priority Projects	-	-	-	55947.0
External Debt Service Funds	-	-	-	-
AFEM Surplus Intervention Fund	-	-	-	-
Grant				
Others 7/	12853.1	-	101218	12700.0

Source: Federal Ministry of Finance and Economic Development, 1998(2) Central Bank of Nigeria 1999.

- i. Includes Revenue from export sales, Domestic sales, taxes on petroleum products, rent, e.t.c.
- ii. Comprises revenue from interest payments, rents on Government properties, personal income tax of armed forces, police, external affairs and federal capital residents.
- iii. Includes customs Levis and education taxes e.t.c.
- v. Includes transfer of federation Account from Domestic oil sales.

vi. Includes Drawn-down from Fertilizer Reserve, Customs Levee, Subvention/Grant, and Sterilised Oil Windfall proceeds and Grant. This Format was discontinued as from 1998 to reflect changes in Fiscal policies.

Current Review of the Federal Government Revenue (N MILLION)

SOURCES	1994	1995	1996	1997
Total Federally Collected Revenue	201910.8	439987.3	523597.0	591151.0
Oil Reserve	160192.4	324597.6	408783.0	410811.1
Petroleum Profit Tax and Royalties	42802.7	42857.9	76667.0	68574.1
Others 2/	117389.7	281689.7	332116.0	348237.0
Non-oil Revenue	41718.4	135439.7	114814.0	174339.9
Company Income Tax	12274.8	21878.3	22000.0	26000.0
Custom & Excise Duties	18294.6	37364.0	55000.0	63000.0
Value-Added Tax (VAT)	7260.8	20761.0	31000.0	34000.0
Federal Government Independence Revenue 3/	3888.2	20436.4	3407.0	8339.9
AFEM Surplus Revenue	-	-	-	-
Others 4/	-	35000.0	3407.0	43000.0
Allocation To :	189305.5	430701.9	516783.0	578568.6
Federation Account 5/	110641.0	161998.5	179000.0	208000.0
VAT Pool Account	7260.8	20436.4	31000.0	34000.0
AFEM Surplus Account	-	79645.3	103190.0	130811.1
Petroleum Trust Fund	9957.5	35000.0	42000.0	37757.5
JVC Payments Account	614446.2	45000.0	39000.0	45000.0
External Debt Service Funds	-	44000.0	44000.0	44000.0
National Priority Projects Funds	-	26000.0	44000.0	44000.0
Others 6/	-	18621.7	34593.0	35000.0
Federal Government Retained Revenue	90622.6	249768.1	325144.0	351262.3
Federation Account	53661.0	325144.0	81056.0	101000.0
Value Added Tax (VAT)	1452.2	7437.8	10746.0	12238.7
Federal Government Independence Revenue	3888.2	20761.0	3407.0	8339.9
PTF	-	35000.0	41935.0	377757.5
National Priority Projects	19826.2	26000.0	44000.0	44000.0
External Debt Service Funds	-	44000.0	41285.2	32924.1
AFEM Surplus Intervention Fund	-	38000.0	62000.0	47002.1
Grant	-	-	2000.0	2000.0
Others 7/	11794.8	-	38714.8	66000.0

SOURCE: NAPETCOR Quality magazine, NNPC Vol 4, No.2 (2004) .

i. Provisional

ii. Include revenue from export sales, Domestic sale, Taxes on Petroleum Products, rent etc.

- iii. Comprises revenue from interest payment rent on Government properties, Personal income Tax of Armed Forces, Police External Affairs and Federal Capital Residents.**
- iv. Includes customs Levis and Educational Taxes etc.**
- v. Include transfer of Education Account from Domestic oil sales.**
- vi Include transfer to special and excess Reserve, Educational Fund.**
- vii. Include drawn-dawn from fertilizer reserves, customs Levis, subvention/Grant and sterilised oil windfall proceeds and Grant.**
- viii. This format was discontinued as from 1998 to reflect change in fiscal policies.**

Table 10: FEDERAL GOVERNMENT ACCOUNT OPERATION (N ‘MILLION’)

SOURCES	1998	1999	2000	2001	2002
Total revenue (gross)	463608.8	949187.9	1906159.7	2231532.9	1731837.5
Oil revenue (gross) 3/	324311.2	724422.5	1591675.8	1707562.8	1230851.2
Crude oil export	100683.2	514038.9	947163	934284.2	496311.5
PPT and royalties, etc	67986.6	164273.4	525072.9	639234	392207.2
Domestic crude sale	56583.6	46110.2	90429.7	121544.6	304242.8
Other oil revenue	99057.8	0	23010.2	12500	38089.7
Less:	157978.1	388290.9	734093.6	804100.5	125717.8
First charge 4/	123199.3	388290.9	734093.6	804100.5	125717.8
Transfer to PSTF	34778.8	0.0	0.0	0.0	0.0
Oil revenue (Net)	166333.1	336131.6	857582.2	903462.3	1105133.4
Non Oil revenue	139297.6	224765.4	314483.9	523970.1	1105133.4
Companies Income Tax	33315.3	46211.2	51147.4	68660.0	89104.0
Customs and excess duties	57683.0	87906.9	101523.6	170557.1	181408.2
Privatization proceeds	0.0	0.0	18103.6	77958.1	19697.8
Value-added tax(VAT)	36867.7	47135.8	58469.6	91757.9	108601.0
Tax on petroleum products	0.0	14376.2	25467.2	30240.3	0.0
Independent rev. of fed. Gov.	11431.6	20076.5	38061.8	4405.2	68134.5
Education Tax	0.0	0.0	7528.0	16213.6	10284.2
Others	11431.6	9058.8	14182.0	24177.9	23756.6
Federal Collected Revenue(Net)	305630.7	560897.0	1172066.1	1437432.4	1606119.7
Federation account	404688.5	576801.4	1262468.3	1599361.1	1899487.8
Transfer to AFEM surplus Account	99057.8	0.0	0.0	0.0	0.0
Transfer of stabilization account	0.0	63114.4	0.0	17433.6	0.0
Transfer of federation revenue account	0.0	0.0	64482.7	20363.5	0.0
Transfer of government Ind. Revenue	11431.6	20076.5	38061.8	44405.2	68134.0
Transfer of VAT pool account	36867.7	47135.8	58469.6	91757.9	108601.0
Deduction for 13% Derivation arrears	0.0	0.0	7527.3	0.0	0.0
National judicial council	0.0	0.0	9996.0	8750.7	0.0
Transfer to others 5/	0.0	0.0	32287.0	118349.6	29982.0
Amount distributed	257331.4	446474.7	1051643.9	1298301.3	16692770.8
Federal government	124573.0	218874.5	502294.4	530657.6	859014.9
State government	57500.0	108214.8	248561.7	391326.9	398767.6
Local government	47910.0	90179.2	207146.6	245436.6	333900.6
Special Funds	14306.0	29206.2	9364102	130880.2	101087.7
Federal capital territory	2392.0	4509.0	1050.5	12780.1	1359.8
Ecology	4858.0	9125.4	21021.1	25490.8	2711.7
Statutory stabilization	1214.0	2281.4	5255.3	6357.5	7460.6
Mineral detection	1416.0	3405.5	52243.9	78381.4	89198.9
Mineral producing areas	4381.0	9884.9	0.0	0.0	0.0
Res account	***	***	4610.4	7870.4	356.7
Overall balance	-99057.8	-15904.40	-90402.20	-171928.70	-293368.10
Financing	99057.8	15904.4	90402.2	171928.7	293368.2
Transfer from AFEM surplus account	99057.8	0	0	0	202799.1
Draw down from federation reserves	0.0	17664.90	20501.8	20363.2	15000
Draw down from stabilisation account	0.0	-1760.5	8508.9	64.3	75569.1
Draw down from excess crude/ppt account	0.0	0	72660.1	112907.7	0
Draw down from GMS proceeds	***	***	***	77958	0
Other funds	0.0	0	-11268.6	-39364.5	0

Source: Federal Ministry of Finance, Central Bank of Nigeria & Statistical Bulletin December 2007.

- i. Revised**
- ii. Provisional**
- iii. Consist of export and domestic oil revenue**
- iv. As consist in memorandum item**
- v. include education**

Surprisingly, a percentage change in oil export witnessed an increase in 1979 to 19 percent by 1980-1982. It subsequently fell to -12 percent and -13 percent and -20 percent in 1988, 696.15million barrel were exported. The percentage charge in export was -10 percent and -60 percent I 1977 and 1978 respectively. Furthermore, the percentage charge in exports of oil witnessed an increase in 1979 of 19 percent and but by 1980, 1981 and 1982 it has fallen to -12 percent.

At the first sight of oil glut in early 1980s to 1982, there was a sharp decline from 562.23 million to 267.20 million barrels in the late 1980s. This decline triggered a sharp change in the revenue from 23 percent to 15 percent for a period of two years.

The high dependence of the Nigerian economy on petroleum created some socio-political problems, which have lingered on since 1970s until date. The fortunes of the economy and the Nigerian people fluctuated with those of the oil sector, dictated by the world market for the commodity.

This Socioeconomic crisis led to strategic reforms which gave birth to the creation of various Petroleum Commissions such as Petroleum Trust Fund (PTF), which was abolished in 1994 by the late, Head of State, General, Sani Abacha's regime.

Petroleum Equalization Fund (PEF) in 1975 by a decree and amended by decree 32 of 1989 shouldered with the responsibility to equalize petroleum products through bridging across the country. However, the persistent drop in local production, further force the prices of oil to drop significantly than expected by development planners. President Shehu Shagari blamed the western oil consuming countries and the international Energy Agency (IEA) of manipulating their stock pile of oil in an attempt to force down the oil prices, but pledged his loyalty to the OPEC Countries which tried to maintain a \$34 barrel price in the face of the world oil glut. Nigeria Newsletter of April, 1981, pointed out that, “Nigeria problem of balance of payment was not only due to the slumming in the world oil market but also to a decline in the level of imports which had for many months been running far ahead of external earnings”, (Amu, 1980).

Consequently, at the presentation of 1981 Nigerian National Budget by President Shehu Shagari, he told the nation that Nigeria’s problems during the past years had been associated with the world oil glut and though it would not be allowed to continued; he said, it was therefore absolutely necessary to take an “Economic Austerity Measure” to provide a check in the upward trend in public expenditure. President Shagari’s advisers had reflected the situation of economic uncertainty facing Nigeria because of the glut in contradictory assertions in October 1981. In early 1982, it was unclear what percentage the federal authorities will retain. Political confusion and wrangles of the second civilian government made the situation more complicated and complex to the economic crisis been created by the effect of the oil

glut. This led the government to adopt many measures to curb public spending and reduce the outflow of foreign exchange. In a bid to rebuild the economy, the Shagari administration severed the rate of imported goods led by Shagari's Economic Adviser, Emmanuel Edozien, who told the United Kingdom's Financial Times that a number of policy measures were soon to be announced to ensure that the rate of imports was diminished.

After the oil boom, Nigeria was already facing one of its cyclical economic squeeze in which several categories of economic activities were faced with a temporary decline. There was a threat to both the oil and gas Industry and Agricultural sector in that situation. Not only were many industries damaged by smuggling of competitive goods, but many were deprived of government financial support. Agricultural production was delayed; it recorded only 3 percent in 1980 and 15 percent in Manufacturing. The declared economic measure (Austerity Measures) in the 1980's affected all areas of public spending. The state governments which depend largely on Federal Allocation to run their states fell into serious economic deprivation while the Federal pawed weighted its big stick on a ban on further recruitment, suspension of foreign travel, a ban on purchases of official vehicles and replacement of capital projects. Basic travel allowances were reduced with adult allowance from ~~₦~~10,000 to ~~₦~~8, 000 and that of companies on business trip from ~~₦~~6, 000 to ~~₦~~3, 000. Some held the view that most of the items in the austerity measures deserve to be continued in the nation's income.

Other commentators gave the government substantial credit for its economic policies; African Research Bulletin; (1982). But one striking point worth noting was the country's inflationary crises time, Nigeria's vigour and foreign policy stand, aid to African States and liberation Movements would be affected or if need be, reconsidered.. On several foreign policy issues, she must reconsider her position and strength before she acts. Nigeria policy formulation at home and abroad is bound to be in consonance with her economic strength.

Government, of which Nigeria is one, conducts foreign policies in pursuit of the pre-eminent long-range goals of economic well being. The situation of economic imbalance in which Nigeria finds herself because of the glut, will affect both her pursuit of economic well being and her foreign Policy in the present and future to come if the Obasanjo's economic reforms of (2005) were not strictly implemented, (Olorunfemi,1983).

4.9.1. Socio-Economic Benefits of Deregulation Policy in Nigeria.

Recall the series of socioeconomic crisis that usually herald pre-deregulated era with its adverse consequences on the economy as well as social hardship and discomfort imposed on Nigerians. Such as, irregular supply of Petroleum Products to retail outlets, hoarding, cross-border-smuggling, adulteration of products, unending long queues leading to the spring up of petroleum vendors across the length and breadth of the country. This situation became worsened in the late 1990's, characterized by low

performance of the domestic refineries which resulted in excessive dependence on importation of refined petroleum products. There was also limited in-flow of investment into the downstream petroleum sub sector due to low margin and poor pricing structure that could trigger or encourage investment. Hence, it becomes obvious that the sector is stagnated and minimal linkages to other sectors of the economy in terms of employment, revenue acquisition to the gross domestic product (GDP) collapse in national income empowerment (NIE) and direct confrontation with inflationary trend. It was at this instance, that it became imperative for President Olusegun Obasanjo's regime, at inception in 1999 to open up the downstream petroleum sub sector for more players in 2003.

The functionability of this policy (deregulation) has been able to establish parameters and codes of conduct for which all operators in the sector enjoys a level play ground as well as enforcement of sanctions on defaulters. From the historical analysis, scholars in the oil industries see deregulation of the oil and gas industry in Nigeria as a welcome development, even while that still maintained that crude oil business is strictly political, but oil is today by far the most important and widely used energy source in the global economy and it goes into everything from vehicle fuels to form fertilizers, manufacturing of plastics, drugs and paints. Its production and distribution pattern has a direct impact on all economic activities.

The socioeconomic of Nigeria's oil had historical economic value in import earnings that is, in 1971 a barrel of crude oil was sold for \$3 a barrel, \$12.42 in 1974 and \$37 in 1990, 1990, 200. Her receipt increased from \$845.5 million in December 1979 to

\$1,170.3 million a year later, with net foreign assets amounting to \$6,353.5 million by the end of May 1981 when oil production was 2.3 million barrels a day. This remarkable rise in the oil revenue enables the country to increase her annual budget from ₦ 104 million in 1961 to ₦14.7billion in 1980-81 with an estimated provision for the national development plan rising from ₦30 billion in 1975-85. Being that as it may, the rate of inflation, which average 18.5 percent in 1974-75, has today risen to 50 percent as a result of a fall in production due to multifarious reason such as spill over of the petrol-dollar into the economy at large, (PPPRA, 2004).

However, since the inception of deregulation partial achievement has been witnessed which changed the deteriorating situation of the downstream subsector to become more vibrant and sustainable. These changes have been gradual but very effective. Some of these achievements are in the area of products availability, modulation of price volatility (PSF), and massive investments in the sector through wealth creation, enhance government revenue, employment generation, entronement of competition and better service delivery.

The evolvement of deregulatory policy has provided great incentives for growth and expansion of banks and non-financial institutions through the deregulation of interest rate, hence created several pressure and high degree of competition in the bank sector. For example is the former CBN governor Soludo's "₦25 billion Naira Banks recapitalization in 2004.

The doctrine of deregulation stipulates that economic welfare will be improved by freeing all types of government control imposed on economic and business activities.

Specifically, it requires that the state dismantle existing regulatory structures in financial markets, traded goods market and in labour markets. The central benefits is that factors of production, goods and services will be optimally priced and allocated where prices are freely determined in a competitive environment; and further give rise to free price bargaining. Although, deregulation policy in Nigeria from the inception of independence in 1960 introduced import substitute strategy with a view to industrialise the Nigerian economy. The post Nigerian Civil War gave a new directive towards economy rehabilitation, reconciliation and reconstruction policy guidelines to the Federal Government.

While it is argued that deregulation parades positive impact, including profitability, capital market development, there also resides gray areas, most importantly that of price volatility of petroleum products. Table 9 and 10 above illustrates the of price increases of petroleum products and high interest rate forex in Nigeria from inception of the deregulation policy to date. The high price increases so far of 53 percent in June, 2003 preparatory to the introduction of deregulation in September of the same year should be acknowledged.

CHAPTER FIVE

ANALYSIS AND DISCUSSION OF DATA ON THE EFFECT OF DEREGULATION IN THE LAGOS STATE, NIGERIA

5.1. DATA ANALYSIS

Having sequentially analysed the policy of deregulation in the downstream subsector of the oil sector in Lagos State in the previous chapter, this chapter is limited to the concern with the presentation and analyses of the class responses of respondents in the raised questionnaire. However, the purpose for this analysis is to scientifically determine the validity of salient issues raised in the previous chapters regarding the theme of this research work.

Whereas Nine hundred (900) questionnaires were administered to all the twenty (20) Local Government Areas and thirty-seven (37) Local Development Area Councils, through organised sectors; PENGASSAN, NUPENG, Oil Companies and Civil Society of Lagos State. Eight hundred and fifty-seven questionnaires were duly completed and received on which we are basing our analysis on. Details of the distribution of questionnaires in the four sectors are contained in table 15.

Table11: Distribution of Questionnaires

S/NO	SAMPLE CASES	NUMBER OF RESPONDENTS	RETURNED QUESTIONNAIRES	QUESTIONNAIRES UNRETURNED
1	PENGASSAN	100	90	10
2	NUPENG	100	96	4
3	OIL COMPANIES	300	281	19
4	PUBLIC OPINIONS	400	390	10
TOTAL		900	857	43

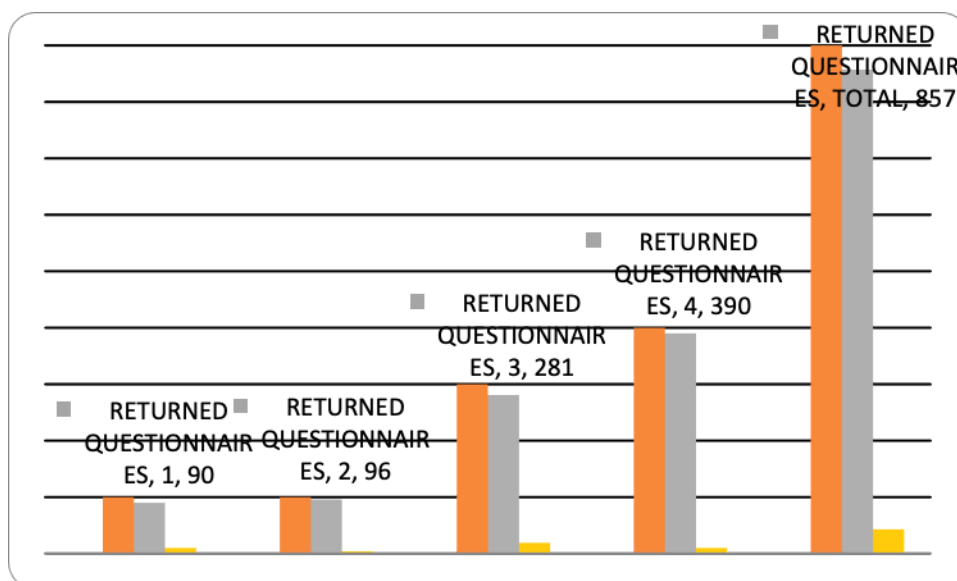
Source: Questionnaires distributed and returned, March, 2010.

The respondents to the questionnaires were also made up of various sectors as captured in figures 5.1.1. To 5.1.2 shown below.

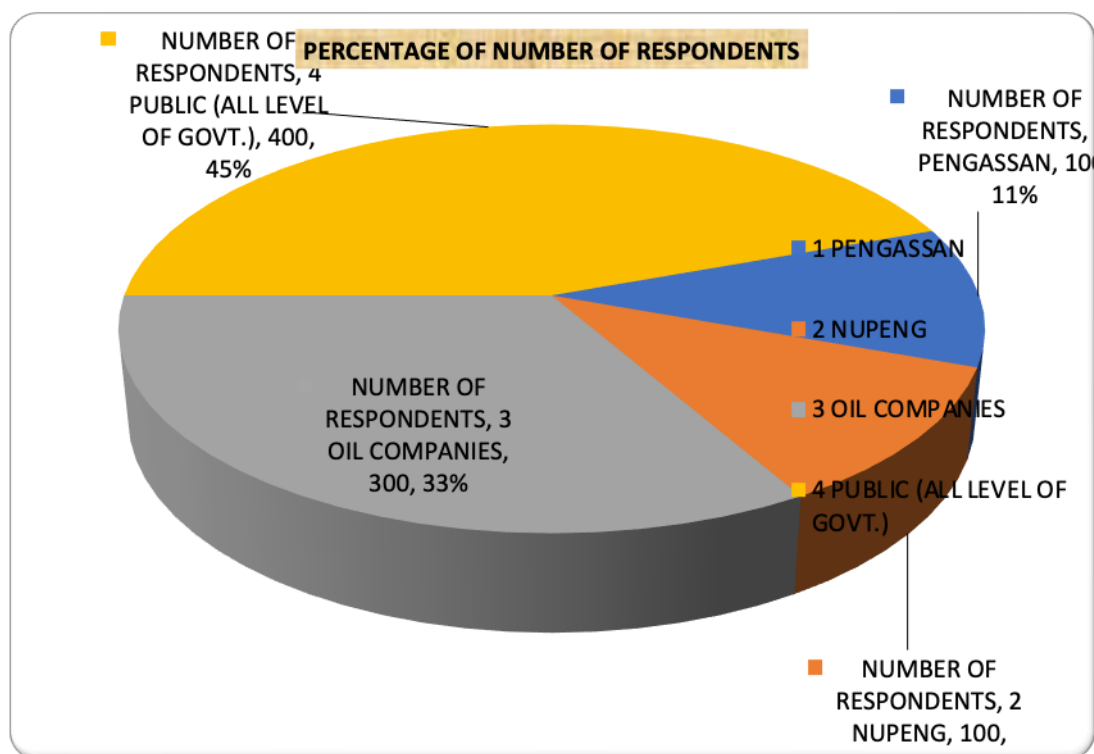
Figures 5.1.1 indicate contributions of respondents in Lagos, and figure 5.1.2 indicate percentage contributions apportioned to respondents in the State.

Figure 5.1.1.to 5.1.2. Distribution of Questionnaires to Respondents

- i. **PENGASSAN..... 90 (11%)**
- ii. **NUPENG96 (11%)**
- iii. **OIL COMPANIES281 (33%)**
- iv. **PUBLIC OPINIONS390 (45%)**



Source: Sample survey, March, 2010.



Source: Sample survey, March, 2010.

Figure 5.1.1. shows that those within 390 responded to the questionnaires the implication of this is that 390 respondents from the public (masses). Within Lagos State are more involved in the usage and business of the petroleum products, either as users or marketer/ users than those below 390. It goes a long way to lay claim to the authenticity and reliability of data collated from this sector of the economy. While those within 390, represented 45 percent. We are confident to say that the available data is authentic and from a reliable source.

5.2. Table 12: RESPONDENTS' PENGASSAN VIEW ON DEREGULATION POLICY:

Column1	Educational	Number of	Returned	Respondents in	Respondents passive
Age	Qualification	Qualification	Questionnaires	support to	to deregulation
22 years and	HND	HND 23			
above 100 %	BSc	BSc 67	90	87	3

Source: Sample survey, March, 2010.

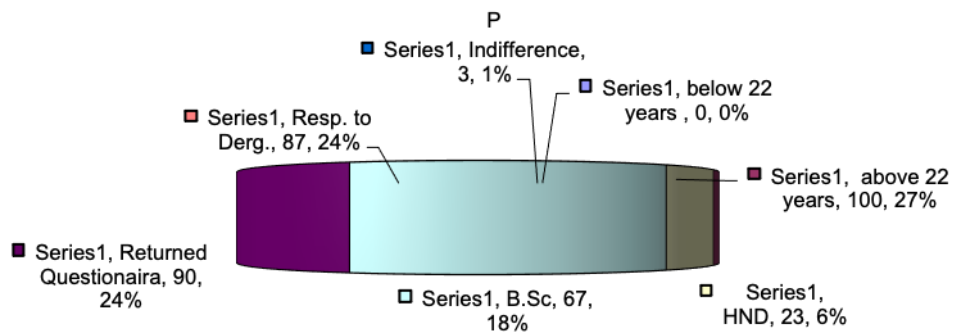
Fig. 5.2.1

Fig. 5.1.3: RESPONDENTS' PENGASSAN



Source: Sample survey, March, 2010.

RESPONDENTS' PENGASSAN PIE CHART IN PERCENTAGE (%)



Source: Sample survey, March, 2010.

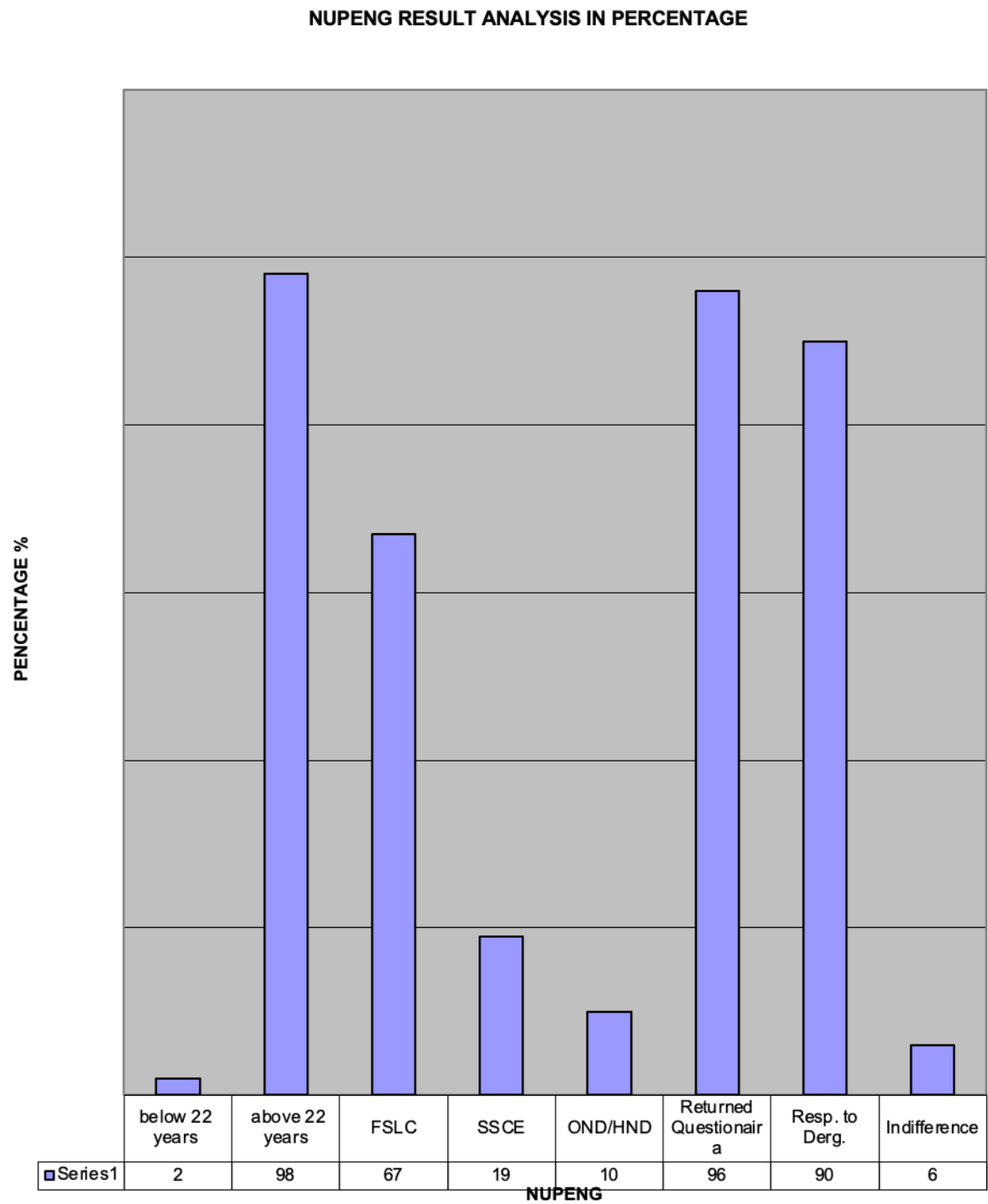
From the above figure 5.2.1, table 12, and the Pie Chart shows that majority of respondents were re holders of Higher National Diploma (HND) and Bachelor Degrees in various fields of endeavours. They play prominent role in the determination of policy initiation, and implementation in the oil and gas sector of the economy. Hence, their minority opinion is of great concern in the industry. 900 questionnaires were distributed, 90 respondents, 87 of 24 percent of respondents of PENGASSAN supported deregulation policy. Holders of Higher National Diploma (HND) Certificate are 23, representing 6 percent, followed by those with Bachelor of Science (BSc) 67, which constitute 18 percent of the total respondents of 900. Giving the involvement of these calibres of respondents in the oil and gas industry, their inputs would be valid and reliable since they have background knowledge of the theme of this research work, and as stakeholders who had been affected by the policy (deregulation of the downstream subsector of petroleum and gas industry), cut across the length and breadth of the Nigeria economy. These classes of respondents are well informed, mature in age, and are responsible. Whose opinion in this volatile sector can be trusted and relied upon

5.3. Table.13: RESPONDENTS' NUPENG VIEW ON DEREGULATION POLICY:

Column1	Educational	Number of	Returned	Respondents in	Respondents passive
Age	Qualification	Qualification	Questionnaires	support to deregulation	to deregulation
22 years and above	FSLC	67%			
	SSCE	19%			
	OND/NCE	10%	96	90	6

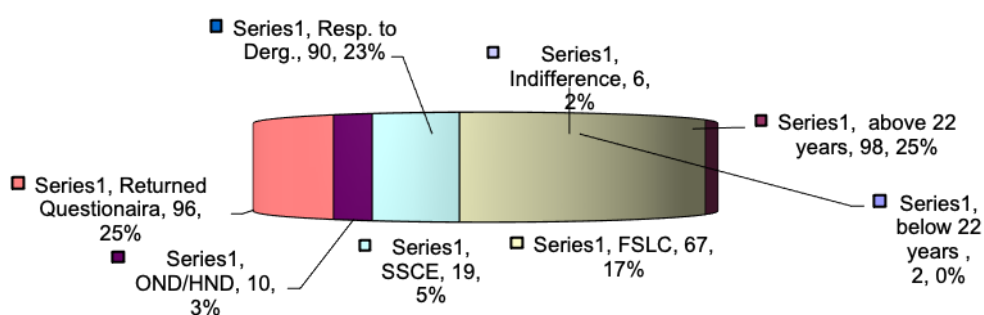
SOURCE: Sample Survey, March, 2010.

Fig. 5.3.1.



SOURCE: Sample Survey, March, 2010.

RESPONDENTS' NUPENG PIE CHART IN PERCENTAGE (%)



Source: Sample Survey, March, 2010.

Figure 5.3.1, table 13, and on the above pie chart, shows respondents educational qualifications, that the bulk of respondents, 67 representing 17percent holds First School Leaving Certificate (FSLC), 19 respondents, representing 5 percent holds

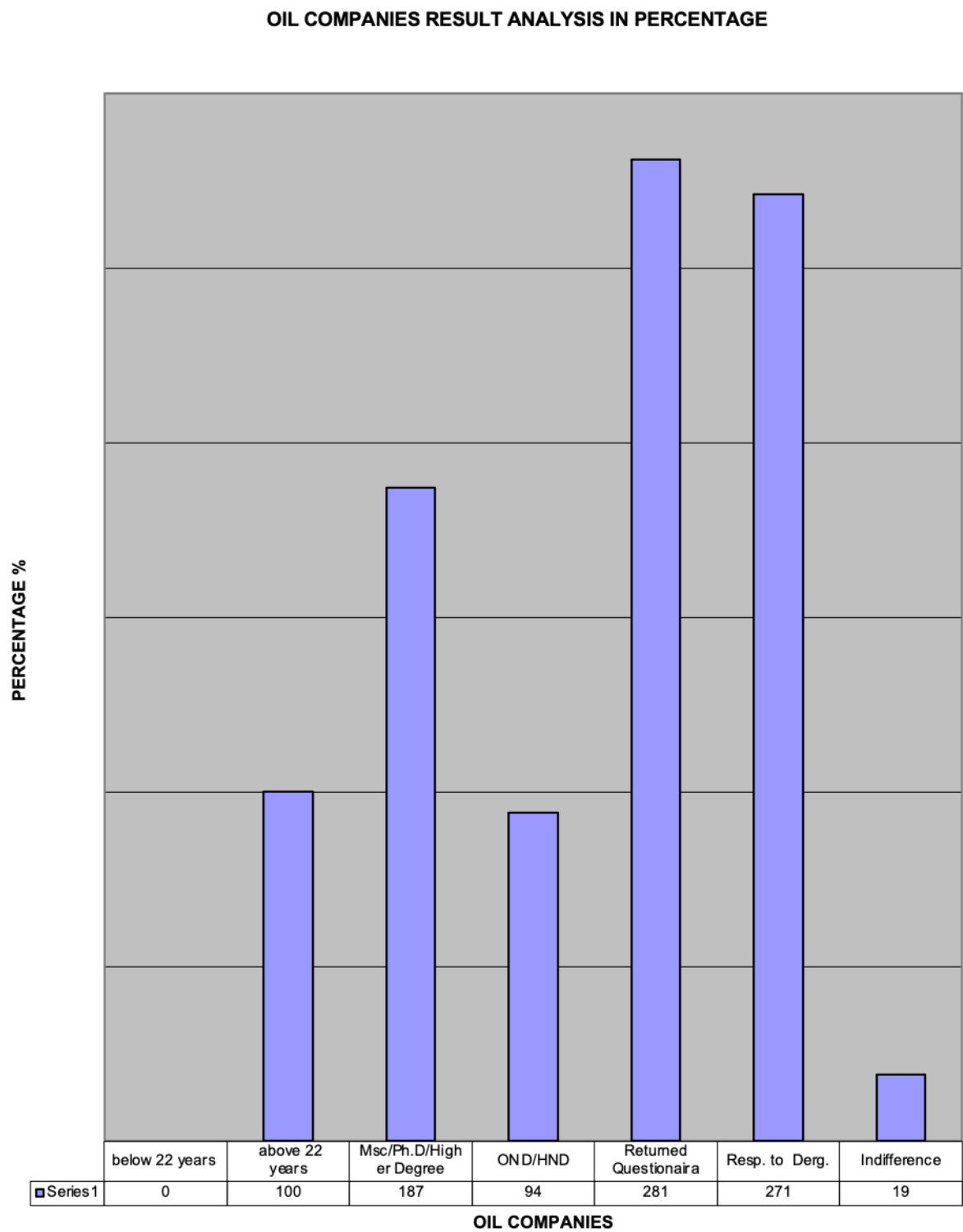
West Africa Examination School Certificate/Senior School Certificate Examination (WAESC/SSCE), while 10 respondents, representing 3 percent holds Ordinary National Diploma (OND) complements the nucleus of respondents. These are the large army of foot-soja, they constitute majority respondents in the oil and gas industry, 90 respondents, representing 23percent of the entire respondents. Respondents whose age is above 22 years are 98 respondents representing 25 percent. Below 22 years, 2 respondents, representing 0 percent respectively. Most astonishing is that, 90 respondents, representing 23 percent advocated for the deregulation of the downstream subsector of the oil and gas industry, while 6 respondents, representing 2 percent were indifferent to the policy. Acknowledging the impact of the policy on the work force of the sector, when fully implemented, the information they provided would be valid and reliable.

5.4. Table14: RESPONDENTS' OIL COMPANIES OPINION ON DEREGULATION POLICY:

Column1	Educational	Number of	Returned	Respondents in	Respondents passive
Age	Qualification	Qualification	Questionnaires	support to deregulation	to deregulation
Below 22 years = 0% and	MSc/PhD/Higher	187	281	271	19
Above 22 year= 100 %					

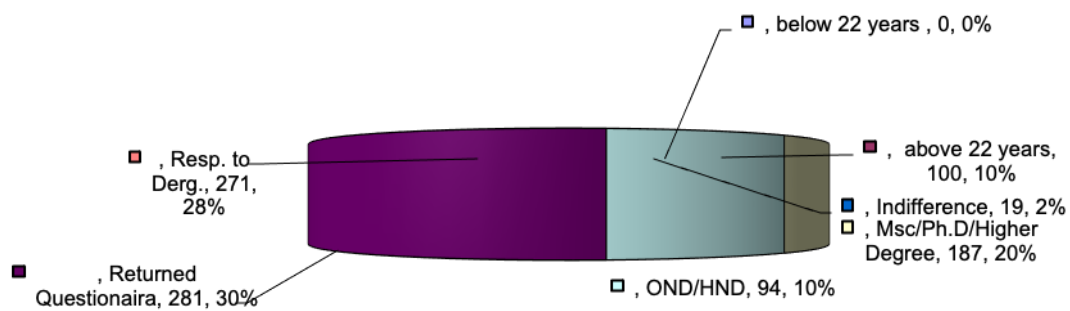
Source: Sample Survey, March, 2010.

Figure 5.4.1.



Source: Sample Survey, March, 2010.

RESPONDENTS' OIL COMPANIES PIE CHART IN PERCENTAGE (%)



Source: Sample Survey, March, 2010.

Figure 5.4.1, table 14 and on the above pie chart, runs the analysis of Oil Companies comprises major and independent marketer. Major marketers are multinational oil corporations who engage in the refining, exploration, exploitation and marketing of petroleum products, they are; Total oil plc, Texaco, Oando Petroleum, Conoil, AP Petroleum just to mentioned but a few.

Their huge capital base enables them to diversify their business network, or monopolises the marketer. The independent Marketers are indigenous operators in the retail outlets of the oil and gas industry. From the above table, figure 6.3.1 and chart shows that out of the returned questionnaires of 281, 271 respondents positively responded to deregulation policy, 19 respondents remained indifferent or passive to the policy. Respondents from the oil companies have a very sound educational qualification, 187 respondents have BSc, MSc and PhD degrees, 94 respondents possess OND/HND certificates, while the ages of these respondents are 22 years and above.

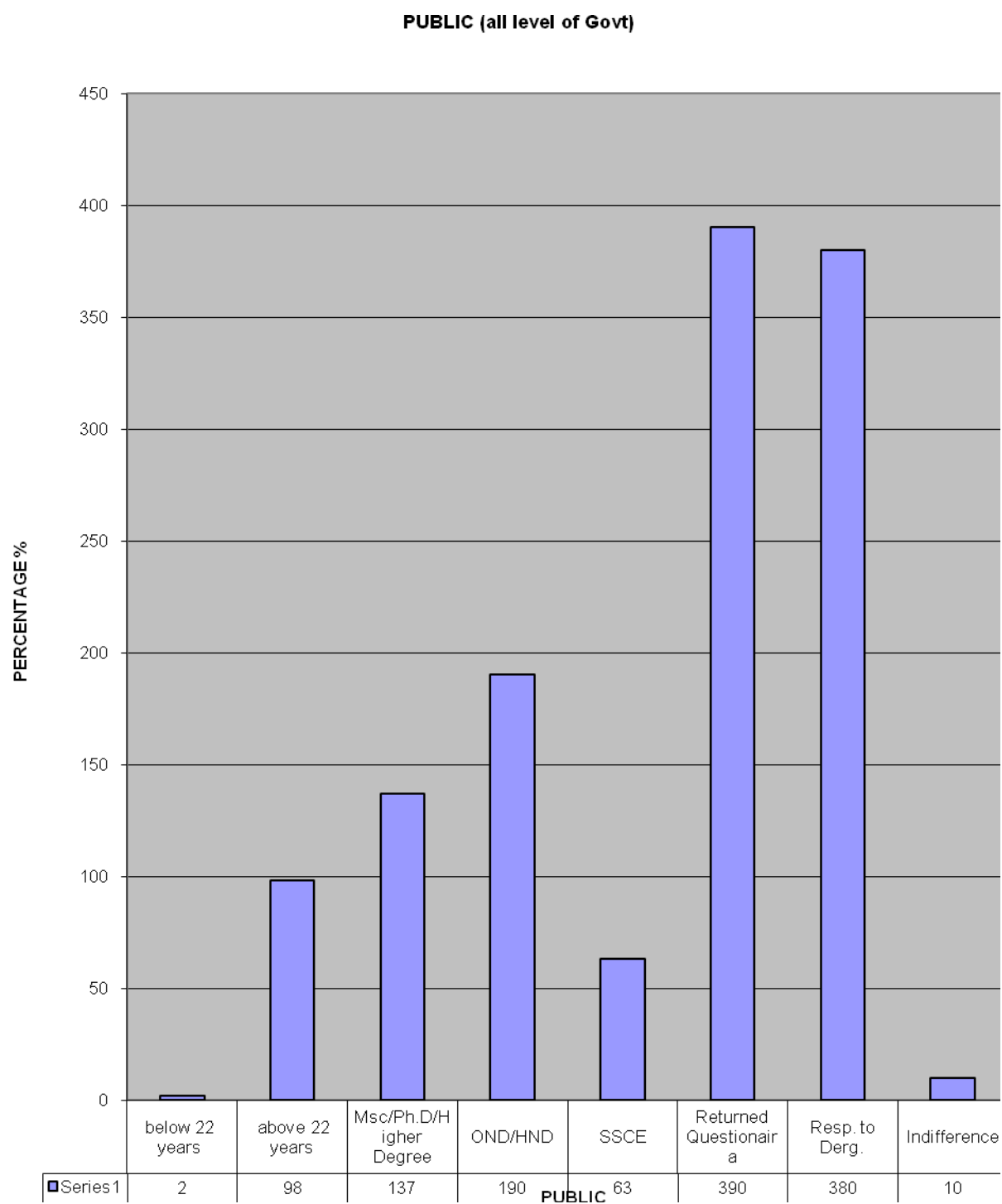
To further lay claim on the reliability of our information, figure 5.1.5 and the chart, shows that those involved with marketing of the petroleum products who would also be users were 281 respondents, being 19%. As a matter of fact, the marketers are also users, in other words, all the 281 respondents are users and stakeholders in the oil and gas industry, the involvement of respondents with the sector, either as marketers/users or users only, their perception of the policy as well as assessment of its implementation.

5.5. Table 15: RESPONDENTS' PUBLIC OPINION ON DEREGULATION POLICY:

Column1	Educational	Number of	Returned	Respondents in	Respondents passive
Age	Qualification	Qualification	Questionnaires	support to deregulation	to deregulation
Below 22 years = 2% and	MSc/PhD/Higher Degree	137			
Above 22 year= 98 %					
	OND/HND	190			
	SSCE	63	390	380	10

SOURCE: Sample Survey, March, 2010.

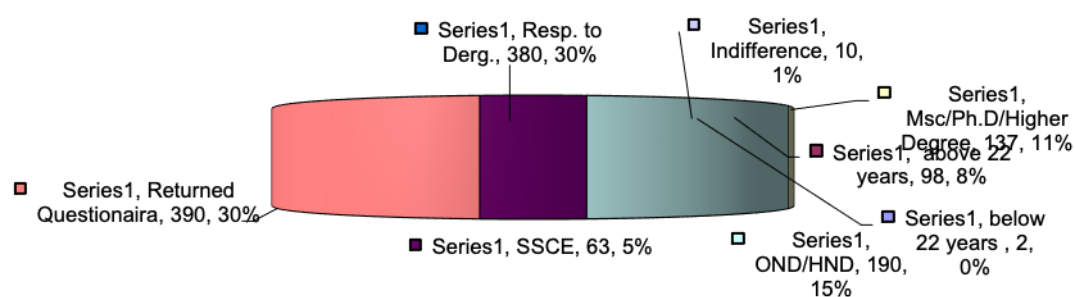
Fig. 5.5.1.



Source: Sample Survey, March, 2010.

RESPONDENTS' PUBLIC OPINION PIE CHART IN PERCENTAGE (%)

PIE CHART OF PUBLIC (all level of Govt)



Source: Sample Survey, March, 2010.

Figure 5.5.1, table 15, and the above chart, the research sought to find out if actually, the entire civil society agreed that the objective of deregulation of the downstream subsector of the oil and gas industry, which is meant to include the private sector in

order to enhance efficiency in the supply and distribution of petroleum products to the final consumers is attained in the prevailing scenario. Thus, we could observed from the above pie chart explicitly made it obvious that the majority of the total number of respondents being 390, representing 30 percent, 380 respondents, being 30 percent appreciated the policy but posited that the economy is yet to evolve its appreciable benefits to the society. While 10 respondents, representing 1 percent were undecided. The finding was that, the objective of the involvement of the private sector is to bridge the gap in the short-fall in the products availability to the final consumers is yet to be fully achieved in the prevailing circumstance, hence, there is room for improvement of the implementation process in order to attain the desired objective.

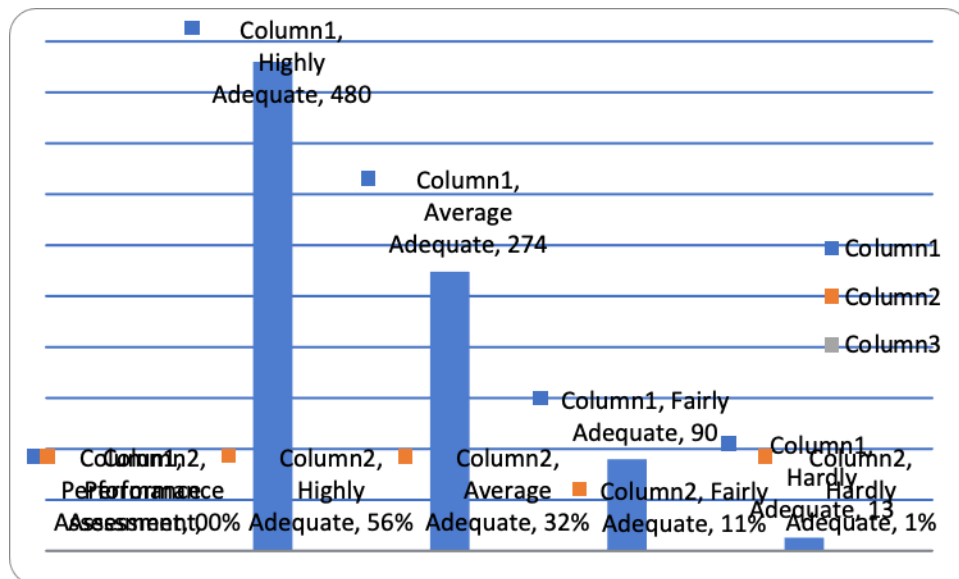
5.6. RESPONDENTS INVOLVEMENT AND ASSESSMENT OF DEREGULATION POLICY:

Table 16: Respondent Assessment of the level of Products Availability

RESPONDENTS' ASSESSMENT OF THE LEVEL OF PRODUCTS AVAILABILITY	Column1	Column2	
Performance Assessment	Respondents	Percentage	%
• Highly Adequate	480	56%	
• Average Adequate	274	32%	
• Fairly Adequate	90	11%	
• Hardly Adequate	13	1%	

Source: Sample Survey, March, 2010.

Fig. 5.6.1: Respondents' Assessment of the level of Products Availability



Source: Sample Survey, March, 2010.

Here, the researcher sought to find out from respondents the level of supply and distribution of petroleum products in the prevailing scenario, 274 respondents, representing 32 percent submitted that, the availability of products was Averagely Adequate, whilst 480 respondents representing 56 percent accepted it was Highly Adequate. The balance 90 respondents, representing 11 percent opined that the supply of petroleum products is Fairly Adequate while 13 respondents (1%) said it was Hardly Adequate. The outcome is therefore noted that the majority agrees that whether there was appreciable improvement in the participation of private investor in the sector or not, the salient point is that there was an improvement in petroleum products availability. This implies that deregulation of the downstream subsector has indeed increased the level of products supply to end users. Hence, we could categorically say, that deregulation has impacted positively as regards to availability

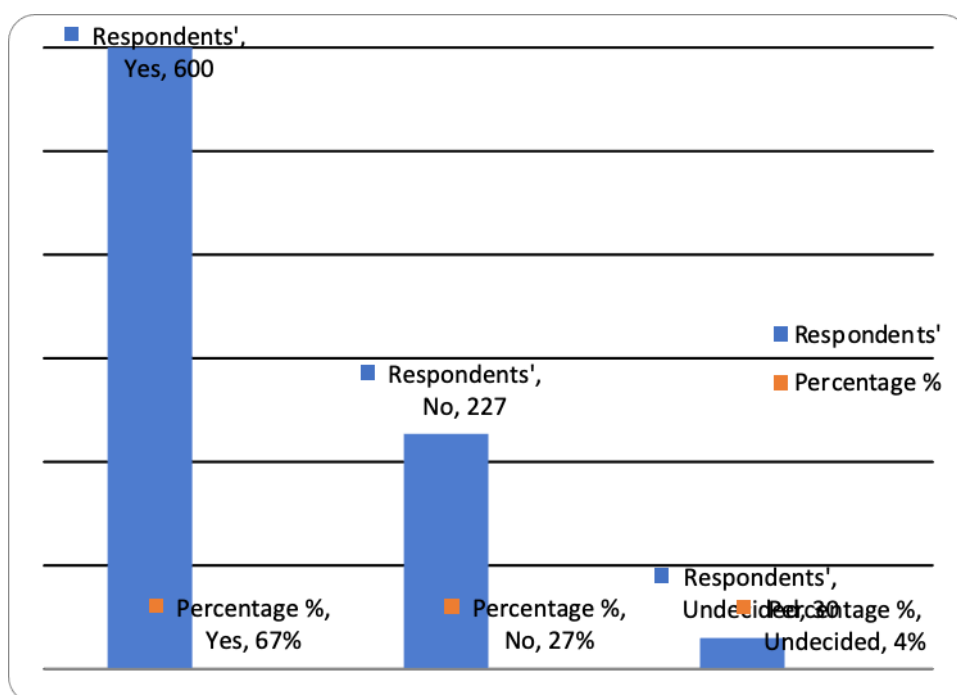
of petroleum products across the country as against the norm in some part of the Northern and Eastern States of Nigeria.

Table:17. Respondents' Assessment of price increase vis-a-vis queues at petrol stations as a result of the Removal of Government Subsidy

Column 1	Column2	Column3
Removal of Govt Subsidy	Respondent	Percentage %
• Yes	600	67%
• No	227	27%
Undecided	30	4%

Source: Sample survey, March, 2010.

Fig. 5.6.2. Respondents' Assessment of price increase/queues at petrol stations as a result of the Removal of Government Subsidy



Source: Sample Survey, March, 2010.

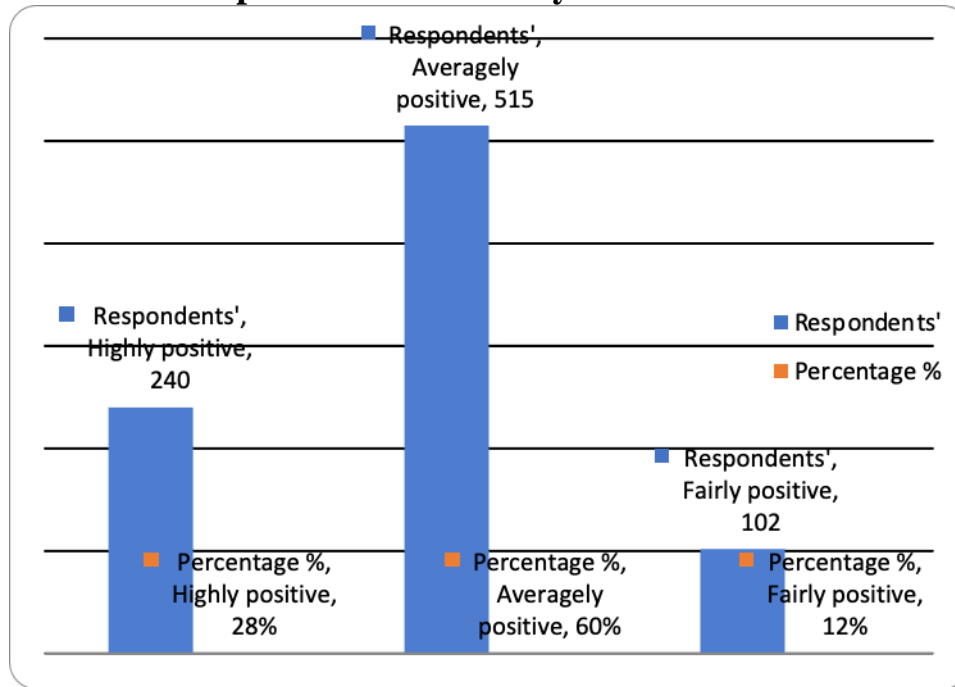
In figure 5.6.2, the researcher sought to find out what the response of the general populace was, on the assertion that, although the elimination of government subsidy has resulted in the increase of petroleum products pricing, which subsequently eliminated queues at retail outlets thus impacting positively on the economy. From the above graph, therefore, we could posit that majority of the total number of respondents being 600, representing 67 percent agreed with the assertion, 227 respondents, representing 27 percent argued against, while the remaining 30 respondents, representing 4 percent were undecided or indifferent. This implies that government revenue had been to adequately meet overhead cost of production, while the excesses or wind-fall could be redeploy towards the development of social amenities thereby grossly reducing the undue hardship of its citizenry as a result of persistent queues at filling stations across the country.

Table 18: Respondents' Assessment on the Removal of Government Subsidy, its Positive Impact on the Economy

Column3	Column1	Column2
Positive Impact on Removal of Govt Subsidy on the economy	Respondent	Percentage %
• Highly positive	240	28%
• Averagely positive	515	60%
• Fairly positive	102	12%

Source: Sample survey, March, 2010.

Fig. 5.6.3. Respondents' Assessment on the Removal of Government Subsidy, its Positive Impact on the Economy



Source: Sample Survey, March, 2010.

According to those from the other side of the divide, although the removal of government subsidy from petroleum products has resulted to an upward movement of prices of the products, subsequently eliminated queues at gas stations thus impacting positively at the nation's economy. From the above graphical representation, 515 respondents, representing 60 percent were Averagely Positive about the removal of subsidy, whereas 240 respondents, being 28 percent agreed that it was Highly Positive. The remaining 102 respondents, representing 12 percent were Fairly Positive about the removal subsidy by government from petroleum products. The implication of this information is that, windfall realised from the sale of crude and removal of subsidy will meet the cost of product and the excess will be implored

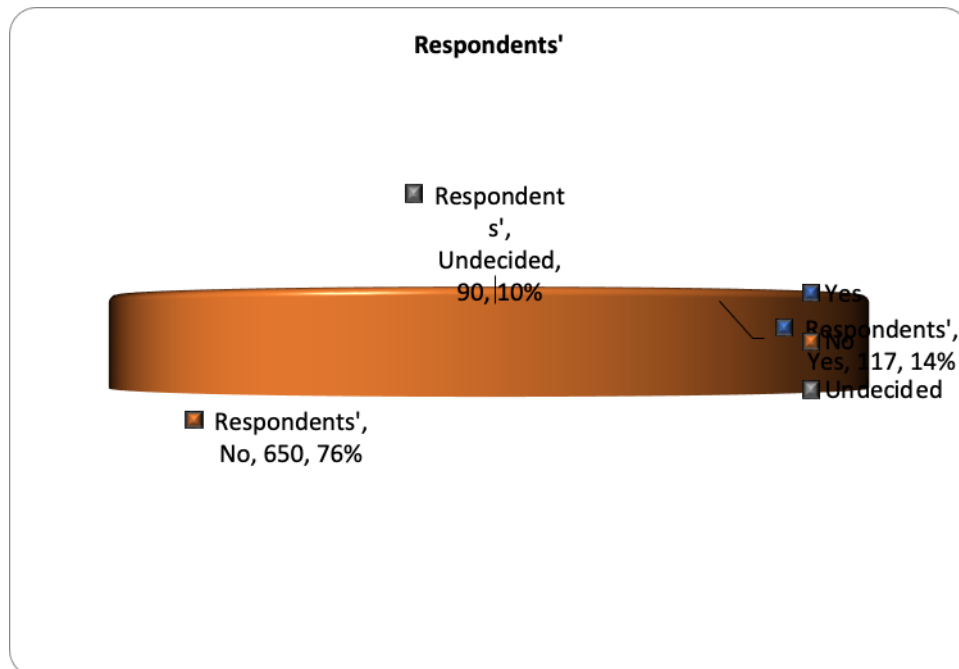
towards other socio-economic development with the availability of products, the man hour wastage on queues at filling stations can be properly redirected gainful use.

Table : Respondents' Assessment of Deregulation and its effect on price volatility of Petroleum Products

Column 1	Column2	Column3
Assessment of Deregulation its effect on Price volatility	Respondent	Percentage %
• Yes	117	13%
• No	650	75%
• Undecided	90	10%

Source: Sample Survey, March, 2010.

Fig. 5.6.4: Respondents' Assessment of Deregulation and its effect on price volatility of Petroleum Products



Source: Sample Survey, March, 2010.

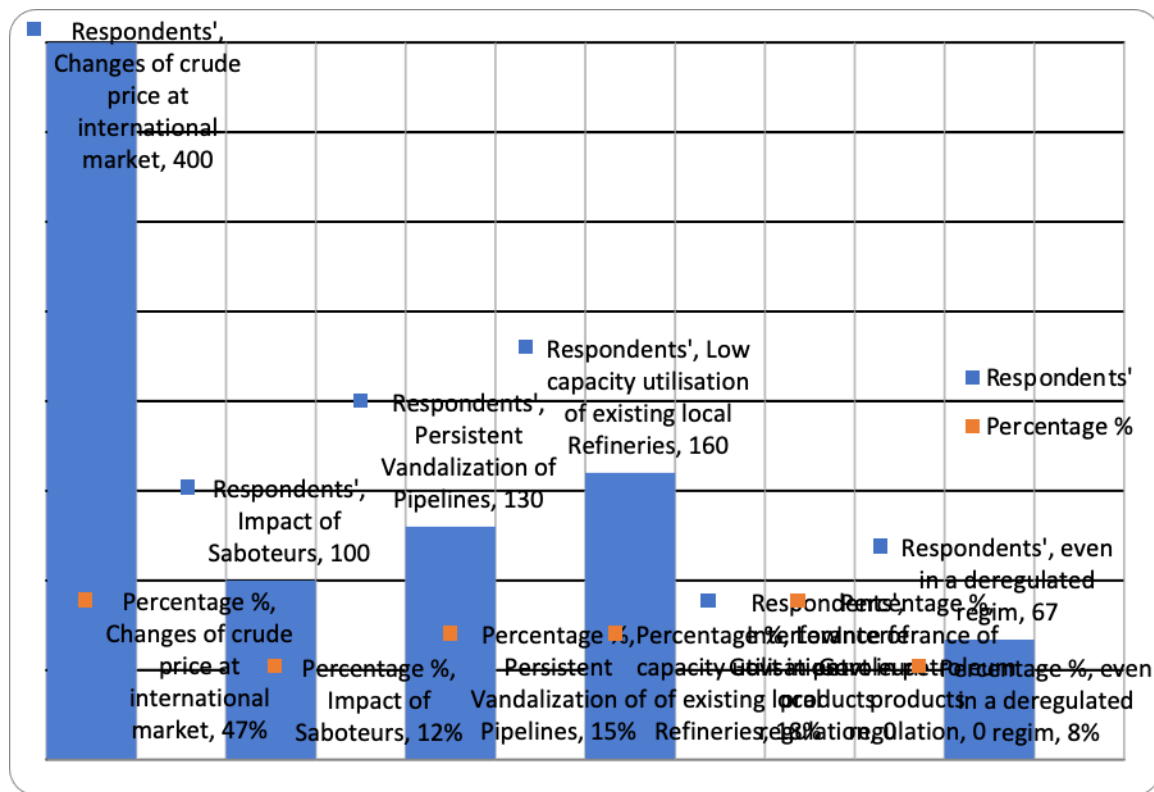
At this junction, we sought understand what the response of the populace is, how deregulation policy has led to price stability of petroleum products. Suffice to note, 650 respondents being 76 percent disagreed that deregulation policy has enable price stability of products. 117 respondents, representing 14 percent agreed that deregulation will control price volatility in the long-run while 90 respondents being 10 percent were onlookers or undecided. We might wish to take a look at Table 8, Pages 188-193, we observed that, before and in the era of deregulation in the petroleum downstream subsector from Committee stage in 2000 to an introductory stage in 2003 and subsequently it partial take-off stage in 2004 to 2009 (giving its about Six years of its implementation). Nigeria has witnessed seven (7) major adjustments in petroleum products pricing, witnessed by eleven (11) Heads of States in Nigeria from 1966 to 2007 (being 41 years). In these various dispensations, about twenty-five (25) price adjustments were made. This implies that prices of petroleum have been relatively stable during deregulation than pre-deregulation era, which is against the spirit of deregulation.

Table 20: Respondents' Opinion on various attributes to Petroleum Products Price Volatility

Column1	Column2	Column3
Causes of Petroleum Products Price Volatility	Respondent	Percentage %
• Changes of crude price at international market	400	47%
• Impact of Saboteurs	100	12%
• Persistent Vandalization of Pipelines	130	15%
• Low capacity utilisation of existing local Refineries	160	18%
• Interference of Govt in petroleum products regulation even in a deregulated regime	67	8%

Source: Sample Survey, March, 2010.

Fig. 5.6.5. Respondents' Opinion on various attributes to Petroleum Products Price Volatility



Source: Sample Survey, March, 2010.

This work attempts to find remote causes associated with petroleum products price volatility. The above fig. 5.6.5 shows that majority of the respondents, 400 being 47 percent posited that the changes that occurred at the International market contribute largely to petroleum products price volatility in the country. Their argument was factored on the premise of International Price Parity (IPP) since the local consumption petroleum products are largely based on importation, due to low capacity utilisation of local refineries, which 160 respondents, being 18 percent as there is high level of consumption without its equilibrium supply. While 130 respondents, representing 15 percent pointed to vandalization of petroleum products

pipelines as a negative impact and 100 respondents, being 12 percent attributed reasons to saboteurs. The remaining 67 respondents representing 8 percent pointed to numerous causes but mostly to that of government continued interference in the sector, through regulation policy amidst the ongoing implementation of deregulation policy. As illustrated in the aforementioned, these are the salient causes, when addressed will forestall sanity in the industry and subsequently transform the economy.

5.7. IMPLEMENTATION OF DEREGULATION POLICY IN LAGOS STATE.

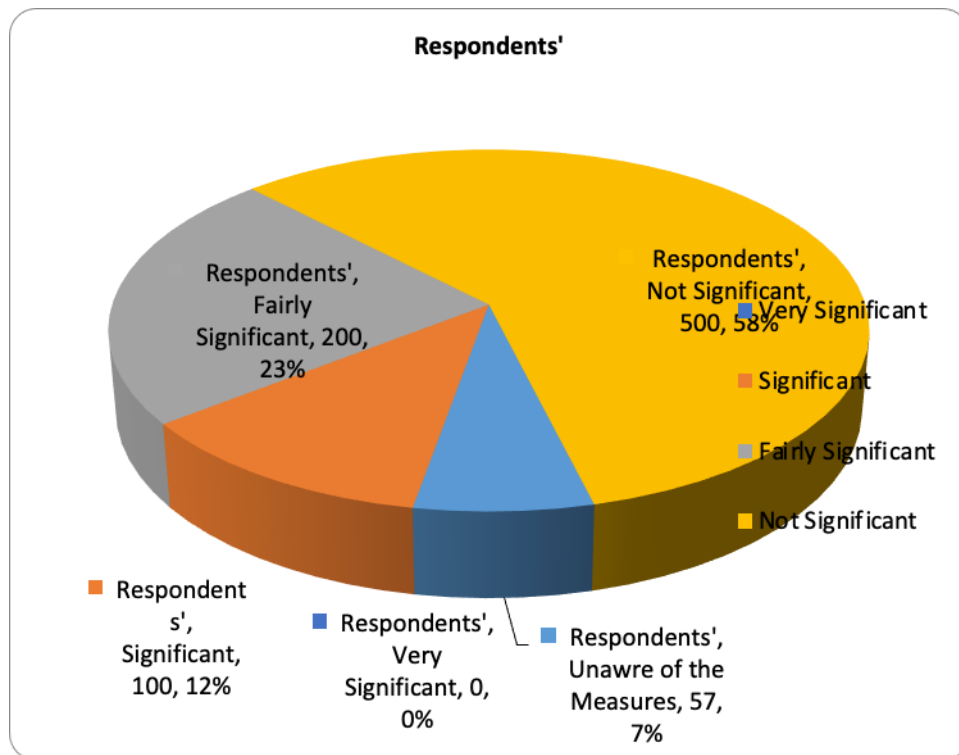
Over time what government says and what she does has never been the same hence, in this context, figure 5.3.1 to 5.3.2 data on the effect of government's modulation (cushion) measures, implementation of deregulation policy, and the likely internal/external constraints against the effectiveness of the policy, just to mention but a few.

Table 21: Respondents' Assessment of the impact of Government cushions measures resulting from price increase.

Column 1	Column2	Column3
Government Cushion Measures for Price Volatility.	Respondent	Percentage %
• Very Significant	Nil	0%
• Significant	100	12%
• Fairly Significant	200	23%
• Not Significant	500	58%
• Unaware of the Measures	57	7%

Source: Sample Survey, March, 2010.

Fig. 5.7.1. Respondents' Assessment of the impact of Government cushions measures resulting from price increase.



Source: Sample Survey, March, 2010.

From the above figure 5.7.1, we sought to find out how significant the cushion measures taken by government to ameliorate the negative impact of persistent price volatility of petroleum products on the citizenry. More of the respondents being 500 representing 58 percent said there was no meaningful significant whatsoever. While 200 respondent being 23 percent posited that it was fairly significant.

Respondents unanimously agreed that, the recommended measures by the Senator Ibrahim Mantu's led Independent Consolidation Committee on Cushion Measures (ICCCM) facilitated by the Petroleum Products Pricing Regulatory Agency (PPPRA)

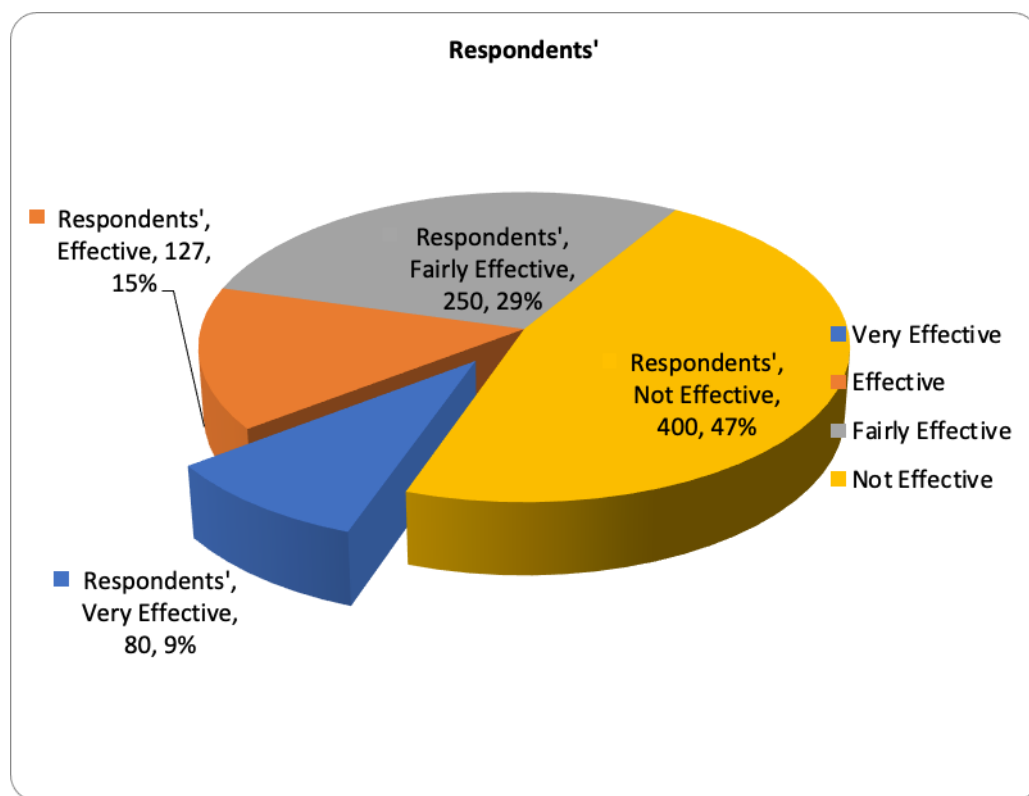
in 2005 by the Obasanjo government was not made public, it was implemented as the Petroleum Support Fund (PSF) which marketers who engage in importation refined petroleum products are benefiting till date, but due to non accessibility to information on how PSF is administered, it's therefore difficult to probe further on the issue. While 100 respondents being 12 percent claimed it was significant, the other 57 respondents (7%) said they were unaware of such measures. The result therefore interpret that there is no significant impact because the Mantu's Committee recommendations was not made public, thus, it would be almost uncertain to assume otherwise, not knowing whether the cushion policy was implemented. Sequel to the foregoing, all respondents unanimously appreciated the gesture of the Mantu's Committee, however, wish the Committee would have recommended no further price hike of petroleum products. As subsequent increases had attracted various organised labour and civil strikes.

Table 22: Respondents' Assessment of the effect of implementation of Deregulation Policy in Nigeria

Column 1	Column2	Column3
Implementation of Deregulation Policy in Nigeria.	Respondents'	Percentage %
• Very Effective	80	9%
• Effective	127	15%
• Fairly Effective	250	29%
• Not Effective	400	47%

Source: Sample Survey, March, 2010.

Fig. 5.7.2. Respondents' Assessment of the effect of implementation of Deregulation Policy in Nigeria



Source: Sample survey, March, 2010.

From the above figure 5.7.2, the research sought to find out how effective has the implementation of the deregulation of the downstream subsector been in Nigeria. Majority of the respondents being 400 being 47 percent posited that the implementation of deregulation of the petroleum downstream subsector is of no effect in Nigeria, in the same vein 250 respondents representing 29 percent viewed the implementation of the deregulation policy as fairly effective, the remaining 127 respondents being 15 percent argued that the policy was effective. The output result implies that, the implementation of deregulation of the downstream subsector has not being effective, rather it has demonstrated appreciable impact on the Nigeria

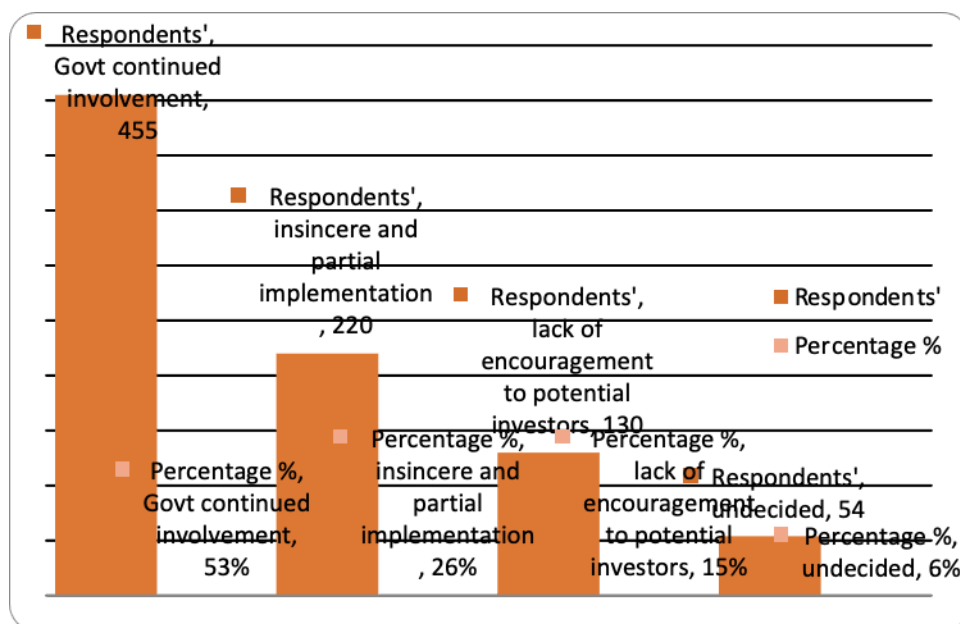
economy through wealth creation and job opportunity. The policy also triggered the current OIL and GAS (OGIC) reform initiative and the PETROLEUM INDUSTRY BILL (PIB) which has gone through public hearing in 2009, awaiting passage into law. Furthermore, this situation suggest that, if the policy is well implemented, thus effective, its impact will energised micro and macro economy of Nigeria in the long run.

Table 23: Respondents opinion on possible internal constraints against effectiveness of the policy

Column 1	Column2	Column3
Possible Internal Constraints Against Deregulation Policy in Nigeria.	Respondents'	Percentage %
• Govt continued involvement	453	53%
• insincere and partial implementation	220	26%
• lack of encouragement to potential investors	130	15%
• undecided	54	6%

Source: Sample Survey, March, 2010.

Fig. 5.7.3. Respondent's opinion on possible internal constraints against the deregulation policy



Source: Sample Survey, March, 2010.

Sequel to the above, we sought to find out the likely internal constraints against the effectiveness of deregulatory policy of the downstream petroleum subsector. From the above table and figure 5.7.3, the results are as follows, 453 respondents (53 percent) argued for government continued interference through price regulation amidst deregulation regime. In like manner were 220 respondents being 26 percent opined that, insincerity and lack of commitment to policy implementation government has acted as a stumbling block to the full realisation of the policy's objective. While 130 respondents being 15 percent argued that the lack of level playing ground for competitors who are potential investors in the sector has caused serious setback to the policy as monopoly wax stronger, and the deliberate refusal of government to grant and guarantee capital base incentives such as; loan required to execute capita based projects, guarantee adequate supply of feedstock, the absence of

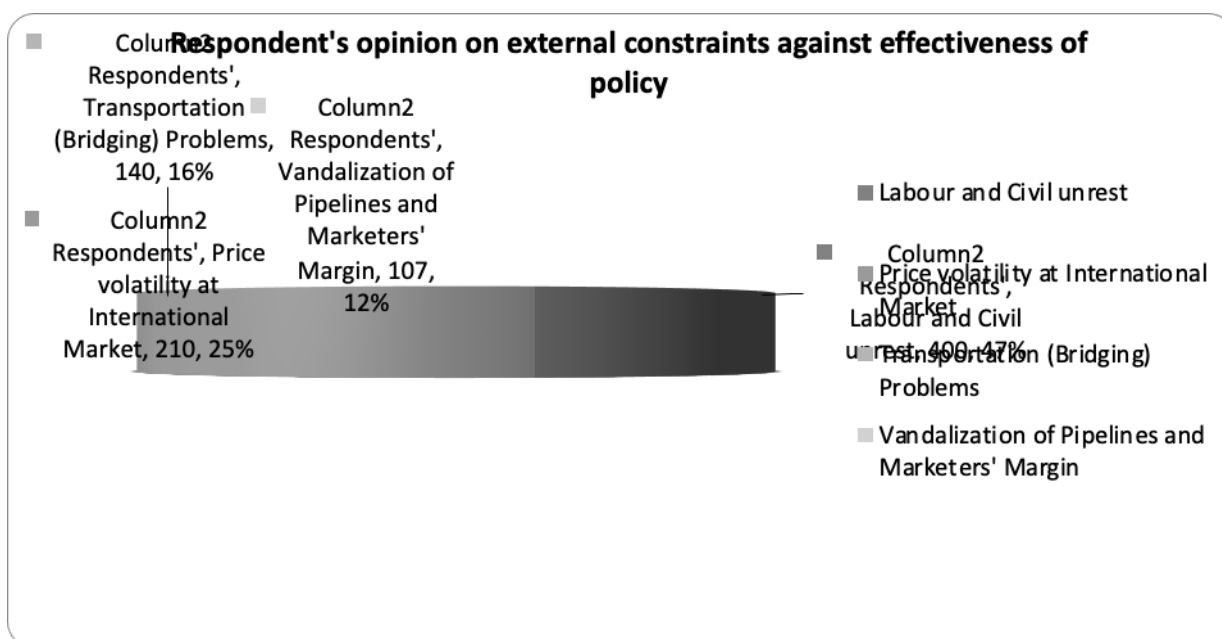
tax holiday for investors, inconsistency in government policy and double standard in Joint Venture Agreement (JVA) between government and prospective investor, lack of basic social amenities such as power supply, water and good road network. The aforementioned are few of these internal constraints that act as an obstacles to the realisation of the deregulation policy of the downstream petroleum subsector. In a bid to holistically capture the opinion of the onlookers, 54 respondents being 6 percent were undecided or indifferent. These attest to the obvious that, government should muscle her political will and stick to the rules of engagement so as to make a head way in achieving efficiency in the policy implementation.

Table 24: Respondents' opinion on possible external constraints against effectiveness of the policy

Column 1	Column2	Column3
Likely External Constraints Militating Against the Effectiveness of Deregulation Policy in Nigeria.	Respondents'	Percentage %
• Labour and Civil unrest	400	48%
• Price volatility at International Market	210	25%
• Transportation (Bridging) Problems	140	15%
• Vandalization of Pipelines and Marketers' Margin	107	12%

Source: Sample Survey, March, 2010.

Fig. 5.7.4. Respondents' opinion on possible external constraints against effectiveness of deregulation policy



Source: Sample Survey, March, 2010.

In the continuation to this research work, we found out that there exist external factors militating against the effective and efficient implementation of deregulation policy of the downstream subsector of the oil and gas industry, which were identified as follows: 400 respondents representing 47 percent argued for Organised Labour Union (NLC) Unrest and Militancy from the different parts of country, most prevailing is that of the Niger Delta as one of the most predominant external factor militating against deregulation policy; 210 respondents representing 25 percent argued for price volatility at the International Market that is, inconsistency in prices of crude and cost of refining products since there is high demand of products locally. 140 respondent representing 15 percent adduce these smiley problems to poor and

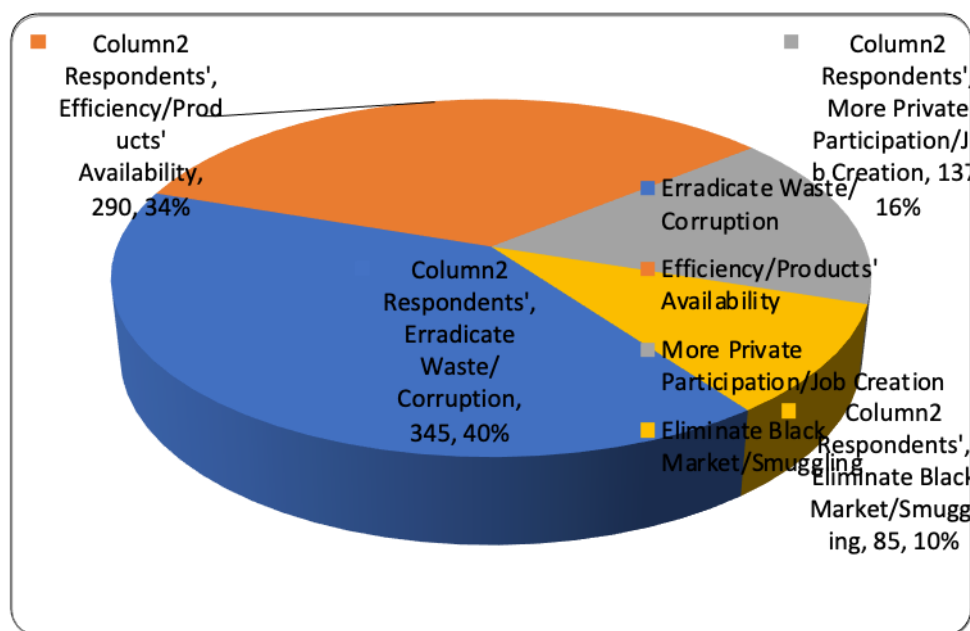
inefficient mode of transportation net work in Nigeria leading to time wastage, financial loses and death on our high ways of poor roads' maintenance culture. While 107 respondents representing 12 percent streamline their argument to inherent culture of vandalism of pipeline met to transport crude petroleum products to refineries and Marketers' quest for higher margin/return on investment, resulting to artificial hoarding and smuggling of products to neighbouring countries for higher stake while the domestic supply becomes erratic leading to scarcity of products (high demand against few supply).the implication of the aforementioned is that, there is the urgent need by all stakeholders to put machinery in place to address the abnormally, possibly get the local refineries to be working to compliment the imported refined products, and government should be proactive in encourage investors to build new refineries.

Table 25: Respondents Opinion on Possible Benefits from Deregulation of the Petroleum Downstream Subsector.

Column 1	Column2	Column3
Possible Benefits of Deregulation.	Respondents'	Percentage %
• Eradicate Waste/ Corruption	345	40%
• Efficiency/Products' Availability	290	34%
• More Private Participation/Job Creation	137	16%
• Eliminate Black Market/Smuggling	85	10%

Source: Sample Survey, March, 2010.

Fig. 5.7.5. Respondents Opinion on Possible Benefits of Deregulation of the Petroleum Downstream Subsector.



Source: Sample Survey, March, 2010.

To every socio-economic policy there is expected benefits, hence, the researcher sought to establish the fact if there is any associated socio-economic benefits to deregulation policy in the oil and gas sector, which ought to motivate respondents' support for it. Although government's attempt was to liberalise the entire oil and gas sector, but investor had their game plan to hijack the exercise with a view to maximise profit at all cost whereby bring untold hardship on the final consumer, hence, they are indifferent towards the realisation of the objective of the policy. Contrary to this view, 345 respondents representing 40 percent of the sample population are strongly of the opinion that deregulation of the petroleum downstream subsector will if not completely eliminate waste and corruption, which are the trickle effect of belt-tightly regulated economy. 290 respondents being 34 percent belief that

deregulation policy when properly implemented will energised the micro and macroeconomic activities, that will bring about enhancement of social values, resulting to petroleum products availability and possible elimination of price volatility in the system. In another vein, 137 respondents representing 16 percent of the entire sample population argued that deregulation will attract strong private participation in the oil and gas industry giving the enabling environment of operation thereby creating job opportunity and the emergence of Small and Medium Enterprises, while 85 respondents representing 10 percent lend their opinion that deregulation will eliminate smuggling, hoarding and artificial scarcity of petroleum products. They went further to buttresses their position that on investor goes into business with the intention not to recoup his investment, hence, he will put structure in place to protect his investment and also maximises profit. While doing so, the economy naturally will evolve itself into development.

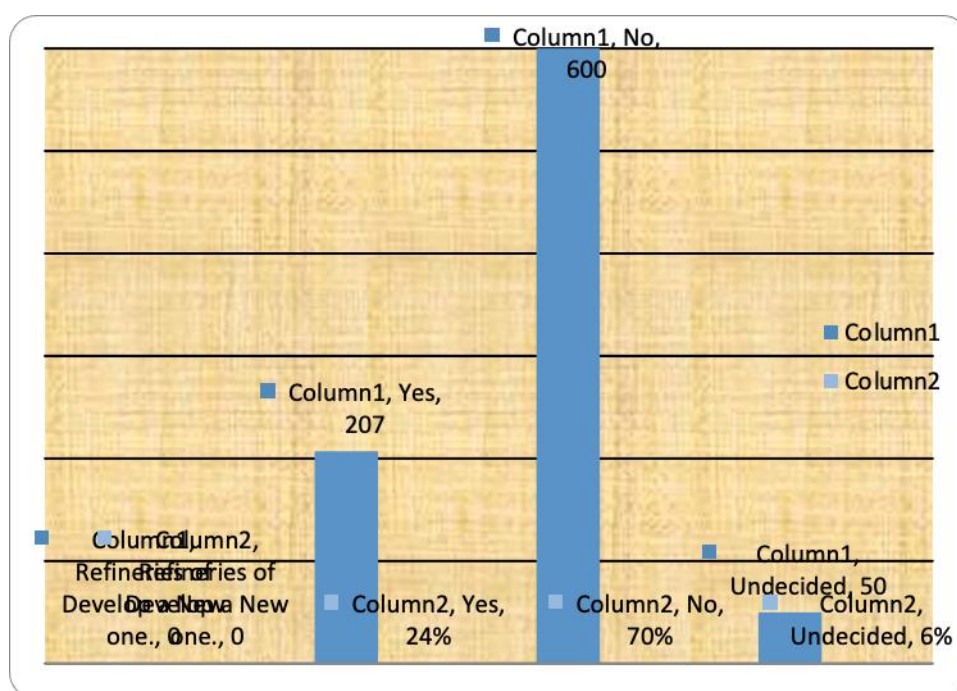
The lesson to be leant is that government should engage on periodic public enlightenment campaign, informing, and education its citizenry on the benefits of the deregulation policy while improving on strategies and processes that will engender the implementation of the policy.

Table 26: Views on Improvement on the Existing Local Refineries Capacity Utilisation or Encourage the Establishment of New Refineries,

Improvement in Capacity Utilisation of Local	Column1	Column2
Refineries of Develop a New one.	Respondents	percentage %
• Yes	207	24%
• No	600	70%
• Undecided	50	6%

Source: Sample Survey, March, 2010.

Fig. 5.7.6. Views on Improvement on the Existing Local Refineries Capacity Utilisation or Encourage the Establishment of New Refineries,



Source: Sample Survey, March, 2010.

Unarguably, the intention of government on deregulation of the petroleum downstream subsector was to complement the capacity utilisation of the local refineries, to improve and to equilibriumlised the supply of domestic demands with a

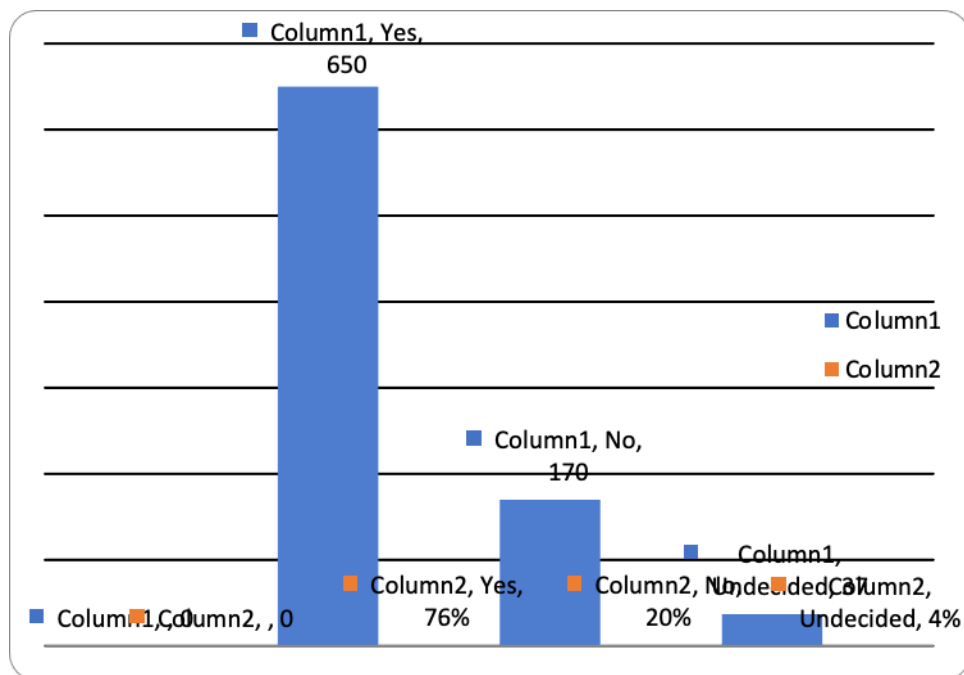
view to eliminate scarcity, and stabilise the price of petroleum products to the end users, while encouraging the establishment of modern refineries. However, from the graph, the reverse is the case, as 600 respondents representing 70 percent of the total respondents disagreed (said No), that the policy has not met its set objectives. Their reason was not unconnected to various periodic Turn around Maintenance (TAM) with huge maintenance cost to improve their capacity utilisation, all to no avail, thereby unable to achieve their full capacity utilisation. They went further to argue that, although government over time gave licences to intended investors to establish refineries, Nigerians are yet to see tangible take-off structures on sight, their reason is government is not living up to expectation of her bargain and insecurity (militancy) in various part of the country. While 207 respondents being 24 percent argued in favour, with 50 respondents representing 6% were onlookers (undecided or indifferent).

Table 27: Respondents' Views on the Impact of Capacity Utilisation of Local Refineries and the need to establish New Ones for Products Availability and Price Stability.

Opinion on the impact of Improved in Capacity Utilisation, the establishment a one and price stability.	Column1	Column2
	Respondents	percentage %
• Yes	650	76%
• No	170	20%
• Undecided	37	4%

Source: Sample Survey, March, 2010.

Fig. 5.7.7. Respondents' Views on the Impact of Capacity Utilisation of Local Refineries and the need to establish New Ones for Products Availability and Price Stability.



Source: Sample Survey, March, 2010.

The research deemed it necessary to find out in figure 5.6.7 if improved capacity utilisation of existing refineries as well as the establishment of new ones would impact positively on products availability prices stability, the greater majority of the respondents, 650 in number, being 67 percent of the total Population Sample said yes. This category of respondents argued that such a situation would ensure increase domestic petroleum products supply and distribution, thereby eliminate or reduce import parity, thus impacting positively on products availability and stabilise price. While 170 being 20 percent argued against the process, an insignificant 32 respondents representing 4 percent were docile on the issue. The integrity of this observation is that government should overhaul or outright sale of the all existing

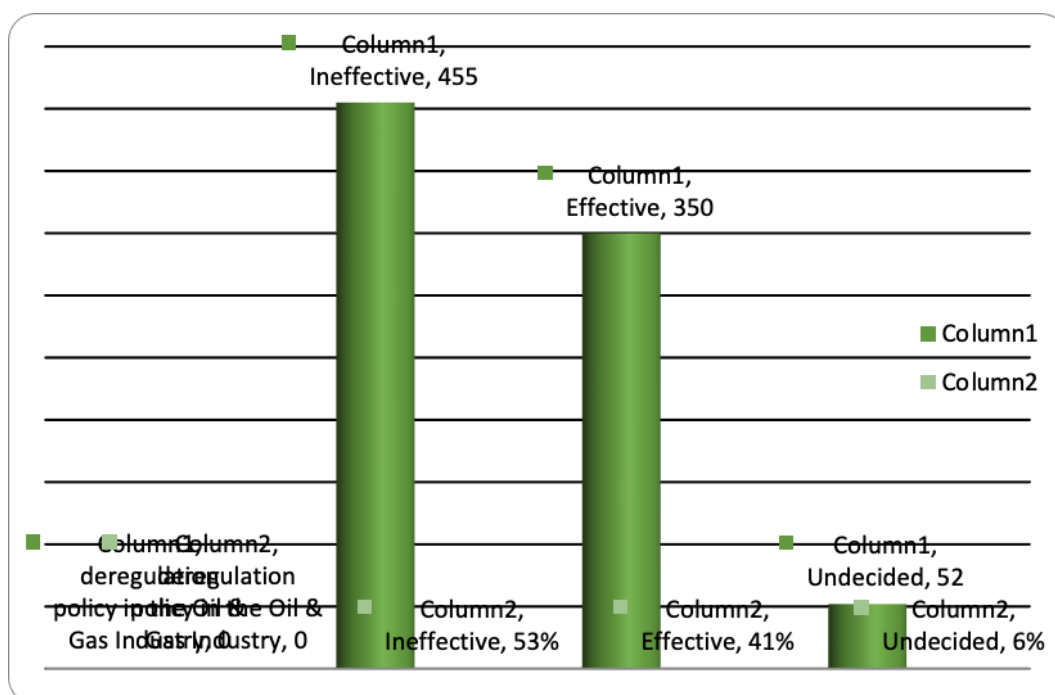
refineries to investors who can resuscitate these refineries to full capacity utilisation while setting up of new ones be in top gear so as to win the confidence of the populace towards the realisation of the desirable objectives of deregulation of the petroleum downstream subsector.

Table 28: Respondents View on the Effectiveness/Implementation of Deregulation Policy in the Oil and Gas Industry.

Views on the effectiveness /implementation	Column1	Column2
deregulation policy in the Oil & Gas Industry	Respondents	Percentage (%)
• Ineffective	455	53%
• Effective	350	41%
• Undecided	52	6%

Source: Sample survey, March, 2010.

Fig. 5.7.8. Respondents View on the Effectiveness/Implementation of Deregulation Policy in the Oil and Gas Industry.



Source: Sample Survey, March, 2010.

The above graph is to appraise the overall effectiveness of the deregulation policy implementation in the realisation in its re-determined statutory objectives. Of the total Sample Population of 857 respondents, 350 respondents representing 41 percent respectively argued in a very strong term. That, from experience, the implementation of deregulation policy has been forthcoming, but not without multifarious obstacles, and constraints as it is not uncommon with policy of such nature in a developing economy. While on the contrary, appreciably 455 respondents representing 53 percent argued that its implementation had been ineffective due to high cost of refining petroleum products, smuggling and hoarding of products, scarcity and hand heartedness of marketers drive for higher margin as against policy objectives. These and many more reasons that have deterred the efficient and effectiveness of the implementation of the policy thereby doing more harm and further impoverish the standard of living of people than ever before. Hence, it was observed that the policy since its inception in 2002 till today has not fared well as against the original objective that necessitated its introduction in the first instance, except the incessant spiralling review of petroleum products pricing template, which has been abused number of occasions. 52 respondents being 6 percent were undecided in this regard.

5.8. EFFECT OF DEREGULATION ON LAGOS STATE ECONOMY

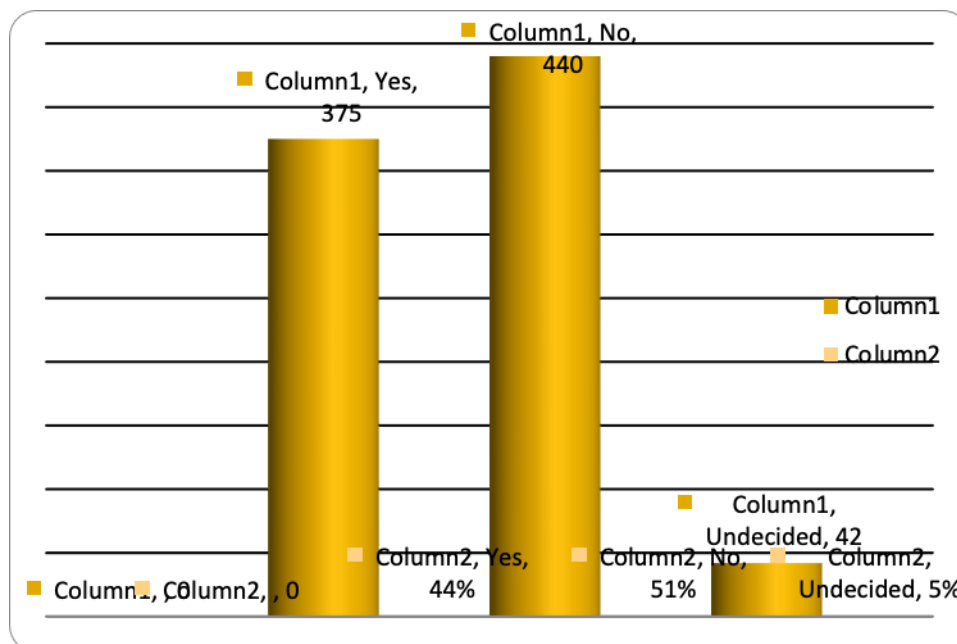
Table 28 and figure 5.6.6 to 5.6.1 will deal on the impact of deregulation on the Nigerian economy/Lagos State in perspective.

Table 29: Views on the effect of deregulation on Lagos/Nigeria economy

View as to the Impact of Deregulation policy on Nigerian/Lagos State Economy	Column1	Column2
	Respondents	Percentage (%)
• Yes	375	44%
• No	440	51%
• Undecided	42	5%

Source: Sample Survey, March, 2010.

Fig. 5.8.1. Views on the effect of deregulation on Lagos/Nigeria economy



Source: Sample Survey, March, 2010.

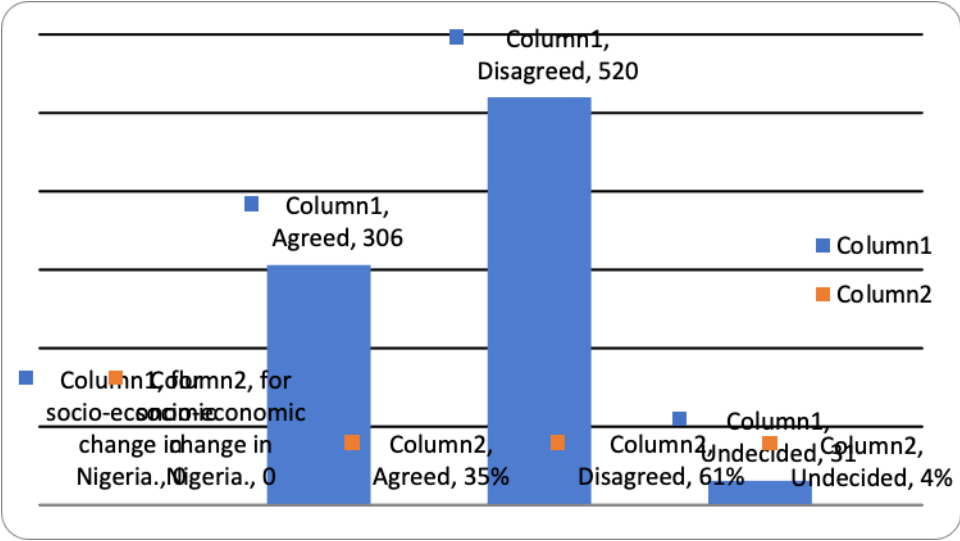
From all standard, it has been accepted by minority of the total respondents, 375 being 44 percent, that the policy since inception in 2002 has one way or the other achieved the objectives of been an instrument for socio-economic change, not only in the area of revenue generation to government, but a catalyst for real economic growth. However, the opinion of majority of total respondents, 440 representing 51 percent disassociated themselves from the view stands of the minority respondents, for what they attributed to endemic avalanche of power politics, mismanagement, lukewarmness, and corruption by elite class in the implementation to really attain policy objectives. The other 41 respondents representing 5 percent were undecided. This connote that, it takes more commitment to execute policy than initiating. It is not uncommon that no matter how laudable and promising a policy might seem in Nigeria, it has become part of our structural system that that policy will not be implemented without some obstacles or set-backs. Having streamlined these obstacles all that is needful is for government to nip these obstacles on the board and muscle political will to forge ahead.

Table 30: Respondents' View on the achievement of Deregulation Policy as facilitator of the sector for socio-economic change in Nigeria.

Deregulation as facilitator of the sector	Column1	Column2
For socio-economic change in Nigeria.	Respondents	Percentage (%)
• Agreed	306	35%
• Disagreed	520	61%
• Undecided	31	4%

Source: Sample Survey, March, 2010.

Fig.5.8.2 Respondents' View on the achievement of Deregulation Policy as facilitator of the sector socio-economic change in Nigeria.



Source: Sample Survey, March, 2010.

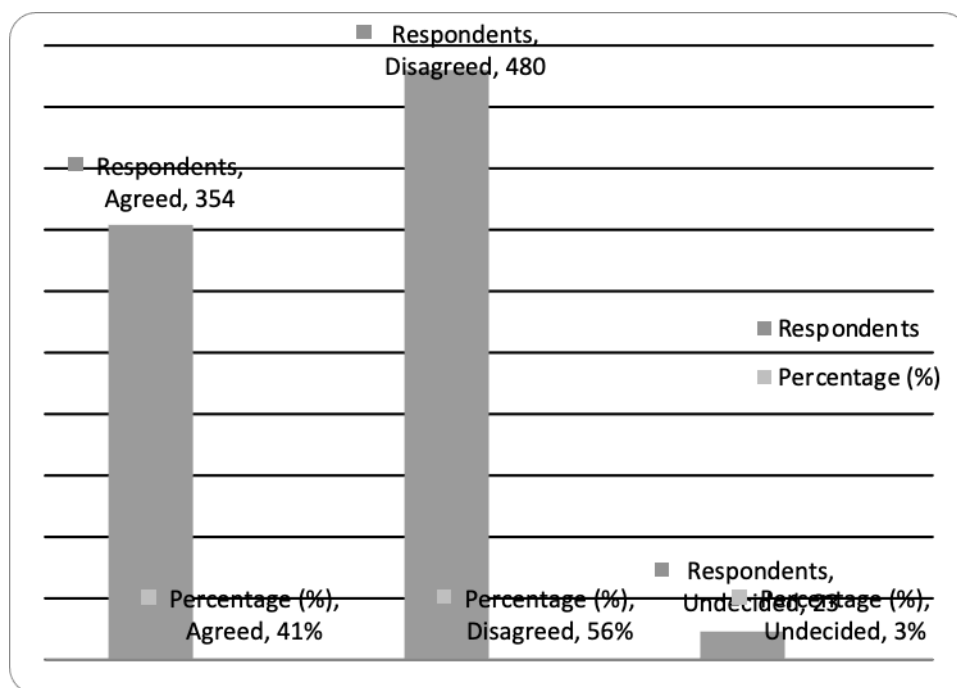
The minority of the total respondents, 306 representing 35 percent agreed that the deregulation policy since inception, has attained its set objectives as a facilitator of socio-economic change and deregulation remains a catalyst for real economic growth. Notwithstanding, majority of the respondents, 520 respondents, representing 61 percent disassociated themselves from the view held by the minority groups (306 respondents). Their reasons for such stand was attributed to prevalent madness of power politics among political elite class, misappropriation of crude oil windfall, and corruption by policy implementers to attain its set goals. This implies that the policy itself is a global phenomenon, but the implementation of the policy so far has not been very commendable to achieving the set objectives and benefits from its dividends.

Table 31: Respondents' View on Policy Giving Equal Level Playing Ground to Stakeholders in the Oil & Gas Sector

Deregulation Giving Equal Level Play Ground to Stakeholders in the Sector.	Column1	Column2
	Respondents	Percentage (%)
• Agreed	354	41%
• Disagreed	480	56%
• Undecided	23	3%

Source: Sample Survey, March, 2010.

Fig. 5.8.3. Respondents' View on Policy Given Equal Level Playing Ground to Stakeholders in the Oil & Gas Sector



Source: Sample Survey, March, 2010.

The researcher tends to ascertain from respondents to what extent has deregulation policy given equal level playing ground to Stakeholders in the downstream subsector

of the oil and gas industry. Hence, the above figure 5.8.3, respondents establishes their

various opinions in this regard; that the policy has not given equal level playing ground to investors mostly Nigerians contrary to the expected objectives of the policy. Following our oral interview with some of the respondents, it was obvious that since the inception of the policy in 2002, there has not been entry of new participants, thus, providing little or no access to state of the art technique in the oil and gas business deals, management, technical know-how and modernisation as depicted in the petroleum downstream subsector of the oil and gas industry. Its data was decided up on by a large population sample under study, which is 480 respondents being 56 percent. At this instance, it should be realised that the policy is to showcase the relevance of deregulation in bringing lasting solutions to the current crises (scarcity, hoarding, smuggling, price volatility, products round-tripping etc) experienced in the commercial arm of the oil and gas sector, with the sole aim to opening up the downstream subsector, creating enabling environment that enhance return on investment to investor, and creating level playing ground for competitors that will eliminate monopoly class structure, which on the long run will grossly improve the supply and distribution of petroleum products. However, the opposite seems to be what consumers are getting in all these years that the policy has been practised. Suffice to note herewith, that private investor at the UP STREAM (Refinery Operators) seems to be exercising fear and worries about their investment since the advent of deregulation policy due to absence of free level playing ground in the industry, particularly where refining business slated for privatisation, are still

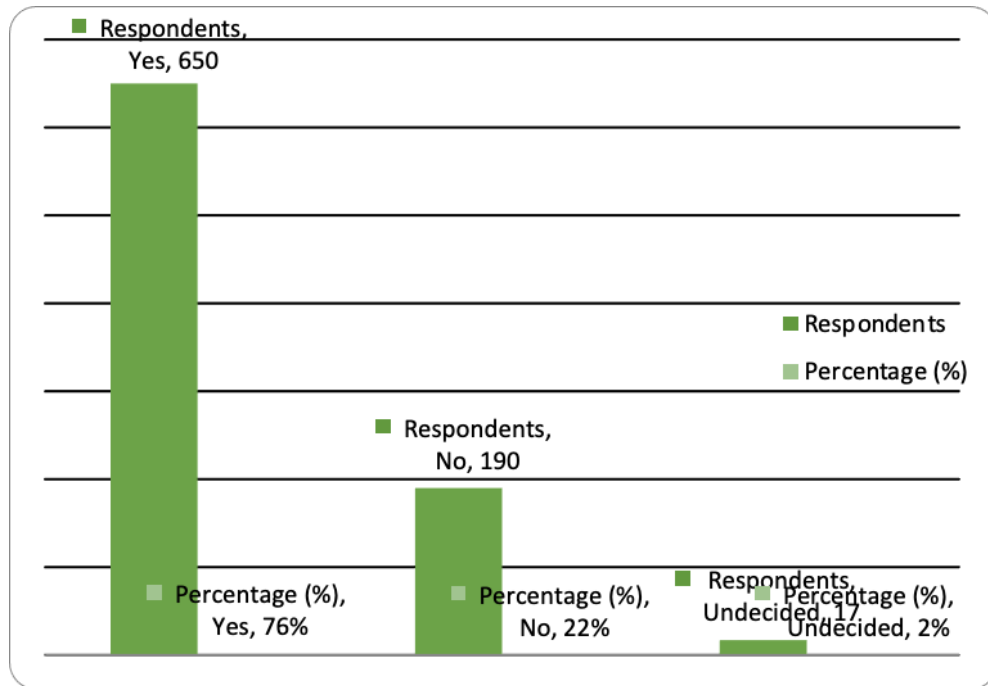
resided in the hands of government. While 354 respondents representing 41 percent completely disassociated themselves from the above claim and posited that the policy has been fair to all stakeholders within the sector, as 23 respondents being 3 percent were in different. This implies that, deregulation policy ought to induce fair margin or returns on investment for investors as a platform for the on-going investments initiatives, operation to International Health, Safety and Environment standards.

Table 32: Respondents' View on Deregulation Policy as a Motivating Factor to increase Economic Activities in Nigeria.

Deregulation Policy as a Motivating Factor to increase Economic Activities in Nigeria.	Column1	Column2
	Respondents	Percentage (%)
• Yes	650	76%
• No	190	22%
• Undecided	17	2%

Source: Sample Survey, March, 2010.

Fig. 5.8.4. Respondents' View on Deregulation Policy as a Motivating Factor to increase of Economic Activities in Nigeria.



Source: Sample Survey, March, 2010.

Giving the total respondents of 857, a large proportion of 650 respondents representing 76 percent agreed that the policy would serve as motivating factors to lip frog socio-economic development in the country. They posited further, that the policy if not intercepted would bring prompt response to changing circumstances without political intervention within the sector. A proportion of 22 percent being respondents denied such claims on the basis of improper implementation of deregulation policy. This infers that, much would be achieved in the system if the policy implementation is holistically executed without political prejudice. The remaining 2 percent of 17 respondents were undecided to which ranks they would belong to. The implication is

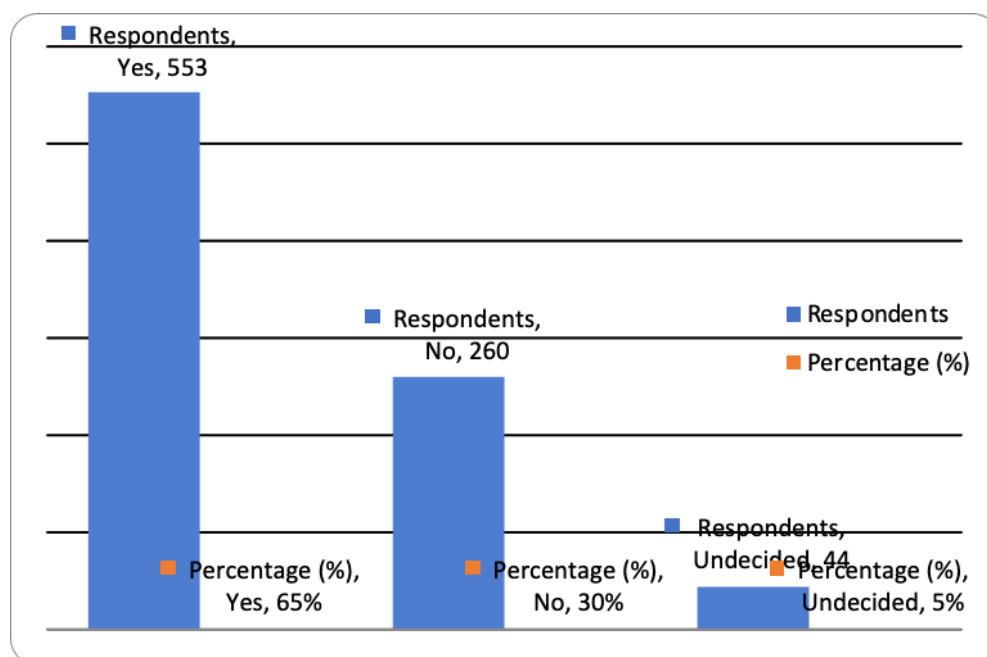
that, due to improper implementation of the policy, its impact as motivating factor for economic development remains a mirage.

Table 33: Respondents' View on Deregulation Policy as a tool for Expanding Productivity Capacity of the Economy of Nigeria.

Respondents' View on Deregulation Policy as a tool for Expanding Productivity Capacity of the Economy of Nigeria.	Column1	Column2
	Respondents	Percentage (%)
• Yes	553	65%
• No	260	30%
• Undecided	44	5%

Source: Sample Survey, March, 2010.

Fig. 5.8.5. Respondents' View on Deregulation Policy as a tool for Expanding Productivity Capacity of the Economy of Nigeria.



Source: Sample Survey, March, 2010.

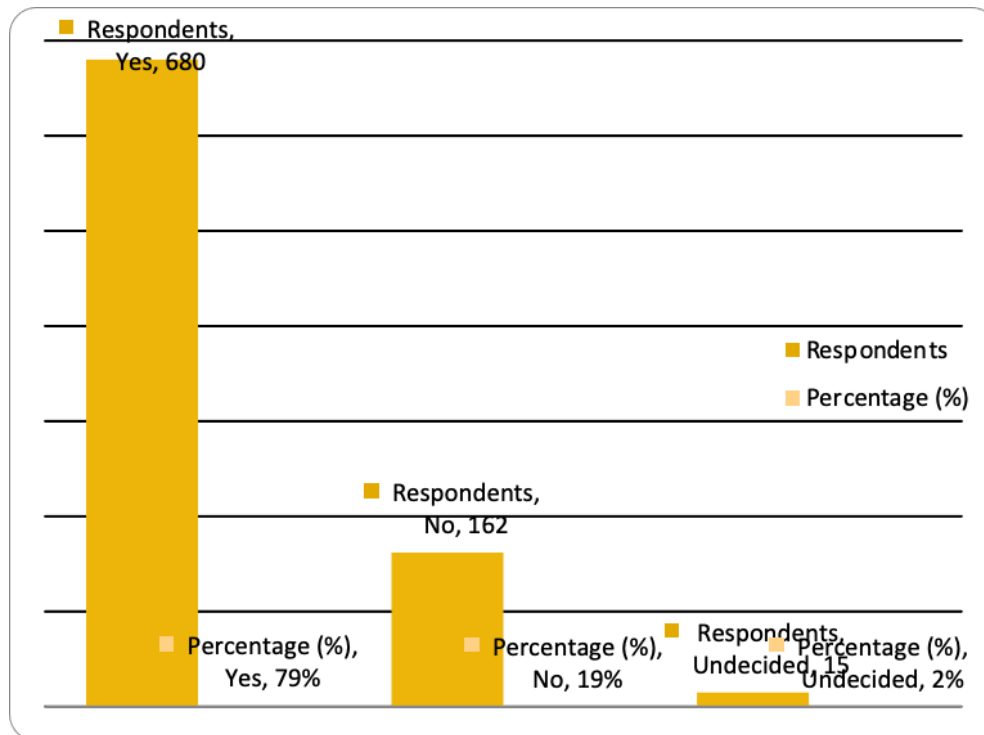
The researcher sought to further confirm the reliability of the assumption that, deregulation policy can be used as a tool for the expansion of productivity capacity of the Nigerian economy. Representing the larger proportion of respondents, 553 respondents represent 65 percent say yes to the assertion that, deregulation policy will expand economic productivity in Nigeria. As against 260, being 30 percent who declined to such assertions, while 5 percent of 44 respondents were indifferent. This argument was founded on the premise that: deregulation will bring about market diversification and ensure consumer friendliness. The policy means more money will be available for government to fund social developmental programmes that will engender job opportunity, enthrone transparency, accountability and eliminate corruption in the industry. From the above scenario, deregulation can only trigger economic activities if well implemented. The implication of this assertion is that, deregulation in this sector is capable of expanding the productive capacity in order to stimulate economic growth of the country.

Table. 34: Respondents' View on Excessive Control of Government Functionaries and other internal factor affecting the implementation of the Policy.

Excessive Control of government functionaries and other internal factor affecting the implementation of the Policy	Column1	Column2
	Respondents	Percentage (%)
• Yes	680	79%
• No	162	19%
• Undecided	15	2%

Source: Sample Survey, March, 2010.

Fig.5.8.6. Respondents' View on Excessive Control of Government Functionaries and other internal factor affecting the implementation of the Policy.



Source: Sample Survey, March, 2010.

It is obvious, from the above graph that the implementation of deregulation policy is highly determined and influenced by government control and actions, that is, fund inefficiency, managerial control and many other features, as argued by a significant proportion of respondents, 680 respondents, and being 79 percent of the total respondents. Going by statistical investigation of the deregulation policy and its performance, the Nigerian National Petroleum Corporation (NNPC) has constantly remained an unchallenged monopolist, which the policy sought to unbundle, is still very formidable in the oil a industry. With the Corporation still accounting for about

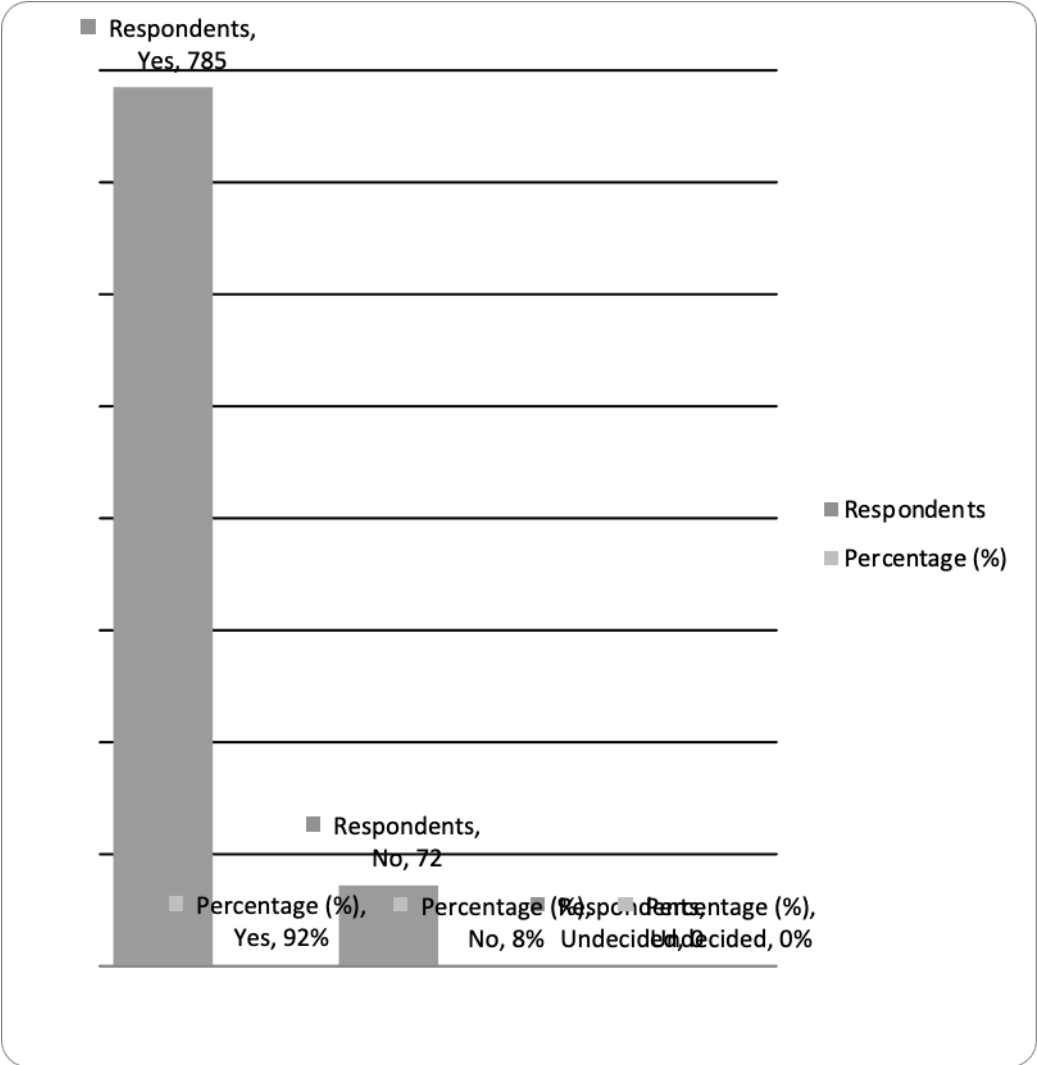
90 percent of imported petroleum products for local consumption, this attributed in no little measure to the perilous fuel scarcity face by consumers in the country. From the other side of the divide, 162 respondents, being 19 percent expressed a contrary view on the subject matter, while 2 percent, being 15 respondents were undecided. These observations imply that, until the widely spread tentacle of the monopolistic of NNPC is broken or dismembered in the area of its involvement in products supply and distribution of both local and imported products, the expected benefits of deregulation will remain a mirage.

Table 35: Respondents' View on the need to redesign the Oil & Gas policy effective implementation to attain its statutory Objectives

Respondents' View on the need to redesign the Oil & Gas policy effective implementation to attain its statutory Objectives.	Column1	Column2
	Respondents	Percentage (%)
Yes	785	92%
No	72	8%
Undecided	0	0%

Source: Sample Survey, March, 2010.

Fig. 5.8.7. Respondents’ View on the need to redesign the Oil & Gas policy effective implementation to attain its statutory Objectives



Source: Sample Survey, March, 2010.

Majority of the respondents, which is 785 respondents being 92 percent argued in a strong and vigorous manner, that in this ongoing globalisation of economic reforms, the best alternatives for any developing economy is for government to integrate

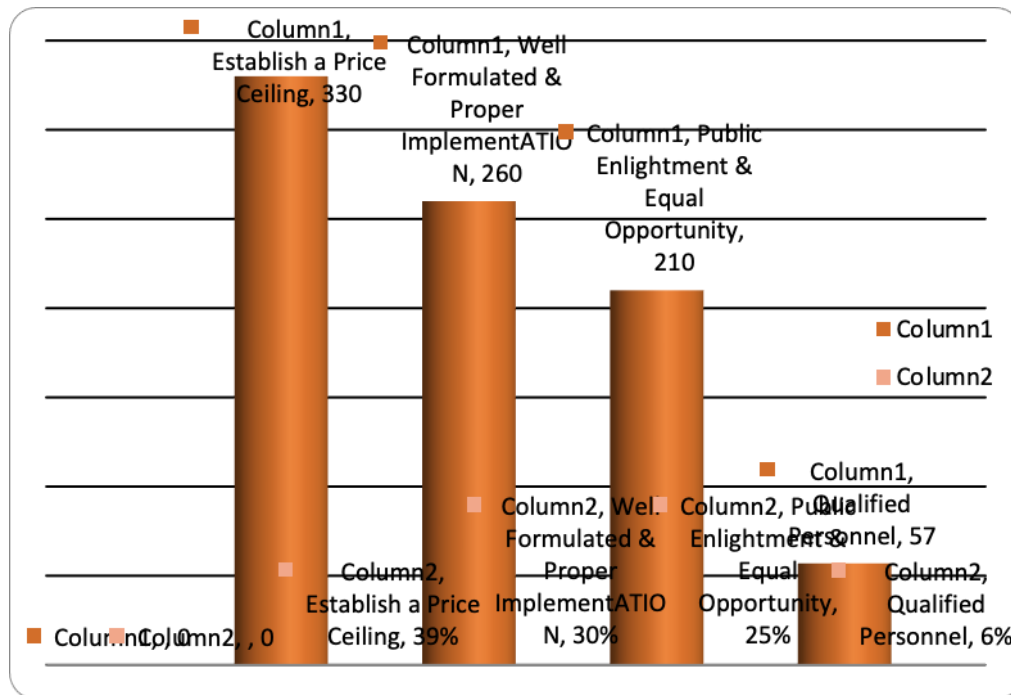
herself into the global reform initiatives, an overview of the obsolete legal framework for the Nigerian oil and gas to meet up with the 21st century challenges of deregulation policy, and to stabilise supply to meet up with domestic demand while comparatively synchronising reducing cost of refining products locally. The reverse was the case of 8 percent of 72 respondents whose opinions negate the opinion of the modern 780 respondents who are in touch with the principles of modern economics challenges. The ‘‘No’’ respondents’ argued further, that the policy should not be redesigned rather it should be given all it takes to ensure its effective implementation. The implication is that, for policy to meet global expectations and enhance economic growth, the implementation strategies of the policy should periodically be reviewed, redesigned and appraised for greater impact to be achieved.

Table 36: Respondents’ View on Measures to be taken for the Eradication of the observed Problems Associated with Policy Implementation

Respondents’ View on Measures to be taken for the Eradication of the observed Problems associated with Policy Implementation	Respondents	Percentage (%)
• Establish a Price Ceiling	330	39%
• Well formulated & proper implementation	260	30%
• Public enlightenment & equal opportunity	210	25%
• Qualified Personnel	57	6%

Source: Sample Survey, March, 2010.

Fig. 5.8.8. Respondents' View on Measures to be taken for the Eradication of the observed Problems Associated with Policy Implementation



Source: Sample Survey, March, 2010.

Giving the above sample survey, 330 respondents being 39 percent of the total respondents agreed that a price ceiling should be introduced as products benchmark into the Petroleum Products Pricing Regulatory Agency's (PPPRA) template, and there should be proper management of revenue (windfall) gotten from the exercise. 260 respondent representing 30 percent opined that, every policy designed by government should be well supervised and properly implemented. For deregulation policy to have its desire impact, 25 percent of 210 respondents posited that government should lay more emphasis on adequate public enlightenment, showcasing

policy aims and objectives, and given citizens equal opportunity to participate in the entire exercise for general economic benefits. The remaining 57 respondents being 6 percent recommended the recruitment of skilled resource personnel would add value to the oil and gas industry for the sake professionalism and proficiency in the industry.

Giving the above analysis on the population sampling data collated, the study has revealed contrary to prevailing knowledge that deregulation has rather produced stability in price and supply instead of the market fundamental determining the price and supply of petroleum products in the economy. Despite some of the existing gains that the policy undeniably achieved, it is important to state at this juncture that deregulation of the downstream subsector of the oil and gas development is an outcome of interactions between socioeconomic and political reinforces in ways that can improve the deprivation of the welfare of the citizenry. Effective policy implementation is embedded on national development, which will lead to the attainment of its corporate objectives. Furthermore, the ineffective implementation of the policy translates to deliberate refusal or denial of the much-required results to move the economy forward. Abandonment, corruption, discontinuity, ill-formulated, and unfairness, et cetera, just to mention by a few of these features that characterised the Nigerian public policy formulation and its implementation which ought to be resolved, thereby creating enabling platform for the effective take-off of the deregulation policy has remained the missing-gap in the attainment of the policy objectives. An understanding and appreciation of the deregulation policy, just like

previous policies in the past (National Development Plans of the 70s, Structural Adjustment Programme (SAP) of the 80s, Financial Regulation (Failed Bank Tribunal) of the 90s et cetera) and institutions that led to sustainable socio-economic and political development is a first step in developing strategies to improve the lots of the citizenry. Hence, for any meaningful and tangible impact to be acknowledged in the oil and gas downstream subsector, and to ameliorates the suffering of the populace as caused by ineffective implementation of the policy, drastic steps should be taken by government to embark on progressive deregulation, where its implementation will be gradual but consistently midwife by an established programme of government disengagement from the oil and gas business, while allowing private participant into sector and manage its activities.

CHAPTER SIX

SUMMARY, CONCLUSION AND RECOMMENDATIONS

6.1. SUMMARY

This study critically appraised the effects of government deregulatory policy of the downstream petroleum subsector on the Nigeria economy. It examined most existing problems that attracted government intervention and attention towards the adoption of deregulation policy which was meant to open up the downstream subsector for private participation in a bid to eliminate monopolistic activities, improve the availability of petroleum products/better service delivery, eliminate all forms of bottle-necks usually experienced in the sector, hence, the adoption of cushioning mechanism (subsidy) of petroleum pump price.

In a bid to bridge the supply gap and price volatility, government had spent about N2.6 trillion in subsidising petroleum products between 2006-2009 while 2010 budgetary provision has about N3.5 trillion respectively. Overtime, various government policies in Nigeria have consistently failed to achieve their respective statutory objectives at various stages of implementation. The deregulation policy of the petroleum subsector, as it connotes, has suffered a lot of set-backs as a result of inefficiency, ineffectiveness, colossal waste due to hyper-corruption that will buttress

any meaningful positive changes in the sector vis-a-vis the policy objectives. Hence, there has been stronger demand for its implementation, discouraging government involvement and its absolute control of the sector.

This study has subsequently and emphatically exposes the empirical determinant factors that snowball the significant correlation between the deregulation policy of downstream subsector of the oil and gas sector, take-off-stage of the policy, and its holistic impact on national development. Deregulation policies among others, is that, deregulation economic policies will attract investors into the oil and gas sector and engender competition that will in turn ensure availability of petroleum products to the final consumers in an uninterrupted manner, with a view to eliminate waste/corruption associated with the sector which are attributes of a tight regulated economy and to ensure return on investment to investors to enhance socio-economic growth of the nation.

Furthermore, this study brings to bear the economic model of a "rational man" and how the model legitimizes prevailing public policy. "Rational man" supposedly weighs the important, known variables and then makes that decision which is most likely to achieve the desired end (the greatest "utility"). Thus, we can say that public policy is founded on the notion that people calculate the utility of each decision, somewhat like a computer.

But modern cognitive science has shown that people do not make decisions by calculating the utility of each decision. Thus, economic "rational man" is a fraud that leaves the public exposed to ongoing economic and political exploitation by

government organs. Moreover, this fraud provides economists and political leaders with effective moral cover.

Nevertheless, it was observed that deregulation policy of the downstream petroleum subsector has grossly relieved the government of the financial yoke deficits in a bid to conserve the accrued funds from local and foreign exchange out flow for social structure development. The policy has undoubtedly triggered the efficiency of national economy and enhanced the volume of communal expenditure to the national treasury.

From the above analysis, deregulation policy has not fully been implemented neither has it attained its statutory objectives, but in the long-run, if fully implemented, it will propel the economy for sustainable growth and development. Hence, its modest contribution is to uplift individual standard of living of the citizenry.

6.2. CONCLUSION

Until very recently, development economics has been dominated by the ideas of the Orthodox, traditional school whose major tools of analysis have been borrowed from neo-classical. The prescription of the traditional school appear to have failed to work in practically all the countries which had adopted them and this failure accounts for the continued existence of mass poverty in the developing countries irrespective of the attention paid to these problems over the last forty years. It is correct to state here that some of the developing countries, which adopted the strategies prescribed by the

Orthodox school, did achieve respectable growth in the 1960s and 1970s respectively. However, such 'Successes' have been insignificant in the context of traditional development economics.

There are examples of countries where the orthodox prescriptions failed to improve the performance of the economy in terms of gross domestic product (GDP) growth rate, even in countries where respectable growth rate are actualised. But these would count for nothing when evaluated in terms of the objective of eliminating mass poverty. Indeed, in many instances, some of the strategies prescribed by orthodox development economics might complicate the problems of achieving meaningful economics development. The achievement of economic growth without development in some developing countries especially during the past three decades (1960s to 1980s) led to disenchantment with the received theories of economic development. The later part of the 1980s marked the end of optimism in Nigeria, especially political economists and policy makers; it became clear that the problem of the country (Nigeria) was not quite understood as there was neglect of economic features in policy implementation.

Olusegun Obasanjo's Administration was of strong will to reform the petroleum subsector and the unbundled of all logistic facilities for private participation in the bid to attaining sustainable economic growth.

Following the establishment of a regulatory agency (Petroleum Product Pricing Regulatory Agency) in May 2003 which had the responsibility of determining appropriate product pricing, supply and distribution of products across the country.

But government formulates and executes Policy on oil and gas in Nigeria, in order to formulate beneficial policy that is defensible and tenable to the citizenry and government to have respect for macroeconomic features. The reverse is the case as deregulation of downstream is more of politics rather than economic theories.

It is therefore, obvious that policies are initiated in Nigeria without a corresponding achievement. The adoption of deregulation of the downstream petroleum subsector like any other policy is a coin economic terminology (Perfect Market,) where government hands off the control of pricing commodities in order to allow participants into the market where prices are determined by market fundamentals such as: crude oil price; exchange rate; freight rate; refining economics, bridging cost. Others are the forces of demand and supply which acts as a function of the automatic pricing mechanism capable of triggering competition and efficiency which could drive prices downward in the long run within the existence of macroeconomic indices which includes the determination of the short-run level of national output without presuming instant price and wage flexibility: getting financial markets, interest rate and monitoring policy and how they affect output and employment which is being determined by the National income accounting principle (measuring gross domestic product) produced by existing factors of production located in the domestic economy regardless of who owns these factors. The deregulation policy has the potentials to contribute adequately in bringing the nation's economy to a maturity stage as adduced by W.W.Rostow, where there is significant improvement on the supply, distribution and service delivery.

However, within the short span of operation, and the huge investment it has attracted into the sector, its implementation has not met the desirable objectives in the area of adequate supply of petroleum products as against the huge demand of same as revealed by the findings. Petroleum products remain the major sources of energy in Nigeria and a determinant factor for the success of global economic growth, and its availability or not, determine the level of economic activities. This is basically so because Nigeria economy is a “Generator Driven Economy” thus, most Small and Medium Scale Enterprises (SMS) and industries in the country depends largely on petroleum products (PMS) in the usage of generator plants, and the absence of it, puts the business in jeopardy therefore, having adverse negative impact on the macro economy.

In light of the above, it is worthy to note that deregulation policy is initiated and implemented open up the downstream subsector of oil and gas to unbundle all monopolist structure to a free and fair level play ground of all competitors in the sector with a view to improve products supply and service delivery. Suffice to state at this juncture that the reverse seems to be what consumers is confronting with all these years of policy implementation. It will be elusive practice for government to totally hand-off the sector, owing to the fact of its transfer of ownership of its infrastructural facilities (refineries and logistic facilities) to private participants. Hence, it is needful to inject the setting of clear objectives for such policy to be able to permit the usefulness of the implementation of the policy to attain its corporate objectives.

It has been generally recognized that, ineffectiveness, misappropriation, discontinuity, and mismanagement of its scarce earned resources and misplacement of corporate goals flawed the nucleus of the Nigerian public policy initiative such as the deregulation policy of the downstream petroleum subsector. And for government to be seen as being administrative competent, there must be a significant confirmation of government trying to close up the gap between the objectives of this policy as enumerated earlier on and the definite achievement attained by the policy. However, there has been structural and institutional defects that acted as barriers against the realisation of this policy, these barriers are human factor, hence they require human elucidation. Recommendations would therefore be with aim to redirect and refocus the implementation of the policy towards the realisation of effective and efficient supply and distribution of petroleum products, efficient service delivery, price comfortability and the upliftment of the populace welfare vis-a-vis national income development.

6.3. RECOMMENDATIONS

When a small percentage of the population chooses to drive fuel-efficient automobiles, and a large percentage drives inefficient fuel vehicles, every barrel of oil saved by the efficient group is ultimately consumed by the less efficient group. In fact, the net effect of the conservation will be to lower the price pressure on the inefficient consumptions, and this makes such consumption more desirable in economic terms.

Even the idea of a fuel-efficient automobile is an oxymoron (non-existence in more practical terms). The theoretical maximum thermodynamic efficiencies for an automobile is roughly 25 percent, while the true efficiency of fuel propel engines is much lower, perhaps as low as 7 percent in some cases. This means that every time you fill your fuel tank, only about one litre of fuel is actually converted into energy that moves the car along, while the rest of the fuel is converted into heat. Suffice to state that those who choose to stay at home in order not to consume energy have a significant global impact.

Therefore, it is likely that no individual effort will be able to resolve the problem associated with world energy resource consumption, only global solutions involving agreements between all world energy consumers and strict enforcement will have a significant impact on world energy problems. Furthermore, petroleum economists' belief in the existence alternatives source of energy to crude oil, but they still maintained that, crude oil among all sourced alternative remains the cheapest globally.

From the aforementioned, it is obvious that certain actions need to be put in place in view of the experience so far. This is to allow the deregulation policy to be effectively implemented, sustained and maintained in view of its statutory responsibility to the economic reforms in the country. In scrutiny of the findings, the recommendations below are therefore made to government and all stakeholders within the confines of the oil and gas downstream subsector in anticipation that they

would be considered for implementation with a view to achieving the corporate objective of the policy, thus:

- To avoid policy deficiency, the implementation process should be tactically approached with maximum flexibility taking into cognisance of the fact that many assumptions/probabilities characterise policy formulation techniques and that there is no definite end to policy implementation. As such, the take-off stage of the policy should be implemented in a gradual manner until the public begins to appreciate its viability and the conviction of the policy positive impact before implementing deregulation itself.
- Policy implementers should establish a firm linkages with key segment of the society, and ensure that its decision enjoy the widest possible understanding and support
- The National Assembly should expedite the passage of the Petroleum Industry Bill (PIB) and the implementation of the oil and Gas Industry Committee's (OGIC) Report for the implementation of structural reform in the petroleum sector;
- Government should discontinued the subsidization of petroleum products through the Petroleum Support Fund (PSF) current administered by PPPRA and redirect same to social development such as; provision of portable drinking water, electricity, health care services, education, and rehabilitation of roads across the country;

- Considering the position and role the petroleum economic plays in the Nigeria economy as a major source of revenue in Nigerian, government should create a level playing ground for investors to be able to invest in logistic facility and moderate volatility in petroleum products prices, while ensuing reasonable returns to operators;
- Government to put in place stringent measure to curtail the activities of petroleum pipeline Vandals; affecting the volume of crude oil production, the inability to commission completion power plants and unable to distribute petroleum products to power stations across the country;
- Government should put in place mechanism that will accurately determine the consumption level of petroleum in the country and sustainable supply and distribution plan;
- That government should rehabilitate existing downstream infrastructure including pipeline and storage facilities for smoother operation of industry operators and that government should dredge the jetties in order to allow bigger vessels berth while government provide adequate security network to protect investment of investors.
- Absence of supporting import structure (Inadequate Port Facilities) of the ports and existing import reception facilities are not designed to handle current levels of product import volumes. Hence, Supply infrastructure is planned to be mostly inland-focused inadequate Port facilities lead to attendant (but significant) distribution costs like demurrage and lightering expenses.

It should be made known at this junction that in many developing countries; structural reform of petroleum market has become a critical component of macroeconomic liberalization policies. The role of Government in the petroleum sector should be redefined while marketer should play by the ethics of business morals.

Deregulation no doubt has increased private participation leading to a competitive petroleum marketing, government should work toward the refurbishing of its major reception depots distribution and storage facilities, refurbishment and purchase of haulage trucks, improvement of retail outlets and the resuscitation of moribund rail system for products haulage. When these are properly looked into, it will trigger industrial revolution in the petroleum downstream sector. With the emergence of multibillion Dollars private downstream operators such as Conoil Plc, Zenon oil, OBAT PLC etc, the downstream subsector of the oil and gas is gradually been developed creating wealth and employment.

The ‘‘Mobocratisation’’ of democracy can truncate the existence of good governance by few elites in the bid to use economic might to dismember the ongoing reform programme of the government regime. The government must also keep in mind that the Nigerian society has diverse socio-cultural heritage; we must be respected while trying to formulate policy that will better their lots. Using a better political platform desirable only if the aim is to better the standard of living of the people. Hence, the outflow of petroleum products across the country could be said to be at the instance of deregulation. There are little sacrifices to be made in order to attain full economic

development, that is, pay in for economic goods, with an agenda to exploit the mass. We must not forget the experience of the now known Asian Tigers, they were of no economic might in early 70's, but today because of socio-political discipline, they determined world trade and a political voice to be reckoned with globally. Whether it is price parity, removal of subsidies or not, the truth is that, no developed economy of the world is Government driven, rather private participation. This implies that, for Nigeria to maintain her voice in the community of nations, she must have a strong economic base, this can only be achieved through better governance, repositioning of the economy, sustainability of democratic government better per capital income growth in GDP reduction of unemployment rate to the bearrest minimum and a better standard of living where infrastructure are put in place, maintained and sustained.

In conclusion, the three tiers of government should seek for alternative to oil when conventional oil begins depletion the following alternative energy options may be increasingly relied upon to meet the world's energy needs. These are the non-conventional oil, separated from conventional or traditional oil (crude); these are tar sands, oil shale, ethanol and bitumen. There are large quantities of these non-conventional energy sources across the country and the globe estimated as much as two-thirds of total global oil deposits. At the risk of being misunderstood, deregulation policy, is the best option for effective performance of the industry. The problem as identified in our findings is not the policy per say, rather its implantation strategies. Introducing deregulation based imported refined products is a primitive way of doing things in modern times. The only possible way out of this quagmire is

to guarantee adequate and sustainable supply and distribution of petroleum products, through increase in refining capacity utilisation of the Nigerian refineries.

What is needful of these circumstances is a careful amalgamation of all the options that have been canvassed and rejected, while making concerted efforts to build new refineries to compliment the former and the fall-out of the subsidy is channelled into developmental project for socio-economic enhancement of Nigeria and for Nigerians.

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Thomas .D.,

Professur für Volkswirtschaftslehre mit Schwerpunkt
öffentliche Finanzwirtschaft, Fachbereich
Wirtschaft/Public Management, Fachhochschule
Technikum Kärnten, Villach, E-Mail: t.doering@fh-kaernten.at

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APPENDIX 1

QUESTIONNAIRE

DEPARTMENT OF POLITICAL SCIENCE,
NASARAWA STATE UNIVERSITY,
KEFFI.

EFFECT OF GOVERNMENT'S DEREGULATION OF THE DOWNSTREAM PETROLEUM SUBSECTOR ON THE ECONOMY OF LAGOS STATE, NIGERIA. 1960-2007.

Dear Respondent,

As part of my research studies for PhD in Political Economy, I am currently carrying out a study on the aforementioned. Hence the purpose of the questionnaires is to assist the researcher to obtain necessary information regarding the research topic.

I would like to give you most assurance, that all information provided through this questionnaire would be held with utmost confidentiality and used for this research purpose only. Sequel to the forgoing, you may wish not to indicate your Name or Signature.

Please, accept my fraternal regards.

STEPHEN LAZI AKHERE

MATRIC. NO.NSU/SS/038/PHD/2006/2007

INSTRUCTION

Tick as appropriate and provide the answer to the best of your knowledge.

1. Age:

- a. Below 22 years old ()
- b. 22 years and above ()

2. Educational qualifications

- a. Primary/FSLC ()
- b. SSCE ()
- c. OND/HND ()
- d. Master/PhD/ Higher Degree ()

3. Marital Status

- a. Single ()
- b. Married ()
- c. Others ()

4. Indicate below if a Stakeholder/Marketer/User or only user of petroleum products?

- a. PENGASSAN ()
- b. NUPENG ()
- c. Oil Companies ()
- d. Marketer ()
- e. Public User only ()

5. “The involvement of the private sector so as to create efficiency and guarantee products availability to the final consumers”. Has this object met in the prevailing circumstances?

- a. Achieved ()
- b. Undecided ()
- c. Not achieved ()

6. How adequate is the availability of petroleum products in the current era of deregulation of the petroleum downstream sector?

- a. Highly Adequate ()
- b. Averagely Adequate ()
- c. Fairly Adequate ()
- d. Hardly Adequate ()

7. Do you agree that the removal of Government subsidy has resulted to products price increase but has eliminated queues at petrol stations and impacted positively on the nation's economy?

- a. Yes ()
- b. No ()
- c. Undecided ()

8. How positive is the effect on the removal of Government subsidy which has resulted to the increase of prices of the products but has eliminated queues from filling stations across the country?

- a. Highly positive ()
- b. Averagely positive ()
- c. Fairly positive ()

9. Has the deregulation of the petroleum downstream subsector led to the stability of products prices?

- a. Yes ()
- b. No ()
- c. Undecided ()

10. What are the likely causes to petroleum products price volatility?

- a. Change of price at the international market ()
- b. Impact of saboteurs ()
- c. Impact of vandalization of pipelines ()
- d. Unproductive state of the local refineries ()
- e. Other, specify.....

11. The frequent increases in the prices of petroleum are usually greeted with labour and civil society unrest, compelling the government to set up a committee to suggest cushion measures (Petroleum Support Fund (PSF)). How significant has the measures on the economy and people?

- a. Very significant ()
- b. Effective ()
- c. Fairly effective ()
- d. Not significant ()
- e. Unaware of such measures ()

12. How effective is the implementation of deregulation in Nigeria economy?

- a. Very effective ()
- b. Effective ()
- c. Fairly effective ()
- d. Not effective ()

13. In your own opinion, what are the likely internal constraints against the effectiveness of the deregulation policy of the downstream petroleum subsector?

- a. Lack of encouragement to potential investors ()
- b. Insincere and partial implementation ()
- c. Government's continued involvement ()
- d. Others specify.

.....

14. In your opinion, what are the likely external constraints against the effectiveness of the deregulation policy of the petroleum downstream sector?

- a. Labour and Civil unrest/militancy ()
- b. Change of prices at international market ()
- c. Transportation problems ()
- d. Pipeline vandalization and Marketers' ()

15. In your opinion, what are the likely benefits to be derived from the deregulation policy of the petroleum downstream sector?

- a. Eradicate waste and corruption ()
- b. Efficiency and availability of products ()
- c. More private participation /job opportunity ()
- d. Eliminate black market operators ()

16. Has the deregulation of the petroleum downstream subsector improved the capacity utilisation of existing local refineries or encourage the establishment of new ones?

- a. Yes ()
- b. No ()
- c. Undecided ()

18. How effective or ineffective is the implementation of the deregulatory policy.

- a. effective ()
- b. ineffective ()
- c. Undecided ()

19. Has the deregulatory policy of any effect on the Nigeria Economy

- a. Yes ()
- b. No ()
- c. Undecided ()

20. Do you agree that deregulation of the downstream petroleum subsector has achieved the set objectives of being an accelerator of socio-economic change in Nigeria?

- a. Yes ()
- b.No ()
- c.Undecided ()

21. Do you agree that deregulation policy have giving equal level-play-ground to stakeholders in the petroleum downstream subsector in Nigeria?

- a.Agreed ()
- b.Disagreed ()
- c.Undecided ()

22. Do you agree that deregulation as a motivate factor, has influence economic activities positively in Nigeria?

- a. Yes ()
- b.No ()
- c.Undecided ()

23. Do you agree with the opinion that deregulation can expand the productive capacity for economic development of country?

- a. Yes ()
- b.No ()
- c.Undecided ()

24. In your opinion, are excessive ministerial control and other internal factor affecting the effective implementation policy of the deregulation policy?

- a. Yes ()
- b.No ()
- c.Undecided ()

25. Are you of the opinion that deregulation policy be re-appraised and redesigned for effective implementation to attain its pre-determined objectives?

- a. Yes ()
- b.No ()
- c.Undecided ()

Thank you for your cooperation, please.

PETROLEUM

INDUSTRY BILL

(PIB)

AUGUST 2008.

APPENDIX 3

CURRENT STATUTORY TEMPLATE FOR FOUR PETROLEUM WHITE PRODUCTS (PMS, HHK, AGO, ATK).

a. Reviewed PPPRA PRODUCT PRICING TEMPLATE PMS

Based on Average Platts' Prices for the month of February,2010

Average Exchange Rate of the NGN =N= to US\$ for the Month of February, 2010

		PMS		
		\$/bbl	\$/MT	Naira/Litre
Daily PLATT'S Movement (FOB BARGES)				
0	Cost of Crude (Brent Dated)	71.57		
1	FOB (NWE) October,2009		710.98	80.66
2	Freight Rate		51.80	5.88
3	Lightering Expenses (SVH)		33.66	3.82
4	NPA		10.50	1.19
5	Financing (SVH)		17.92	2.03
6	Jetty Depot Thru' Put Charge		7.05	0.80
7	Storage Charge		26.44	3.00
8	Landing Cost		858.35	97.38
Distribution Margins :				
9	Retailers		40.55	4.60
10	Transporters		24.24	2.75
11	Dealers		15.43	1.75
12	Bridging Fund + MTA		34.82	3.95
13	Admin Charge		1.32	0.15
14	Total		116.35	13.20
15	Total Cost		974.70	110.58
16	**Ex-Depot		492.73	55.90
17	Under/Over Recovery			(45.58)
18	Taxes			
	Highway Maintenance	-		
	Government Tax	-		
	Import Tax	-		
	Fuel Tax	-		
19	Retail Price		572.94	65.00

Data is as at 12/02/10

Expected Open Market Price (OMP) (Naira/litre) is Landing cost +Margins

110.58

**Ex Depot includes Bridging Fund, Marine Transport Average (MTA) & Admin. Charge

Conversion Rate (MT to Litres): 1341

Exchange Rate (N to \$): 152.14

b. Reviewed PPPRA PRODUCT PRICING TEMPLATE HHK

Based on Average Platts' Prices for the month of February, 2010

Average Exchange Rate of the NGN =N= to US\$ for the Month of February, 2010

		HHK		
		\$/bbl	\$/MT	Naira/Litre
	Daily PLATT'S Movement (FOB BARGES)			
0	Cost of Crude (Brent Dated)	71.57		
1	CIF (NWE) October, 2009		646.25	79.80
2	Freight Rate		51.80	6.40
3	Lightering Expenses (SVH)		31.67	3.91
4	NPA		10.50	1.30
5	Financing (SVH)		20.81	2.57
6	Jetty Depot Thru' Put Charge		6.48	0.80
7	Storage Charge		24.29	3.00
8	Landing Cost		791.80	97.78
Distribution Margins:				
9	Retailers		37.25	4.60
10	Transporters		22.27	2.75
11	Dealers		14.17	1.75
12	Bridging Fund + MTA		31.99	3.95
13	Admin Charge		1.21	0.15
14	Total		106.89	13.20
15	Total Cost		898.70	110.98
16	**Ex-Depot		331.21	40.90
17	Under/Over Recovery			(60.98)
18	Taxes			
	Highway Maintenance	-		
	Government Tax	-		
	Import Tax	-		
	Fuel Tax	-		
19	Retail Price		404.90	50.00

Data is as at 12/02/10

Expected Open Market Price (OMP) (Naira/litre) is Landing cost + Margins

**Ex Depot includes Bridging Fund, Marine Transport Average (MTA) & Admin. Charge

110.98

Conversion Rate (MT to
Litres):

1232

Exchange Rate (N to \$):

152.14

c. PPPRA PRODUCT PRICING TEMPLATE AGO

Based on Average Platts' Prices for the month of February, 2010

Average Exchange Rate of the NGN =N= to US\$ for the Month of February, 2010

		AGO	
		\$/MT	Naira/Litre
1	C + F	646.18	84.46
2	Lightering Expenses (SVH)	30.40	3.97
3	NPA	10.50	1.37
4	Financing (SVH)	3.44	0.45
5	Jetty Depot Thru' Put Charge	6.12	0.80
6	Storage Charge	22.95	3.00
7	Landing Cost	719.59	94.05
Distribution Margins			
8	Retailers	35.19	4.60
9	Transporters	21.04	2.75
10	Dealers	13.39	1.75
11	Bridging Fund + MTA	30.22	3.95
12	Admin Charge	1.15	0.15
13	Total	100.99	13.20
14	Total Cost	820.58	107.25
15	**Ex-Depot	719.59	94.05
16	Taxes		
	Highway Maintenance	-	
	Government Tax	-	
	Import Tax	-	
	Fuel Tax	-	
17	Retail Price	820.58	107.25

Data is as at 12/02/10

107.25

**Ex Depot includes Bridging Fund, Marine Transport Average (MTA) & Admin. Charge

* C+F price is Offshore Nigeria

Conversion Rate (MT to

Litres):

1164

Exchange Rate (N to \$):

151.13

d. Reviewed PPPRA PRODUCT PRICING TEMPLATE ATK

Based on Average Platts' Prices for the month of January,2010

Average Exchange Rate of the NGN =N= to US\$ for the Month of January, 2010

		ATK		
		\$/bbl	\$/MT	Naira/Litre
Daily PLATT'S Movement (FOB BARGES)				
0	Cost of Crude (Brent Dated)	76.21		
1	CIF (NWE) October,2009		685.60	84.22
2	Freight Rate		53.50	6.57
3	Lightering Expenses (MV+SVL)		35.88	4.41
4	NPA		10.50	1.29
5	Financing		3.96	0.49
6	Jetty Depot Thru' Put Charge		6.51	0.80
7	Storage Charge		24.42	3.00
8	Landing Cost		820.38	100.77
Distribution Margins :				
9	Retailers		37.45	4.60
10	Transporters		22.39	2.75
11	Admin Charge		1.22	0.15
12	FAAN Charges		16.28	2.00
13	Total Margins		77.34	9.50
14	Total Cost		897.72	110.27
15	Taxes			
	Highway Maintenance	-		
	Government Tax	-		
	Import Tax	-		
	Fuel Tax	-		
16	Retail Price			110.27

Data is as at 29/1/10

110.27

Conversion Rate (MT to Litres): 1232

Exchange Rate (N to \$): 151.33

FOOT

NOTE

* **Bridging Charges (N3.95) excluded**

* **Airport Differentials recognised by both sides to apply: Lagos/Abuja/Port-Harcourt/Kano**

* ***House Committee on Aviation approved 15 - 20% distribution margins to apply above the landing cost.***