

The Political Economy of Oil Deregulation in Nigeria's Fourth Republic: Prospects and Challenges

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Abstract

For four decades now, Nigeria's economic policies, growth, and other related activities have been largely influenced by the oil industry. To say that the economy is heavily dependent on the oil industry will amount to an understatement as the oil industry is nothing short of a life-blood for the Nigerian economy. It is also sad to know that despite the vast quantity of oil discovered in Nigeria, the economy is faced with various crises leading to the battle for removal of fuel subsidy. This work assesses the politics and economics of the debate on the oil deregulation in Nigeria. The paper identifies deregulation of the oil sector to the ruling elites, continuing deterioration of public services, growing inequality, overdependence on oil, the Niger delta crises as some the leading problems of the deregulation sector. It also proffers solutions for Nigeria to reap the benefits of deregulating the oil sector. The research is expected to aid researchers to tailor the implementation of the deregulation reform in a manner that will address the socio economic challenges of Nigeria and facilitate development.

Keywords: deregulation, political economy, downstream oil sector, fourth republic, reform

INTRODUCTION

Nigeria is blessed with vast quantities of oil and is the sixth largest oil exporter in the Organization of Petroleum Exporting Countries (OPEC). This has generated billions of dollars in revenues over the last forty years since oil was found in Nigeria. (Ibanga 2011). Crude-oil production and export commenced in Nigeria in 1958. It accounted for 7.1 per cent of total exports in 1961, which was dominated at that time by cocoa, groundnut and rubber, in that order. In 1965, oil had climbed to 13.5 per cent of the nation's export earnings, and by 1970, it had become the leading source of foreign exchange, accounting for 63.9 per cent. By 1979, petroleum sales had completely overshadowed non-oil exports, as it then contributed about 95 per cent of the country's export earnings. As of 2011, oil and gas exports accounted for more than 98% of export earnings.

So strategic is the petroleum sector to the Nigerian economy that crucial aspects of this sector such as exploration, production, gas utilization, conservation, and petroleum policy and legislation are sensitive economic issues. It is estimated that demand and consumption of petroleum in Nigeria grows at a rate of 12.8% annually. However, petroleum products are unavailable to most Nigerians and are quite costly, because almost all of the oil extracted by the multinational oil companies is refined overseas, with only a limited quantity supplied to Nigerians themselves. . While the oil industry remains the main stay of the Nigeria economy, its contribution to the local economy of the Niger Delta has albeit been a mixed one. Thus the paradox of the Niger Delta is

that of a region rich in natural resource but with significant percentage of its population living below the poverty line (Aghalino, and Eyinla, 2009). This paradox of poverty amidst plenty is not peculiar to the oil producing region alone. Indeed, Nigeria's oil wealth and the revenue derived from the industry over the decades have not manifested in improved infrastructural development, wealth generation, poverty reductions and appreciation in living standard for majority of Nigerians.

In spite of efforts to revamp the economy through the Structural Adjustment Program, an economic package that includes comprehensive non-oil export diversification initiatives, petroleum still contributes an average of 95 per cent of the nation's external earnings. Nigeria is increasingly relying on imported petroleum products while the existing refineries are producing less than 30% of their installed capacity. In fact, the cost of importing petroleum products has increased so rapidly in recent years that it is threatening the country's balance of payments and capital expenditures.

This is what has given rise to the recent round of debate between the government and organized labor. on the removal fuel subsidy and deregulation of the downstream sector of the oil sector. The battle dates back to 2003, when the government made the first move at full deregulation of down stream sector. Partial deregulation has however been in place some years before 2003. As expected, public opinion about deregulation in Nigeria covers a wide spectrum, and

cuts across all sides of the argument. Some school of thought strongly believe that the Nigerian petroleum industry must not be liberalized, or deregulated, or privatized completely, for whatever reason, and that the status quo should remain, maybe, with some minor fine-tuning made, "here and there", to improve efficiency, as appropriate, "in the overall national interest". Essentially, this is the implied position of the Nigerian Labour Congress (NLC). Some Nigerians hold the view that deregulation of the petroleum industry in Nigeria should be implemented in phases, so as to enable the state-owned monopolies to regain efficiency, before their full privatization. However, some others insist that complete deregulation, including the total, and final dismantling, unbundling, and subsequent wholesale privatization of all state-owned petroleum businesses, should proceed without further delay, with maximum dispatch, for the continued, and meaningful survival of the Nigerian petroleum industry in the 21st century. (Braide, 2003).

This paper seeks to assess the deregulation of oil policy, its prospects and socio economic implication on Nigeria.

Conceptual Clarification/theoretical discourse

In a popular parlance, to deregulate means to do away with the regulations concerning financial markets and trades. Ernest and Young, (1988) posit that deregulation and privatization are elements of economic reform programmes charged with the ultimate goal of improving the overall economy through properly spelt out ways. For example, freeing government from the bondage of continuous financing of extensive projects which are best suited for private investment by the sale of public enterprises; encouraging efficiency and effectiveness in resources utilization; reducing government borrowing while raising revenue; promoting healthy market competition in a free market environment; improving returns from investment and broadening enterprises share ownership thus engendering capital market development (Izibili and Aiya, 2007:228).

Put differently, deregulation in the economic sense means freedom from government control (innocent & Charles, 2011). According to Akinwumi et al (2005), deregulation is the removal of government interference in the running of a system. This means that government rules and regulations governing the operations of the system are relaxed or held constant in order for the system to decide its own optimum level through the forces of supply and demand (Ajayi and Ekundayo, 2008). Deregulation allows enterprises and services to be restricted as little as possible. It includes total withdrawal of government controls in the allocations and the production of goods and services.

The concept of deregulation is based on the neoliberal school of thought. It is based on the doctrine of competition and profit motive founded on free market pricing and freedom from the interfering hands of state regulation (Wikipedia, 2011). Deregulation according to this theory could reap the advantages of the market system and competition, namely; effectiveness, productivity, and efficient service. Privatization would thus, strengthen market forces with some degree of deregulation, economic liberalization, relaxation of wage and price controls (Ugorji, 1995). It is derived from the international capitalist imposition, especially the World Bank / IMF, which stipulated economic liberalization/privatization as pre-conditions for providing development loans to the less developed countries (LDCs). According to Ugorji (1995), Privatization and deregulation has become an acceptable paradigm in the political economy of states. In Nigeria, this theory has not gone unchallenged as to its relevance to many Sub-Saharan African countries. From the view point expressed by Professor Aluko, the assumption of the inherent efficiency of the private sector should be questioned. He argued that in Nigeria, much of private sector profits are not always the result of efficient operation and increased productivity but rather often represent money that private contractors make through inflated contracts, patronage and corruption. He argues that most of the richest people in Nigeria's private sector make their money, for the most part, through their public sector connections and influence. (Adeyemo, 2005). Those who have presided over the state have tended to personalize power and privatization collective national resources, while being excessively reckless in managing the affairs of the nation. As noted elsewhere, in Nigeria: The ruling class derived both its origin and wealth from the state, around which it gravitates, using every available means to secure power and access. Hence, in the competition and struggles for state power, especially in the period of economic crises. The state, thus, is projected as the critical variable in identity transformation, and the resurgence of identity politics (Jega, 2000)

Thus, given the critical role of the state in capital accumulation in the post-colonial epoch, political contest for the capture of state power became intense, more with the expanded revenue base it came to acquire from oil and gas earnings, which rose dramatically and profoundly in the late 1990s. Clearly, also, this phenomenon is associated with, if not directly caused by, the dynamics of the accumulation processes under economic crisis and economic reforms, as dominant social forces compete for access to the state for its power and resources. The scope of this paper is limited to the deregulation of the downstream sector of the petroleum industry. The period under review is Nigeria's fourth republic.

The Nigerian Oil Sector

We cannot fully understand the effect of deregulation of the oil industry without an overview of Nigerian oil sector. The Nigerian oil industry is divided into two sectors; the upstream sector (deals with Exploration and Production) and the downstream sector, which deals with refining of crude oil for domestic consumption. (Ibanga, 2011)

Nigeria's proven oil reserves are estimated by the U.S. United States Energy Information Administration (EIA) at between 16 and 22 billion barrels (3.5×10^9 m³) but other sources claim there could be as much as 35.3 billion barrels (5.61×10^9 m³). Its reserves make Nigeria the tenth most petroleum-rich nation, and the most affluent in Africa. In mid-2001 its crude oil production was averaging around 2.2 million barrels (350,000 m³) per day. (US E.I.A 1997)

Nigeria has a total of 159 oil fields and 1481 wells in operation according to the Ministry of Petroleum Resources. The most productive region of the nation is the coastal Niger Delta Basin in the Niger Delta or "South-south" region which encompasses 78 of the 159 oil fields. Most of Nigeria's oil fields are small and scattered, and as of 1990, these small unproductive fields accounted for 62.1% of all Nigerian production. (Khan, Ahmad, 2010). As a result of the numerous small fields, an extensive and well-developed pipeline network has been engineered to transport the crude.

According to recent report, the nation's refineries in Warri, Port Harcourt work less than their expected capacity; they could only refine about 18 million litres of petrol while the daily national petrol demand is about 40 million litres (moderate estimate). It is also estimated that at least \$400 million has been pumped into rehabilitating the refineries in the last six years. Alas, that money vanished with no trace of enhanced capacity by the refineries (Kujenya, 2009). The low capacity utilization of Nigeria's state-owned refineries and petrochemical plants in Kaduna, Warri and Port Harcourt, the sorry state of despair, neglect and repeated vandalization of the state-ran petroleum product pipelines and oil movement infrastructure nationwide, the collateral damage of institutionalized corruption, with the frightening emergence of local rich oil mafia that controls, and coordinates crude oil, and refined petroleum product pipeline sabotage and theft (illegal bunkering) nation wide the insatiably corrupt Task force operatives that assist diversions of both crude oil and petroleum products, large-scale cross-border smuggling of petroleum products, are the root causes of the protracted; and seemingly intractable serve fuel crises that have bedeviled the polity relentlessly for close to a decade now, and the reasons why government is bent on deregulating the oil sector (Braide, 2003).

Over the years the Federal Government has spent trillions in subsidizing fuel; a gesture that ought to benefit the people has been scuttled by some unscrupulous participants engaged in petroleum products marketing. Reports from Petroleum Products Pricing and Regulatory Agency, PPPRA has it that a total sum of 1.3 trillion is needed in year 2012 to pay marketers of fuel the difference between market prices and the pump price of petrol as arranged by government.

Politics of Oil Deregulation in Nigeria

The Deregulation policy has globally been embraced by several countries, in order to lessen public sector dominance and for developing a liberalized market while ensuring adequate supply of products. Such is the story in Peru, Argentina, Pakistan, Chilean, Philippines, Thailand, Mexico, Canada, Venezuela, Japan and USA, all of which have systematically dismantled their State-owned oil companies, for a significant turning point in the success story of their oil industry reform efforts. (Loretta, 2004)

In an attempt to ensure that petroleum product prices reflect supply cost and the forces of demand and supply, President Obasanjo embarked on the deregulation of the downstream oil industry in August 2000 with the setting up of a Special Committee on the Review of Petroleum Products Supply and Distribution (SRCPPSD). The Committee submitted its report in October 2000 and the government issued its White Paper on it in January 2001. The President forwarded the Bill for an Act to Establish Petroleum Products Pricing Regulatory Committee (PPPRC) to the National Assembly in March 2001. In January, 2002, the government commenced the liberalization of the downstream sector of the oil industry by fixing the ceiling prices for petrol (PMS), diesel (AGO) and kerosene (HHK) at N26, N26 and N24 per litre, respectively. An import duty N1.50 per litre on imported petroleum products was introduced while selling price of crude to local refineries was increased from \$9.50 to \$18.0 per barrel. (Ojameruaye 2011)

President Obasanjo, signed into law the Petroleum Products Pricing Regulatory Agency (PPPRA) Bill on Mat 27, 2003, and inaugurated the Governing Board of the PPPRA on June 19, 2003. The mission of the PPPRA is to "*reposition Nigeria's downstream sub-sector for improved efficiency and transparency*", and its vision is to "*to attain a strong, vibrant downstream sub-sector of the petroleum industry, where refining, supply, and distribution of petroleum products are self-financing and sustaining*". The functions of the PPPRA are to:

The PPPRA announced new pump prices of petroleum products on June 20, 2003. This was

greeted by a nation-wide strike declared by the Nigeria Labour Congress and its affiliates. The nation-wide strike action ended with the adjustment of the prices to N34.00 per litre for petrol, N32.00 each for diesel and kerosene. These prices have almost doubled since then. Eight years still it was established, the PPPRA is yet to achieve its mission and objectives as evidenced by the ongoing debate of the removal of fuel subsidy. Its major achievement is the development of a petroleum products pricing template (PPPT) to determine the supply price of imported petroleum and the level of subsidy which is computed as the difference between the supply price and the pump price fixed by the government

On January 2, 2012, the government totally removed the subsidy and price of fuel from N65 to N140. The Nigerian labour leaders and trade union congress leaders quickly mobilized the masses for nation-wide strike action which commenced on the January 9, 2012. After several meetings, the federal executives and labour leaders arrived at agreement and the price of petrol was brought down to N97 on January 16, 2012. Government spokespersons have sought to justify this pro-capitalist measure on the basis that government subsidy and hikes in petroleum prices have only benefited fraudulent government officials. They have equally argued that deregulating the oil sector and privatization of the oil refineries will create a situation where ordinary users of energy would not have to subsidize fraud and inefficiency, and at the same time ensuring that fuel products are constantly made available to consumers at fair and affordable prices. Arguing from the correct premise that importation of fuel products, as well as huge amounts being paid as demurrage on landed vessels, unnecessarily add to the costs which the consumers have to pay for fuel.

Typically, the scope of discussions covered during the "enlightenment campaign" by the government included such issues as the burden of subsidies on the national treasury, the strain of financing Nigeria's state-owned petroleum businesses, intra- and trans-ECOWAS smuggling of Nigerian petroleum products, the relative market prices of petroleum products in the ECOWAS sub-region, vis-à-vis their prices in Nigeria, licensing of private refineries, the need to break the monopoly of NNPC, and the general benefits of deregulation. (Braide 2003).

According to the government, deregulation and privatization would reduce prices and guarantee product availability. Deregulation is thus expected to remove the bottlenecks in product distribution and lead to more efficient utilization of resources. There has been an avalanche of verbal and intellectual opposition by the trade union leaders against government decisions in deregulating the

downstream sector of the oil industry. While commenting on government latest policy of full deregulation and privatization of the oil sector, Abdulwahed Omar, the NLC President, had among other things, made the following statement as reported in the March 2 2011 edition of Daily Independent: "The economic meltdown has now shown that the economy and its regulation cannot be left to the whims and caprices of free market forces and that government does have a strong and leading role to play not only in the regulation of business and the economy but that it must also be a key player in the ownership and management of business and non-business institutions for the regulatory role to make impact". The labor Unions maintained their long held position that deregulation has adverse effects on employment, prices and public welfare and that there should be no privatization of the strategic economic social sector and public monuments."

The national executives of the PENGASSAN and NUPENG argued that devaluation of the national currency in an importing nation like ours is obviously an indication that the Government is only interested in increasing the Naira equivalence of the foreign exchange that was saved by the past regime, and since the proposed deregulation is based on import parity, prices of products will skyrocket to cause a level of inflation that the economy cannot sustain on the long run.

Nigerian Oil and Gas downstream sector is dominated by cartels who manipulate prices, through artificial supply restriction. These cartels determine volume of importation and the proportion that should be released to the market. At times, they only allow a few product holders to supply the market, while others hoard. Peter Akpatasan Presidents of NUPENG has stated thus: "Deregulation cannot work in a market dominated by a cartels. This cartel is so strong that it can continue to manipulate prices out of the reach of common man. You cannot deregulate when you have no refineries. There will be serious economic crisis". (Democratic Socialist Movement, 2009)

The over-dependence on oil has created vulnerability to the vagaries of the international market. In particular, the place of oil in the psyche of the average Nigerian has become more profound since the "imperfect" deregulation of the downstream segment of the Nigerian oil industry in 2003. The contradiction is more glaring now with the recent rise in crude oil prices at the global markets, which meant more external earnings for Nigeria, but also increased the expense burden on imported refined petroleum products! It is such contradictions (perhaps aberrations) that make the Nigerian economy appear strange at times, as policies seem to ignore what appears obvious to do. As such, policies designed to

address the deficiencies and defects in the structure end up being poorly articulated and/or implemented because of regional, political or rent-seeking selfish interests.(Adedipe, 2004)

Challenges and Prospects of the Oil Deregulation Policy

Deregulation, especially when it involves the handing over of the commanding heights of a nation's economy to a few capitalist individuals and corporations at the expense of the crying needs of the overwhelming majority who live in abject poverty and lack basic infrastructural facilities is questionable. The ongoing nation's economic crisis is a pointer that the government needs to push forward an agenda that would put an end to massive inequality which has characterized the nation's economy.

Removal of subsidies and full deregulation at this point in time could compound the already unbearable economic hardship that Nigerian people are currently experiencing. This includes hikes in transport fare, prices of food and services, closure of local industries and job losses and unemployment, deepening of the poverty level and poor standard of living of most Nigerians. Until the challenge of infrastructural bottlenecks is addressed; any attempt to deregulate will suffer major setbacks that will impact negatively on the economy.

One of the major challenges is the inability of government to demonstrate a strong political will and commitment to the resolution of the crisis in the Niger Delta region, where all the investments envisaged as fallout of the deregulation exercise is expected to go. Experts insist that central to a successful implementation of the new deregulation policy is resolving the Niger Delta crisis.

One of the factors that have thwarted previous efforts to enthrone a regime of deregulation in the downstream sector of the nation's oil industry is the government's inability to marshal coherent theses to convince the populace of the need for withdrawal of the subsidy. Nigerians also fear that rather than use the fund realized from the deregulation exercise to better the lot of the Populace, the fund will find its way into private purses. This fear can be justified due to the past corrupt practices that have bedeviled the nation.

The over-dependence on oil has created vulnerability to the vagaries of the international market, as observed in the preceding section that show the contribution of oil to some macro-economic variables. In particular, the place of oil in the psyche of the average Nigerian has become more profound since the deregulation of the downstream segment of the Nigerian oil industry in 2003. The contradiction is

more glaring now with the recent rise in crude oil prices at the global markets, which meant more external earnings for Nigeria, but also increased the expense burden on imported refined petroleum products. It is such contradictions (perhaps aberrations) that make the Nigerian economy appear strange at times, as policies designed to address the deficiencies and defects in the structure end up being poorly articulated and/or implemented because of regional, political or rent-seeking selfish interests. (Adedipe 2004)

CONCLUSION

While the reform processes have some gains yet there remain many challenges. The most notable of these challenges relate to the deregulation of the oil sector to the hand of ruling elite and their associates, the lack of coordination in the basic indexes of the national economy arising from haphazard reform implementation, the growing inequality gap, continuing deterioration of public infrastructures despite massive injection of funds and most importantly the lack of political will to tame the monster of official and unofficial corruption among other problems.

For Nigeria to realize its potential and reap the benefits of the deregulation policy there is the need to tailor the formulation and implementation of reforms in manner that it will address the socio economic challenges facing Nigerians.

Government should create an enabling environment to engender private investors' for the purpose of improving the local refining capacity to meet the ever increasing local demand of petroleum products and indeed for exportation purpose. Related to the above is the need to use the oil windfall proceeds and the savings realized by the federal government and from the withdrawal of subsidy to be channeled towards fixing the refineries, building new ones or upgrading and developing of infrastructure within the polity, in areas such as waterways, rail and mass transit system, thus providing cheaper alternative transportation methods. There is also the need to budget more funds towards improving both education and the health care delivery system in Nigeria.

Corrupt elements and practices should be quickly identified and tackled without fear of favor, so that the huge leakages currently associated with the subsidy scheme could be curbed. Government's commitment to accountability, corporate governance and responsibility as core values by all the stakeholders in the sector will go a long way in rebuilding the trust of Nigerians in deregulation of the oil sector and other subsequent reforms.

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