THE FALLACIES ABOUT THE DOWN STREAM OIL SECTOR DEREGULATION IN NIGERIA

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Abstract

There are indications that the Federal Government is set to blow the final whistle for the take off of full deregulation of the downstream sector of the petroleum industry. Since the beginning of 2010, there have been several engagement fora between the government and different stakeholders in the industry in Lagos and Abuja, which hinged on securing their endorsement. In the past weeks; advertisements condemning the undue wastage of revenues on subsidies of petroleum products prices especially petrol, have been running in major electronic and print media. The advertisements gave several reasons deregulation of petroleum products is imperative and should be supported by Nigerians. Although deregulation may have its dark sides, some analysts, however, say the policy will be good for the polity in the long run. But this perspective has its pitfalls, considering the failure of government to live up to its promises in the past. It must be understood that government polices are no rocket science. They are done in a way that makes sense to the average citizenry because it is those people who will run those policies. So, government policies are guided by logic. Today, Nigerian policy makers are thinking out of the box to make policies, which the citizens can identify with. And where it has to affect the populace negatively, they try their best to make sure the damage is minimal or cushioned. What, therefore, is the logic behind the deregulation policy? The answer is that deregulation, as it is currently being touted does not make sense. The logic behind it is wrapped and dangerously flawed .The paper begins with clarification of concept in a thematic form. It goes on to identify the epochal historical development of deregulation policy in Nigeria, its major proponents and opponents that counter their theses drawing inferences from both OPEC and non- OPEC states' experiences of their oil and gas industry. The paper equally suggests possible ways out of the crisis and concludes by positing that the reasons advanced by the federal government for the planned deregulation of the down stream sector of the oil and gas industry fail to add up to the realities on ground and should be suspended.

Keywords: FALLACIES ; DOWN STREAM OIL SECTOR ; DEREGULATION IN NIGERIA

INTRODUCTION

Following persistent structural disequilibria arising from both external shocks and domestic imbalances in the late 1970s and early 1980s, the Nigeria government instituted a programme package designed to correct the disequilibria and restore the economy on the path of growth. This programme named “structural Adjustment programme” was launched in July 1986 and designed in line with the standard international monetary fund-World Bank structural adjustment package. The underlying philosophy of the package is couched within the framework of the classical “free market mechanism”. This forms the thrust of the policy recommendation, which stresses the deregulation of all economic activities and the dismantling of all forms of administrative control.

Experiences have shown that government’s intervention in the market produces excessive price distortion, which leads to sub-optimal resource allocation and inefficiency. It is in a bid to curb such notorious government interference with the price system and minimize excessive distortions that policy makers in Nigeria resort to economic deregulation. Simply defined, it is a deliberate and systematic removal of regulatory controls, structures and operational guidelines in the administration and pricing system of the economy

The long touted deregulation is part of government’s plan to reform the oil industry. Although, a Petroleum Industry Bill, (PIB), is pending before the National Assembly, which will give legal backing to the reform, it is generally believed that it is sad that Nigeria, an Oil Petroleum Exporting Countries’, sixth largest oil producer, still imports refined products whereas it has crude in abundance, due to provocative policies formulation and implementation by insensitive leaders. Lately, the thesis put forward, among others, is that deregulated economic policies will attract investors into the oil and gas sector and engender competition that would in turn bring down the prices of petroleum products.

Last two weeks, confusing clue on likely take – off date for subsidy withdrawal on refined petroleum products again underscored the inevitability of the deregulation regime. If the meaning of deregulation actually entails the cessation of government's participation in the business whereas, both government and the private importers had been engaged in the business of importation of the product all this while, stopping the independent marketers now raises a lot more questions on the sincerity of government in this direction. Does it mean that when the full deregulation begins, government will now import marketers from the moon or mars to play the role the already existing marketers are playing as members of the organized private sections? Or will they call them back to commence fully as the private sector participants in the present importation business?

This paper seeks to address and challenge the reasons advanced by the federal government for the planned deregulation of the down stream sector of the oil industry which fail to add up to the realities on ground. To achieve this objective, the first part of the paper addresses conceptual issues; the second part examines the epochal-historical development of deregulation in the down stream petroleum sector. The third section addresses the lies about deregulation while the fourth part provides alternative path towards understanding deregulation. The final part concludes the paper by suggesting ways of making Nigeria's oil sector productive.

In view of the above antecedents, the research questions that will guide this article are:

1. What are the contending views of the concept of deregulation?
2. What are the reasons for or against the policy of deregulation in Nigeria?
3. What are the problems and challenges that are associated with the policy when compared with oil and non-oil producing states?
4. What are the possible ways of correcting the problems identified above?

Objectives of the Study

This paper has both general and specific objectives. The general objective of this study is to examine the fallacies in Nigeria. Other specific objectives are"

1. To explore in a thematic format the contending views on deregulation.
2. To identify the problems and challenges facing the implementation of the policy in Nigeria.
3. To compare the implementation of the deregulation exercise in Nigeria with other oil and non-oil producing countered.
4. To suggest ways of correction the problems and challenges olentified above.

Literature Review And Theoretical Framework

Literature Review: Thematic perspectives on deregulation

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 such enterprises; encouraging efficiency and effectiveness in resources utilization; reducing government borrowing while raising revenue; promoting healthy market competition in a free market environment; improving returns from investment and broadening enterprises share ownership thus engendering capital market development (Izibili and Aiya, 2007:228).

Put differently, deregulation in the economic sense means freedom from government control. According to Akinwumi et al (2005), deregulation is the removal of government interference in the running of a system. This means that government rule's 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, 2008:212).

Deregulation allows enterprises and services to be restricted as little as possible. For our purpose, deregulation means either the partial or total withdrawal of government controls in the allocation and production of goods and services. The question that should be asked at this juncture is what are the gains of deregulation in Nigeria? This question cannot be convincingly answered in isolation of the theoretical foundation of deregulation.

The most contentious issue in Nigeria is arguably the question of deregulation of the oil sector, which has been generating heated debates from its protagonists and antagonists.

The protagonists posit that the liberalization and deregulation of the down stream sector of the petroleum industry would finally actualize the objective of ending perennial fuel scarcity and maintaining sustainable fuel supply across the polity.

It also added that liberalization and deregulation of the sector would open it up for foreign investments, and, the incidents of petroleum products smuggling and inefficiencies in the sector. Besides, the thesis argues that petroleum products in Nigeria were the lowest in the world and with deregulation; the government would be able to channel funds to other sectors of the economy.

Furthermore, the protagonists equally posit that deregulation would break the monopoly of fuel supply by the Nigerian National Petroleum Corporation (NNPC). As the refineries were not working, the liberalization and deregulation would enable either stakeholders, including major and independent marketers, to import and market products.

As the NNPC lacks the capacity to import enough petroleum products for the country, couple with the perennial malfunctioning of the refineries, the government's introduction of the Petroleum Support Fund (PEF), from which it draws money to pay the excess expenditure incurred by the marketers for importing and selling petrol at regulated price and distributing it to every part of the country, should be stopped the thesis concludes. The major proponents of this thesis include the Federal Government, the Presidential Steering Committee on the Global Financial Crisis, the Nigerian Economic Summit Group (NESG).

The antagonist believes that the Nigeria petroleum industry must not be liberalized, or deregulated, or privatized completely, for whatever reason and that the status quo should remain, maybe with minor fine tuning "here and there" to improve efficiency, as appropriate, "in the overall national interest".

This thesis also posits that 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-run petroleum product pipelines and oil movement infrastructure nationwide, the collateral damage of institutionalized corruption, with the frightening emergence of local nouveau riche, 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, of all of which are the root causes of the protracted and seemingly intractable fuel crises that have bedeviled the polity relentlessly for close to a decade now, are all predictable outcome of government involvement in the down stream sectors of the Nigerian petroleum industry.

Finally, they posit that deregulation helps increase profit margin for the importers. Essentially, this extreme is the implied position of the Nigerian Labour Congress (NLC) and the organized civil society.

Between this extreme is the third thesis that believes that deregulation is desirable in freeing government of its concurrent control and involvement in the business of refining, importation and distribution of refined petroleum products in the Nigerian market. In the opinion of this proponent, the deregulation of the petroleum industry in Nigeria should be implemented in phases, so as to enable the state-owned monopolies to regain efficiency, before full privatization.

Theoretical Framework of Analysis

In economic literature, there forms of economic systems are predominant:

a. Free market economic model
b. Centrally planned market economy
c. Centrally planned command economy

This study will adopt the free market model as its framework of analysis. This approach is closely associated with such terms as capitalism, laissez-faire, economic liberalism, and free trade respectively. Economic internationalists are liberals. They posited that international economic relations should and can be conducted cooperatively because, in their view, the international economy is non-zero sum game in which prosperity is available to all.

With the massive reduction in government intervention in economic activities, the superiority of the free market model has been clearly demonstrated as the other two economic models are now being abandoned. The economic case for deregulation of markets rests on the well know proposition that, given certain conditions, free market equilibrium entails the maximization of efficiency in the pare to optimal sense (Griffin and Enos, 1970:21). This proposition follows originally from Adam Smith's doctrine of Laissez fair. 'Non intervention by government in business' published in his monumental work: An Inquiry into the Nature and Causes of the Wealth of Nations (1776).

According to Adam Smith, Government should not interfere in economic process and should follow a policy of laissez faire. The syllogism is that in a free market, people acting to further their own self interest will be led by an invisible hand to promote efficiently and the interest of the society as a whole. Thus, with competitive markets, and an absence of government regulation, the resulting market prices bring about an optimum allocation of resources, in that consumers receive the goods they want at the lowest possible cost.

However, because of the issues of market failure and the inadequacies of the prices mechanism for the allocation of resources. The free market model has been faulted in several respects. Thus, in many circumstances, the invisible hand of the market mechanism has been subjected to the control of the guiding in most third world economies stepped in to address the issue of market failure by assuming increased control over aggregate economic activity through the use of macroeconomic and sectoral policies as well as through increased participation in economic activities in the form of nationalized industries, public enterprises and public investment programmes.

Since the 1980s, the world economic landscape has changed tremendously. Many economies are being massively deregulated. Public enterprises are also being privatized and commercialized while market forces are being heavily relied on. The ascendancy of the current pro-deregulation viewpoint especially in developing countries has been attributed largely to such factors as:

a. The re-emergence of neo-classical economic theory and the belief in the efficiency of the free market.

b. The Mckinnon-shaw thesis regarding the positive role of deregulation in Korea's economic development.

c. The current widespread political support for deregulation in the United States

d. The collapse of the economies of the USSR and Eastern Europe (Asogwa, 1995:91) economics reforms programmes adopted in many developing countries such as Nigeria have been anchored on the framework of the competitive "free" market system. This is the major strategy of the current deregulation in Nigeria.

Methodology

Data for this study are from secondary sources. The secondary sources mostly involved the materials gotten from the library. It also involved extension review of literatures especially those ones relevant to the study. These sources include materials from textbooks, journals, Government publications, magazines and newspapers. The technique of content analysis would be used to analyze the contents of these materials. Tables and pictogram will equally be used to support the technique of content analysis.

Analysis and Discussion

The Case For Deregulation: The Fallacies

The basic thesis for deregulation is that Nigeria must improve the capacity of the oil and gas industry to attract needed investments to ensure the adequacy of affordable supply. The federal government supports this basic case for deregulation by citing her achievements in the telecommunication and banking sectors as well as her earlier attempts to deregulate in the petroleum downstream sectors. For the federal government, deregulation brings with it removal of subsidies, competition, predictable tax regime for government as well as de-politicization of the system, thereby leaving government to focus on policy development and provide the necessary stimulus to grow the oil and gas industry and make it more efficient.

Government's rationale for deregulation is hinged on the claim that it spends well over N500 billion yearly on fuel subsidy and that the rich are the ones reaping bountifully from the government largesse.

Signaling its intention to fully deregulate the down stream sector of the oil and gas industry by 2010, the federal government said it has invested over N2 trillion on fuel subsides in the last five years; funds which would have been better invested in boosting such infrastructures as roads, hospitals, electricity and security. Infact, Petroleum Minister, Dr. Rilwanu Lukman said in 2008 that the level of subsidy rose to about N630billion equivalent to about 50 percent of the capital budget of the federal government. Much of the money is spent on equalization fund to take fuel from Lagos and ensure they are sold at the same price in other parts of the country. This diversion of scarce resources, according to the minister, cannot be sustained over the long term (Iba, 2009:39).

The pressure on Nigeria's treasury, and the urgent need to finance a number of key national projects are the major driving force behind government urgency to deregulate the downstream sector of the petroleum industry, *Business Day* has learnt from the minutes of a recent meeting held between senior government and Nigerian National Petroleum Corporation (NNPC) officials and organized labour that the propensity to always fix the pump price of fuel artificially accounts for the almost wholesome importation of the products and the reluctance of private investors to build refineries in the country.

Put differently, the decision to deregulate the industry is linked to the need to encourage private ownership of refineries. According to Lukeman:

Nigeria's long term energy security depend on the ability to deliver products in the domestic markets at cost relative prices and this can only be attained in an environment where clear rules are set and oligopolistic market distortions are removed. Deregulation will encourage third party investments in new refineries and contribute to making existing refineries cost centres (Iba, 2009; B9).

Notedly the Obasanjo administration had, in 2004, issued licenses to 18 firms to build refineries in Nigeria but, perhaps, except for Orient Petroleum which is building a refinery in Anambra State, none of the remaining 17 has set in motion the process of consummating their licenses; five years after citing the regulation of the sector as a militating factor to cost recovery.

In other words, a successful deregulation should ideally trigger investment for growth. For this to happen in a most efficient manner, product pricing must be freed and dictated by market forces rather than government policies and interventions.

Investment decisions of projects are inevitably dictated by their profit ability; largely driven by the cost as well as the price of the end products. For the downstream sub-sector, appropriate product pricing is key to profitability of all projects since the refinery margins are usually not robust enough to guarantee sufficient returns on investments.

All the existing refineries have deterioted with age and currently operate epileptically and far below design capacities as captured by table 1 below:

Table 1 Showing OPEC Countries' Population, Refining and Consumption

COUNTRY	POPULATION	CONSUMPTION CAPACITY Barrels per day	REFINING CAPACITY Barrels per day
Algeria	34.4m	299,000	450,000
Libya	6.3m	273,000	378,000
Angola	17.4m	56,000	39,000
Nigeria	140m	286,000	500,000
Ecuador	13.5m	178,000	176,000
Iraq	29.5m	600,000	600,000
Iran	72.2m	1.7m	1.5m
Kuwait	2.9m	325,00	936,000
Qatar	855,000	99,000	200,000
Saudi Arabia	25.2m	2.3m	1.28m
U.A.E.	4.5M	423,000	781,000
Venezuela	28.1m	740,000	1.28m

Source: Alozie, E. (2009:18) "The Lies About Deregulation", *Nigerian News World*, October, 26

In the short term, emphasis is on revamping the existing refineries with a view to improving uptime. This involves extensive Turn Around Maintenance (TAM) and upgrade work on the existing refineries as currently on going in the national refineries.

Deregulation became a major policy issue of the polity's oil sector since 1985. Before then, the price of petrol was sold for less when compared to a bottle of soft drink. That was when then military president, Ibrahim Babangida's regime introduced partial removal of government subsidy on petroleum products. Since then, the pump price of petroleum products in Nigeria has been influenced by changes in the International market. More than any other, the administration of former president Olusegun Obasanjo is swarm plentifully in the fuel pricing controversy, moving it 13 times in his eight-year reign (see table 2 below)

Table 2: An Ending Cycle: Fuel Pump Price Movement in Nigeria Under Different Regimes

Date	Price Movement per litre	Regime
1973	6 – 9.5	Gowon
1978	9.5 – 15.3	Obasanjo
1982	15.3 – 20	Shagari
1986	20 –39.5	Babangida
1988	39.5 – 42	Babangida
1989	42 –6	Babangida
1991	60 – 70	Babangida
1993	70 – N5	Shonekan
1993	N5 – n3.25	Abacha
1994	N3.25 – n15	Abacha
1994	N15 – n11	Abacha
1998	N11 – n25	Abubakar
1999	N25 – n20	Abubakar
2000	N20 – N30	Obasanjo
2000	N30 – N25	Obasanjo
2002	N25 – N26	Obasanjo
2003	N26 – N40	Obasanjo
2003	N40 – N34	Obasanjo
2003	N34 – N39.50	Obasanjo
2003	N39.50 – N41.50	Obasanjo
2004	N41.50 – N40	Obasanjo
2004	N40 – N48.50	Obasanjo
2005	N48.50 – N52.50	Obasanjo
2007	N67 – N66.50	Obasanjo
2007	N66.50 – N65	Obasanjo
2007	N66.50 – N65	Obasanjo
2007	N70 – N65	Yar'Adua

Source: Onyemaizu, C (2009:20), "Deregulating Trouble", *The Source*, October, 26

Before former President left office on May 29, 2007, the price of petrol jumped from N66.50 to N75 a litre. The last increase was done barely two days before he left office. The current N65 a litre was the first time the Nigeria government would be reducing petroleum pump price when there was a decrease in oil price in the international market. Nigeria is the only member of OPEC where pump price of petrol is very high. Even non-oil producing countries sell cheaper than Nigeria. For instance, the price of fuel sells at equivalent N47.72 in Egypt, a non-OPEC country while Iran, an OPEC member sells the product at N58 as Tables 3 & 4 identified

Table 3 Showing Comparative Fuel Price in Both Oil Exporting and Non-exporting Countries

COUNTRY	*PRICE*	*OIL STATUS*
Egypt	**N466..72**	**Non-exporting**
Iran	**N58.40**	**Exporting**
Kuwait	**N30.66**	**Exporting**
Qatar	**N32.12**	**Exporting**
Saudi Arabia	**N17.52**	**Exporting**
U.A.E	**N54.02**	**Exporting**
Venezuela	**N5.84**	**Exporting**
Malaysia	**N73.00**	**Non-Exporting**
Mexico	**N81.76**	**Non-Exporting**
Libya	**N15.95**	**Exporting**
Nigeria	**N65.00**	**Exporting**
Bahrain	**N39.42**	**Non-Exporting**
Russia	**N90.52**	**Non-Exporting**
Indonesia	**N81.14**	**Non-Exporting**
T & T	**N70.08**	**Non-Exporting**
Turkmenistan	**N11.68**	**Non-Exporting**
USA	**N108.04**	**Non-Exporting**
China	**N118.26**	**Non-Exporting**
Brunei	**N56.94**	**Non-Exporting**

Source: Alozie, E. (2009:17) "The Lies About Deregulation", *Nigerian News World*, October, 26

Table 4 Showing Refinery Ownership in OPEC Countries

COUNTRY	*REFINERY OWNERSHIP*	**NO OF REFINERIES**
Algeria	**Sonatrach, state owned**	**4**
Angola	**Sonongol, state owned**	**1**
Libya	**National Oil Co, State owned**	**8**
Nigeria	**NNPC, State Owned**	**4**
Ecuador	**Petrecuado, State owned**	**3**
Iraq	**National Oil Co, State owned**	**8**
Iran	**National ranian Oil Refining And Distribution Co. NIORDC, State owned**	**9**
Kuwait	**Kuwa it Petroleum Refinery state owned**	**5**
Qatar	**Qatar Petroleum Company, state owned**	**2**
Saudi Arabia	**Saudi Arabia Oil Co, Aramco, state owned**	**12**
U.A.E	**Abu Dhabi National Oil Co. ADNOC, state owne**	
Venezuela	**PDVSA, State owned**	**6**

Source: Alozie, E. (2009:17) "The Lies About Deregulation", *Nigerian News World*, October, 26

The problem of oil distribution in Nigeria is that the country relies heavily on imported fuel due to the non-functioning of Nigeria's four refineries. Ibrahim Boyi, managing director of Eterna oil and Gas Company Plc blamed the high cost of petroleum products on non-functional refineries located at Warri, Port Harcourt and Kaduna. Nigeria's four refineries operate below production capacities as table 3 captures. The Obasanjo administration had issued licenses to private individuals to build refineries. It also privatized the four refineries to make them functional. These were cancelled when Yar'Adua administration came to office.

Interestingly, all the OPEC and Non- OPEC member nations have functional refineries – subsidy comes about as a result of the failure of local refinery capacity. For instance what amounts to subsidy is first the cost of buying from many Asian refineries, the cost of loading, the shipping and landing costs, the tariff charged by the Nigerian Customs Service, (NCS), and the sundry cost of distribution to many dispensing outlets. These artificial costs would have been eliminated if Nigeria as an oil producing polity is able to refine her crude oil locally. According to Adeoye (2009:10):

There is the misrepresentation that government is spending so much through the petroleum Equalization. Fund Management Board and Petroleum Products Pricing Regulatory Agency to subsidize mainly Petrol Premium Motor Spirit (PMS) for domestic consumption. While, it is quite true for PPPRA, which has the mandate of running the multi-billion Petroleum Support Fund (PSF), the PEF Management Board does not take a penny from government to reimburse marketers. The "Board" gets its funds from consumers of PMS. At the point of loading imported PMS, oil-marketing companies pay bridging fund (plus marine transport average) of N3.95 per litre. The "Board" collects this money at the ports and subsequently uses it to offset transport and bridging cost to all marketers so that prices of petrol would remain fairly the same all over the country. Consumers of petrol eventually pay marketers the N3.95 per litre when they buy fuel at filling stations, because that amount is part of the N65 per litre they pay. Therefore, government does not spend a penny on equalization. However, the money collected by PEF runs into billions, when you think of the fact that Nigerians consume an average of 35 million liters per day of PMS, 85 percent of which is imported.

Nigeria consumes more imported refined products than any other OPEC member state excluding Ecuador despite her rich crude oil reserve. The country however, has the lowest refining capacity per-capita between OPEC member states as table 3 explains. A comparative analysis of the refining capacities of other OPEC nations shows that whist Venezuela has a refining capacity of 1.3 million barrels per day from eight functioning refineries at home and three in Europe, Nigeria has only four refineries functioning at below 35 percent installed utilization capacity. Libya, Saudi Arabia and Iran among others are currently on the verge of doubling their refining capacity. All the refineries are state owned.

Nigeria is not the only OPEC country sub-sidizing petroleum products. Alozie (2009:19) explains that Malaysia, a non-OPEC country, spends $14 billion annually to subsidize gasoline, diesel, and gas. As at 2008, with the crude oil price at $147, Indonesia sold a litre for 65 cents. Prior to the rooftop crude oil price of $147 per Barrel, Indonesia at 2005 sold fuel for as low as 20 cents or equivalent of N29 and as crude price climbed to its world record highest in mid 2008, the peak price of fuel was just 70 cents. Today with a crash in price, the product is sold at 59 cents. In Libya, the government spends $5billion to subsidize fuel products annually, whereas Nigeria spends only N600 billion or $4.1 billion annually to subsidize petroleum products.

Government has canvassed that the de- regulation in the oil and gas industry would bring the same success as in the sector. But this thesis seems not to convince Nigerians. The contention is that unlike the telecommunication industry, Nigerian economy is oil driven. Any change in the pump price of fuel will have a spiral effect on the economy. Also the refineries, which would have given local investors a level playing field to compete in the deregulation, are not functioning at optimal capacity.

Economic advisers to the Nigeria government are also projecting a further revenue decline by 2010, and so, believe that this is the best time to inflate official earnings through immediate withdrawal of the subsidies. If the plan succeeds, Nigerians may have to pay as much as N94.11k for a litre of fuel, while a litre of kerosene could sell for about N102.25k. The development is seen as a bitter prescription that will herald harder times for most Nigerians.

Adeoye (2009:10) counters by positing that fuel price increase has negative impact on government revenue. In 1982, fuel price increased to 20 kobo, while total federal collected revenue fell to N11,764 million,1n 1986,fuel price rose to N39.5k while revenue fail N12,383 million .However the fuel price in 1993 and 1994,fell to N3.50k and N11 per litre respectively, while revenue rose to N138,874 million and N201,911 million respectively. In 1998, fuel price rose to N2500 per litre, while government revenue fell to N463, 609 million. This inverse relationship can be attributed to labour unrest, which resulted in a fall in oil and gas industry activities consequently affecting the revenue that would accrue to government coffer.

Adeoye (2009:10) goes on to highlight that whereas labour demand is influenced by money wage rate, labour supply is influenced by expected real wage rate. Thus, wage legislation has influenced market negatively. In 1982, petrol price rose to 20 kobo; while unemployment stood at 4.1 percent. During the era 1986 – 1990, fuel price rose to 60 kobo; while unemployment fell to 3.4 percent. Between 1991 and 1992, fuel price rose to 70 kobo; while unemployment stood at 3.8 and 4.0 percent respectively. However, the inverse relationship witnessed during the era 1986 – 1990 can be attributed to the positive impact of SAP on the economy; which eroded in 1991.

In terms of the linkage between fuel price increase and inflation, in 1978, petrol price increased to 15 kobo, while inflation rate rose to 21.7 percent. However, in 1993, petrol price fell to N3.25kobo, while inflation rate stood at 10.00 percent. In 1999, the price fell to N20.00 while inflation rate declined to 6.6 percent. The inverse linkage can be attributed to deficit financing by the Federal Government.

RECOMMENDATIONS, SUMMARY AND CONCLUSION

RECOMMENDATIONS,

President Yar'Adua has a penchant for reversing existing policies without introducing viable alternatives (Eme, 2008). Yar'Adua reversed the deregulation exercise set in motion by former president Olusegun Obasanjo, although defective. A reasonable and responsible approach to deregulation is to first put in place, necessary structures. The government should facilitate the building of new refineries by interested investors (including those who have not utilized their licenses since 2004). The existing refineries should be appropriately priced and sold to investors who will make them work. The government should muster the courage and political will to deal with the racketeering, which it knows exists, in fuel importation.

Petroleum Industry Bill (PIB) and Local Content Bill (LCB), which are pending before the National Assembly who will give legal backing to the oil and gas reform in the industry, should be considered quickly. When passed into law, the bills will form the foundation of oil and gas businesses in Nigeria.

Before deregulation can be reasonably pursued, meaningful and beneficial to the general public, the country should be able to meet the greater part of its domestic requirements from its local refineries capacity. Before this is achieved, the government should smash the racket in fuel importation. It should ease fuel importation by expanding jetties and other receiving facilities so as to considerably reduce or completely remove the heavy payments on demurrage. Instead of the periodic sharing of the fund in the excess crude account, which the senate had declared illegal, the government should use the money to rapidly develop infrastructures such as rail system, power, energy, and roads.

This will facilitate the transportation of bulky goods, break the exploitative grip of tanker drivers and owners on fuel transportation and reduce the cost at which fuel will be delivered at different localities. Deregulation will not be a painful experience once significant structures are put in place.

Again, since the price of crude oil fell in the international market, there has been a corresponding drop in prices of refined products. If the landing costs of imported fuel remain high in Nigeria, it is due to the failure of the government and the incompetence of its agencies. We strongly advocate for the review of the PPPRA to be benchmarked with our local refining cost template in order to assuage the effects of the inherent market fundamentals and to attract more players to the downstream oil and gas sector.

Finally, Late General Sanni Abacha was aware of the social issue surrounding petroleum products; that was why he increased the price of petrol only once throughout his four year rule, when he increased the pump price, using the same argument which successive regimes have been pushing; he used less than N5 out of the difference to set up the Petroleum Trust Fund (PTF). The PTF massively commenced operations nation-wide within its approved mandate in 1996. These include road rehabilitation, supply of essential drugs and rehabilitation of urban water supply system. The fund may not have been perfect, but it delivered on some of these stated projects. For instance, when Obasanjo scrapped the organization, he never offered any superior initiative, let alone, any visible infrastructure that Nigerians can point to as his palliative measures against the effect of fuel price increases on the people.

President Yar'Adua, his successor is towing the same line; and it is getting worse and the impact is becoming harder on Nigerians. The solution to this matter is simply for him to bring an agency that can do the same thing PTF did under Abacha era.

SUMMARY

This paper attempts to evaluate the economic logic behind Nigeria's government policy of deregulation of the oil down stream sector. The paper begins with clarification of concept in a thematic form. It goes on to identify the epochal historical development of deregulation policy in Nigeria, its major proponents and opponents that counter their theses drawing inferences from both OPEC and non- OPEC states' experiences of their oil and gas industry. The paper equally suggests possible ways out of the crisis and concludes by positing that the reasons advanced by the federal government for the planned deregulation of the down stream sector of the oil and gas industry fail to add up to the realities on ground and should be suspended.

CONCLUSION

By reversing itself on the planned total deregulation of the downstream sector of the Nigeria's oil and gas industry, the Federal Government has staved off a reaction that would have virtually paralyzed an already comatose economy. The managers of the Nigeria's oil have become an albatross around the country's neck. Allegations of its failure to account for oil money have become a frequent occurrence. The political leaders have unfortunately not found the political will or wisdom to deal with it. As the paper continues to contend, there is nothing wrong with deregulation. The problem has been erroneously equated with subsidy removal and increase in prices of petroleum products. The managers of the country's oil wealth should be able to appreciate the fact that there can be regulation without subsidy once the management is efficient and corrupt free.

In view of the above theses, the paper concludes by positing that the reasons advanced by federal government for the planned deregulation of the downstream sector of the oil and gas industry fail to add up to the realities on ground.

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