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POLITICAL ECONOMY OF DOWNSTREAM OIL SECTOR DEREGULATION IN NIGERIA

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Abstract

Debate on the pricing of petroleum products in Nigeria has concentrated on whether to subsidize these products or not. This debate has been fierce between the proponents and the opponents. In this paper, we argue that this debate does not go deep enough in understanding challenges facing the downstream oil sector. We then provide a political economy framework for understanding the evolution of the Nigerian oil industry. We show that both downstream and upstream oil sectors in Nigeria started out deregulated and that regulation came through three streams. First, as a condition for joining OPEC in 1970s Two, as nationalist weapon in postcolonial Africa, and three as a result of the "entitlement mentality" surrounding oil wealth distribution. These three tendencies have built up a dysfunctional downstream oil industry that has stunted investment and produced sub-optimal economic outcome. We advocate a total and comprehensive deregulation of the downstream and minimal space for political considerations

Keywords: Deregulation, Downstream Sector, Oil Industry, Political Economy, Subsidy, Entitlement Mentality

INTRODUCTION

The discourse on the deregulation of the downstream sector of the Nigerian oil industry has concentrated on just one aspect; the removal of subsidy on petroleum products. Deregulation is however more than mere removal of subsidy. It involves the total removal of government control in the entire downstream petroleum sector. This requires private sector participation in refining, supply and distribution of infrastructure such as pipeline, depots, terminals and finally petroleum products distributions and retails. This partial conception of deregulation has created a situation where different stakeholders in this debate interpret the situation from their own stand points. Labour leaders within the industry oppose deregulation because it will lead to private sector domination of the industry. Consumers equate deregulation to increase in price of petroleum products, while civil right activists, civil society organizations and non-governmental organization (NGO) oppose it because of its anti-welfare and anti-poor status (Centre for Public Policy Alternatives 2012). The reason for these diverse perceptions is simple. Government dominated and regulated oil industry has become a tradition and normal in the estimation of most Nigerians and subsidized petroleum products have long been considered as the right of the Nigerian people. The narratives around the subsidy debate have always been that Nigeria has the capacity to provide cheap retail fuel for its teeming population (Akinwale et al2013 Efobi etal 2013). However, as the cost of providing for this subsidy has continued to increase dramatically in recent years. Therefore, there are increasing needs to have a better understanding of the downstream sub-sector and how this can help in reforming it (Adenikinju and Omenka 2013).The Nigerian oil industry started out as a private sector-driven industry both at the upstream and downstream sectors. The reason for this is very simple. The technology and the skill required to drive the exploitation of crude oil can only be produced by the private sector. The first refinery in Nigeria was built by Royal Dutch Shell and operated exclusively as a private entity. The downstream sector of the Nigerian oil industry was therefore not fully regulated until 1973 when the Federal Government introduced uniform price for petroleum products and began the process of building and running refinery (Balouga 2009).The downstream sector which is involved in refining of crude oil and storage and distribution of the products is now dominated by the government. This domination has created enormous problems as the capacity of the government to manage and run the refineries efficiently has dwindled over the years (Ezinrim et al., 2010).

The upstream sector which focuses on mining, exploration, production, and exploitation is dominated by the multinational companies. The multi-nationals are extremely powerful within the industry and dictate the direction and quantum of production. However a very few indigenous companies operate in the industry but mostly at the margin. The activities of both the upstream and the downstream are dominated by the state-owned oil corporations; Nigerian National Petroleum Corporation (NNPC), which acts both as regulator and competitor within the industry (Onyisi et al 2012). This paper seeks to contribute to the debate on the deregulation of the downstream oil sector in Nigeria by discussing it within the context of the evolution of the

Nigerian oil industry itself. The evolution is traced through the nationalization of the Nigerian oil industry, following her joining of Organization of Petroleum Exporting Countries (OPEC) in 1971and how it has come to define the Nigerian oil industry. The enduring tendency of state dominated oil industry has created an over-regulated downstream sector which requires total reforms beyond mere subsidy removal. The remainder of this paper proceeds as follows; section two of this paper reviews some literature. Section three presents the theoretical framework; this is followed in section four by some stylized facts about the Nigerian oil industry. Section five presents the main argument of the paper that the deregulation of the downstream oil sector is beyond subsidy removal and discusses the three tendencies that have come to define the regulation regime in the industry. Section five also concludes and suggests policy recommendations.

REVIEW OFLITERATURE

The literature on the deregulation of the downstream oil sector is rich and diverse. It can however be divided into four strands; those who opposed deregulation; those who supported it; those who define it narrowly within the idea of subsidy on petroleum products and those who relate it to the broader issue of complete liberalization of the oil sector. Iwayemi et al 2009: Widodo et al 2012: Adenikinju and Omenka 2013: Davis 2013: Adagunodo 2013) analyzed how oil subsidy payment distorts the allocation of petrol products and the market mechanism that ought to efficiently allocate the products. These studies also show how the regulation of the sectors discourages private investment, create disincentive for technology transfer and places fiscal burden on the government through huge subsidy payments. Specifically, Adagunodo (2013) described how regulated downstream sector through subsidy payment resulted into overuse of resources and the discouragement of investment in the alternate sources of energy. Some studies investigate the impact of subsidy payment on the environment (Porter 2002: Holton 2012), these studies showed that subsidy payment may endanger the environment as it encourages excessive consumption of fossil fuel. Those who oppose the total deregulation of the downstream sector have been as resolute as those who supported it. Ozon (2002) argued that the Nigerian economy is too undeveloped to adopt complete deregulation and showed that deregulation of the downstream oil sector will result in exploitation and income inequality. Most of the supporters analyzed the negative effects of subsidy removal and showed that subsidy payments have become a necessity within a framework of a welfare society. This body of work argued that subsidy payment is important as social safety net for the poor (Aghedo and Akpan 2012). Most of these studies concluded that if the payment of subsidy is well implemented it will reduce inequality gap between the rich and the poor (Balogou 2012).

Most studies have discussed the deregulation of the downstream oil sector only within the confines of subsidy payment removal. Adagunodo (2013) interrogates the effect of petroleum products pricing reform on the welfare of the Nigerian people. The central thesis of the paper is that every government policy must be targeted at improving the quality of life of the people and the reform of this sector should not be an exemption. Balouga (2012) analyzed the political economy of oil subsidy removal in Nigeria and concluded that policymakers should always take the people into consideration in making tough economic decisions. Some studies also relate subsidy payments reform to sustainable usage of natural resources and argue that subsidy reform should take this into consideration (Ekong and Akpan 2014). Some studies (Ellis 2010: and Onyeizugbe and Onwuka 2012: and Davis 2013 Birol et al 1995) incorporated the economic cost of subsidy payments to provide a better framework for understanding the subsidy reform debate. However some studies (Adenikinju and Omenka 2013: Anand et al 2002) have argued that the downstream sector of the Nigerian oil industry needs reform that is far beyond mere removal of subsidy on petroleum products. These studies showed that a comprehensive liberalization of the industry is required for optimal and efficient performance.

THEORETICAL FRAMEWORK

Neo-liberal economic system has come to dominate economic and political discourse since the 1980s throughthe twoBretton Wood institutions- The World Bank and The International Monetary Fund (IMF).These institutions have during the last three decades promoted undiluted and unfettered free market liberalism in all sectors of the economies of member states, irrespective of their level of development. The term neo-liberalism denotes free market mechanism and minimal state intervention in the process of allocation of scarce resources. The concept of neo-liberalism also encourages privatization, deregulation, market driven macroeconomic management, trade liberalization, labour market flexibility, and export-driven policies (Todaro and Smith 2011). It has its foundation in the writings of Adam Smith, who famously argued that since the market predates the state, the latter cannot regulate the former. Some other proponents of neo-liberal concepts are Friedrich Hayek, Milton Friedman. The resurgence of the neo-liberal doctrine followed the ascendency of conservative governments in western democracies in the 1980s, especially in United States and Britain. This has different effects on the economy of both developed and developing nations. In the former, it led to promotion of supply-side of macroeconomic policies, rational expectation and massive privatization of public enterprises, while in the latter it advocates dismantling of state-owned enterprises, free market mechanism and abolition of statist planning. For the neo-liberals, underdevelopment arises from poor allocation of resource by an overbearing state and distortion of price system through over-regulation. After taking control of the two premier global financial institutions, the World Bank and the IMF, began to spread their doctrine, philosophy and principles to the developing countries of the world especially in Africa Asian and Latin America (Todaro and Smith 2011).

However, there has been enormous opposition to the neo-liberal doctrine both in its original form as developed in the works of Adam Smith and others, and its contemporary bentas promoted by western liberalism which the IMF and the World Bank represent today. Alternative narratives were provided by Marxian theorists, the institutional school, and others, while in recent times free market mechanism has been shown not to favor the poor in the allocation of resources. In Africa, opposition to neo-liberalism has been very fierce (Baran 1975). These scholars have argued that neo-liberal concepts subvert the ability of African countries to determine their economic direction. It also puts them at a disadvantage in the global economic system and promotes economic exploitation and income inequality. This counter argument has its foundation in the economic ideas developed in the two decades of the 1960s and 1970s as African countries began the process of freeing themselves from colonization. This counter argument explains underdevelopment as consequences of neo-colonial dependence model, which argues that under-development is more of economic relations the poor countries has with the rich countries than on their inability to allocate resource efficiently. It was an extension of this argument and the need to take up the commanding heights of the Nigerian economy that led to the massive nationalization of the oil sector in Nigeria in the mid-1970s.

STYLIZED FACTS ON NIGERIAN OIL SECTOR

Nigeria is the14th largest producer of crude oil in the World. It also has the 8th largest natural gas reserve and the 10th largest proven oil reserve in the world. Crude oil exports dominate almost exclusively, Nigeria's external trade relations. Oil exports accounts for 90 percent of export and 96 percent of export earnings. It also accounts for 70 percent of government revenue and almost all the sub-national entities depend extensively on their share of oil revenue for survival. Although, oil accounts for around a fifth of the GDP, its influence in driving the economy far outweighs its proportion of GDP. Nigerian daily oil production hovers around 2.5 million barrel per day, from which it exports about 2.1 million barrel and uses the rest for domestic consumption (CBN 2014). However most of this is used for oil swap deal since the local refineries are not working. Nigerian domestic consumption of petroleum products is driven mainly by household consumption and transportation. Nigerian industrial base is very low and weak. Despite this however, domestic consumption is expected to increase in the coming years, as the population of country increases, and provided there is a commensurate increase in per-capita income of the people. The expected increase is also supposed to come from household substitution of energy source as poor households move from biomass energy source to fossil fuel (Akinyemi et al 2014).

THE EVOLUTION OF THE NIGERIAN DOWNSTREAM OIL SECTOR

In this section highlight the tendencies that have come to define the downstream sector of the Nigerian oil industry since the government took total control of it in the late 1960s. We start by briefly describing the industry during the pre-regulated era.

The Pre-Regulated Era

Nigeria oil industry started out with minimal government intervention. The first attempt was with exploiting crude oil in Nigeria started around Lagos in 1908, by a German company. This attempt was stopped because of the First World War. After the war the Royal Dutch Shell and the British Petroleum formed a consortium in 1937 and named it Shell D'Arcy through which they obtained exploration license from the British Colony Office. Again this effort was disrupted by the Second World War. However in 1956, the immediate years after the war, the company found crude oil in commercial quantities in Oloibiri and Nigeria exported her first crude oil of 6,000 bdp(Adebayo 1982).The advantage of this first exercise solidified the position of Shell-BP Petroleum Development Corporation in Nigeria and the company accounted for 85percent of the industry by 1967. Later government began to encourage the entry of other oil majors and by 1975, the numbers of International Oil Companies (OICs) operating in Nigeria had increased to 15 while the market share of Shell-BP reduced to 56 percent. In the downstream sector of the industry the first refinery in Nigeria was built by Royal Dutch Shell in Port-Harcourt in 1965 and operated exclusively as private entity. The marketing arms of the IOCs were run and operated as an integrated part of the IOCs.

The Reguratory Era

The Opec Declatory Framework

Preparatory to Nigerian joining the oil producing cartel OPEC in 1971, Nigeria came under intense pressure to wrestle its oil sector from the multinational oil companies in Nigeria and the country started this process by adopting the OPEC's Declaratory Statement of Petroleum Policy in Member states. The Nigerian oil sector has evolved over time since the discovery of oil in Nigeria. Between 1956, commercial production of oil in Nigeria, until 1970 which is the start of the decades that witnessed dramatic increase in oil price, the government of Nigeria was not seriously involved in the oil sector (Perry et al 2011). The government relied almost exclusively on the Multi-national Oil Companies (MNOC) for both upstream and downstream sectors of the industry. However, between 1966 and 1969, different Decrees were promulgated which formed the foundation of government participation in the oil industry. In 1970 the government established the Department of Petroleum Resources to regulate the industry on behalf of government and in 1971 it also established the Nigerian National Oil Corporation (NNOC) to manage government interest in the oil sector (Adebayo 1982). This was followed by government acquiring its first stake in NNOC in 1972 by signing a Joint Operating Agreement (JOA) with some of the NNOC. However the existence of both regulatory and commercial participatory roles in two different companies operated by government created some problems, especially in the operations of the Joint ventures. The government decided to resolve this problem in 1977 by establishing the Nigerian National Petroleum Company which has both the regulatory and commercial interest (Perry et al 2000). The NNPC participation in the sector is mainly through three different arrangements. The first is through the Joint Venture (JV) or Joint Operation Agreement (JOA) where the Nigerian National Petroleum Company (NNPC) operators, a business model, where benefits and obligations are shared with the dominant International Oil Companies (IOCs) operating in Nigeria, Shell, Agip, Chevron, and Elf. The second is the Production Sharing Contract which is very common with the high cost deep off-shore operations. Here, the NNPC acted as concessionaire and shared production activities and revenue with the IOCs. The third is the Service Contract (SC) where NNPC held the Oil Prospecting License (OPL) title, while the operating partners provided both the service and the funding.(Chidi, Badejo and Ogunyemi 2011). This means that the government vested in the same organization both regulatory and commercial interest powers. This has created a very large and powerful organization that dominated the Nigerian oil industry since then and has effectively become a behemoth (Perry etal 2000).

Today the NNPC dominates both the upstream and the downstream sectors of the Nigeria oil industry. It is a large organization with six directorates including the refining and petrol chemicals, which oversees the downstream sector of the industry. This directorate has the primary role of refining and distributing petroleum products by managing all the distribution infrastructure of the downstream sector. However, with the present state of the refineries and the inability of these refineries to meet the demand for petroleum products, Nigeria imports 80 percent of its petroleum products requirement today. This importation is regulated by NNPC just as it also participates in the process(Centre for Public Policy Alternatives 2012). The role of the NNPC in the downstream oil sector is so overwhelming that it licenses importers and distributors, fixes local pump prices, own fuel stations and depots and administers payments of subsidies to distributors. In effect, the NNPC performs omnibus roles at the same time. It is a regulator, through the marketers it oversees; a producer, through the refineries it operates; a distributor, through the depots and its network of pipelines; and a competitor, because it participates in the market it regulates (Centre for Public Policy Alternatives 2012). Nigeria's downstream oil sector is not as developed as the upstream sector, since as pointed out above, it is dominated by the state monopoly, the NNPC. The only exception to this is the Nigerian Liquefied Natural Gas Company (NLNG), which operates its downstream sector within the same private sector-driven frameworks which dictates its whole operations. For the NNPC dominated oil sector however, the downstream sector is dominated almost exclusively by the state –owned oil company. Nigerian four state owned refineries, Port-Harcourt I, and II, Warri and Kaduna, have production capacity of about 450,000 barrel per day but due to a variety of challenges, all the refineries are operating at below 30 percent of installed capacity (Centre for Public Policy Alternatives 2012)

The Nationalist Regime

The Arab-Israeli conflict of the 1970s led to a dramatic increase in crude oil price when Arab oil exporters decided to use oil as a political weapon against the Western supporters of Israel by cutting back productions. This resulted in a dramatic increase in world price of crude oil . Oil producers led by the Arabs cut back oil production and placed embargo on crude oil sales to European and American supporters of Israel. This strategy led to a dramatic increase in the price of crude oil in the international market. These events positively impacted on the revenue base of most oil exporting countries especially in the Middle East, Africa and South America. This made most oil producing countries to realize the leverage they have with the power of oil (Adebayo 1982). The realization by the Nigerian government that oil can be used as a nationalist weapon gained prominence in Nigeria and this was deployed to use by the Nigerian government. In 1974/75, the Nigerian government promulgated the indigenization Decree and started the process of nationalizing the Nigerian oil industry. The government purchased 55 percent shareholding in oil companies operating in Nigeria. Also during this period, Nigeria, under the Murtala/Obasanjo government in 1979, took total control of the oil marketing arms of Nigeria major oil producers, Esso, BP , and Shell and renamed them Unipetrol, African Petroleum(AP), and National Petroleum, respectively. The implication of this is that by the late 1970s the whole of the downstream oil sector in Nigeria has been completely nationalized. However, the acquisition of ownership did not result in complete achievement of management and technical control of the industry by Nigeria (Adebayo 1982).

The oil boom of the 1970s led to a dramatic increase in consumption of petroleum products in Nigeria. In 1971, the daily oil consumption in Nigeria was 60,000bpd but by 1978, this had increased to 235,000bpd, an increase of almost 300 percent. The existing distribution and pipeline facilities could not meet this demand and government decided to invest heavily in the downstream sector which it had by then taken over completely by doing two things. First, it increased the number of refineries from one in Port-Harcourt to four, one in Warri which opened in 1978 and another in Kaduna which was opened in 1980 and a second Port-Harcourt refinery was opened in 1985. Secondly, the government invested massively in the construction of 3000km multi-purpose pipeline which conveyed crude oil from the oil field to the refineries and refined products from the refineries to petroleum product depots constructed in each of the then 19 states of the federation (Adebayo 1982). During the several years that followed this period, Nigeria's population had increased dramatically and the consumption of petroleum products had increased without additional investment in infrastructure All these efforts however did not reduce the acute shortage of petroleum products and Nigerians have come to live with periodic shortage of the petroleum products since then. This is even as the people have come to see subsidized petroleum products as the only benefits they can derive from a state that has failed them in their expectations of provision of goods and services (Nwanze 2007).

Entitlement Mentality

Closely linked with the above is that the average Nigerian has come to regard cheap petroleum products as the only benefit from a state that has been unable to meet their basic needs. It is however this entitlement mentality of the people that the supporters of government regulation have usedas the basis of and rationale for their argument against deregulation. A common argument in the literature is that Nigeria has one of the highest price for petroleum products among Organization of Petroleum Exporting Countries (OPEC) (Ozon 2002: Onyeizugbe and Onwuka 2012), while this is true, it does not reflect the fact that most of the OPEC members countries have low population with high crude oil production quota and can therefore afford to subsidize petroleum products (See table 1). For highly populated OPEC members like Nigeria and Iran, this may be difficult because of low oil production per capita. A second part of this argument is that for highly populated oil producers, the economics of scale derived from large oil consumption base can be efficiently harnessed in a deregulated regime. As shown in table 1, Nigeria has the highest population among OPEC members and a relatively low production quota of 1.80mbpd, whereas Saudi Arabia with 18 percent of Nigerian population has 5 times her production quota. On the basis of production per capita, Saudi Arabia is 30 times better than Nigeria. Iran, the country with the second highest population on the table also charges high price for petrol.

Table 1: Petroleum Products Prices, Population And Production Quota In Selected OPEC Countries

S/N	COUNTRY	FUEL PRICE PER LITRE (NAIRA)	POPULATION MILLION)	OPEC PRODUCTION QUOTA (MBPD)
1	Kuwait	34.34	4.20	2.93
2	Saudi Arabia	25.12	28.83	9.64
3	Iran	102.03	80.04	3.57
4	Qatar	34.50	2.10	0.74
5	UAE	70.18	9.34	2.79
6	Algeria	63.55	39.21	1.20
7	Libya	26.69	6.20	0.93
8	Iraq	59.66	33.42	2.98
9	Nigeria	97.00	173.6	1.80

Sources: Ering and Akpan (2012),OPEC Statistical Bulletin (2014)

Also table 2 compares the components of retail fuel prices in some selected countries with that of Nigeria. Nigeria has the lowest price for retail petroleum products compared to some of its neighbors like Cameroon and Ghana and this has been one of the reasons why petroleum products smuggling is very rampant across Nigeria borders. Almost all the selected countries have tax as components of their retail petroleum products prices, Nigeria and Cameroon are the two countries without a tax component and given Nigeria large population base, this is actually bad economics. Also as shown in the table 2 Russia, with high population like Nigeria, has liberalized its retail fuel price, just like Kenya a net oil importer. Also the other two net oil exporters in the table, Gabon and Russia have tax component in their retail fuel price up to 43.2 percent and 30.8 percent respectively. What tables 1 and 2 have shown is that low retail price for petroleum products may only make economic sense in small oil exporting countries with higher oil production per capita.

Table 2: Petroleum Product Prices In Selected Countries (US$ Per Litre)

COUNTRY	PETROL FUEL PRICE REGIME	PRICE OF GASOLINE PER LITRE(US$)	TAX AS % OF GASOLINE RETAIL PRICE
Cameroun	Ad-hoc	1.07	NONE
Gabon	Ad-hoc	0.91	43.20
Ghana	Automatic	0.92	47.50
Kenya	Liberalized	1.04	26.60
Nigeria	Ad-hoc	0.51	NONE
India	Ad-hoc	1.04	55.10
Phillipine	Automatic	0.73	25.90
Russia	Liberalized	0.62	30.80

Source: Ishiak and Akpan (2012)

The Ideology Basis Of Subsidy Payments Regime

The ideological blend of successive governments in Nigeria can be deduced from how they have managed fuel subsidy regime. This is summarized in table 3, where each government was categorized according to both how frequently it changed fuel prices and its economic policy direction. Governments who practice economic statism are less likely to increase fuel price, while those that embrace liberal economic policies are more likely to increase fuel prices. In 1978 the price of premium motor spirit which is the benchmark for petrol products was increased to 15kobo, this was during the regime of General Olusegun Obasanjo as a military Head of State. This government was succeeded by the civilian government of Alhaji Shehu Shagari, and little was done about fuel price adjustment during that administration. The military government that followed in 1984 through a military putsch spent 20 months and never increased the price of petroleum products. The government which was led by General Muhammud Buhari was characterized by foreign exchange control and statist economic policy through state dominated economic control. This was also the period of low oil price and acute scarcity of foreign earnings. The government that followed in 1985 led by General Ibrahim Babangida adopted the International Monetary Fund IMF policy of Structural Adjustment Programme (SAP), removing exchange rate control, devaluing the naira, and generally liberalizing the economy. The effect of this was that the four years period between 1990 and 1993 the price of petrol was increased four times moving from 60kobo in 1990 to 5.00Naira in

1993, an increase of more than 700 percent. It should however be noted that the local currency also lost a substantial percent of its value during this period.

The interim government of Chief Ernest Shonekan was a stop gap government but it still went ahead to increase the price once, while the government of General Abacha which spent more than four years only increased the price of petroleum products also once .This government was also characterized by conservative economic policies like dual exchange rates and government domination of the economy. It was also the period of low oil prices in the international market. The transition government of General Abubakar Abuldulsalam did not change the price of the product. The civilian government of Chief Olusegun Obasanjo which came in 1999 adopted a wide range of reform programs which opened up the economy and resulted in a sustained growth of more than 6 percent for more than a decade. This was also helped by high oil prices. Predictably, the government increased the price of petroleum products six times in the 7 years period between 2000 and 2007 which cumulatively resulted in an increase of 250 percent. This government also sold off the state owned refineries. However the succeeding government of Alhaji Umaru Yar'Adua reversed the sales and renationalized the refineries. This is an indication of the nature of the government. It was characterized by many reversals of economic reforms and return of statist economic policies. The government as a response to the fall in oil price in the international market, actually reduced the price of petroleum products, this was the first government to do so.

Table 3: Adjustments In Prices Of Petroleum Products In Nigeria (1978-2012)

S/N	**DATE**	**ADMINISTRATION**	**PRICE(kobo and Naira**	**CATEGORISATION OF ECONOMIC POLICY**
1	1978	Olusegun Obasanjo	15k	Statist
2	1990	Ibrahim Babangida	60k	Liberal
3	1992	Ibrahim Babangida	70k	Liberal
4	1992	Ibrahim Babangida	3.25k	Liberal
5	1993	Ibrahim Babangida	5.00k	Liberal
6	1994	Ernest Shonekan	11.00k	Liberal
7	1994-1997	Sanni Abacha	11.00k	Statist
8	1998-1999	Sanni Abacha	20.00k	Statist
9	2000	Olusegun Obasanjo	22.00k	Liberal
10	2001	Olusegun Obasanjo	26.00k	Liberal
11	2003	Olusegun Obasanjo	40.00k	Liberal

12	2004	Olusegun Obasanjo	45.00k	Liberal
13	2007	Olusegun Obasanjo	70.00k	Liberal
14	2007-2009	Umaru Musa Yar'Adua	56.00k	Statist
15	2010-2012	Goodluck Jonathan	65.00k	Liberal
16	2012	Goodluck Jonathan	97.00k	Liberal

Source: Adagba, Ugwu and Eme (2012): Economic Policy is Authors Categorization

The succeeding government of President Goodluck Jonathan adopted the liberal policy of the Olusegun Obasanjo Administration and included in his government some of the leading reformers in Obasanjo;s government. The period also witnessed increase in oil prices. The combination of these two compelled the government to attempt a substantial increase in fuel price in 2012, a process it termed total removal of subsidy on petroleum products. The attempt by the government to increase the price by 114 percent from 63Naira to 141Naira was resisted by the citizens and the price was later reduced to 97Naira. The government later reduced it to 87Naira on the eve of the 2015 general election citing declining oil price, but more for political reason. The current government of General Muhamudu Buhari (Rtd) faced with a dramatic decline in oil price and foreign earnings, reduced the price of petroleum products and stopped the payment of fuel subsidy out rightly. The reason for this was not ideological. It was essentially a necessity, and an inevitable policy as low oil price has made the payments of 5 billion dollar subsidy annually unsustainable. Meanwhile, the decision to stop the payment of fuel subsidy as announced by the government was subsequently reversed, ostensibly because the removal was quasi in nature and very experimental. Seeing that it didn't work as there was an unprecedented upsurge in the scarcity of the products, the government resumed payment of the subsidy. This is one of the characteristics and manifestations of the political economy of developing countries and their penchant for policy summersault.

Fuel Subsidy And Corruption

Another twist to the subsidy politics is that the scheme was characterized by fraud and underhand dealings under the Jonathan Goodluck Administration. Majority of the independent oil marketers that benefitted from the payment either imported and later diverted the products to other neighboring countries or did not import any products at all. This practice occasioned the perennial fuel scarcity in the country even when records and documents showed that sufficient products were imported without commensurate availability. Viewed against the backdrop of the subsidies paid by government, it is curious that the products were not available for the consumers whom the subsidy was meant to ameliorate. This subsidy scam was made possible because of porosity and lack of transparency in governance. There was no proper monitoring of the recipients of the subsidy, ostensibly because of the conspiracy between the NNPC, the political class in power and the independent marketers. Subsidy payment by government became a patronage for political associates and loyalists.

Whereas, government's decision to pay subsidy on petroleum products was a design to reduce the incidence and burden of taxation on the final consumers, government did not know the actual number of the recipients of the subsidy and so there was no way it could monitor and account for the imports. Another problem is the politicization of NNPC. This has inhibited it from performing its statutory regulatory roles. The independent marketers have compromised the agency thereby turning it into a mere paper tiger. The shady deals in the industry and in consonance with its oversight function, the House of Representative to set up a panel to investigate the subsidy scam. The panel was chaired by Hon. Farouk Lawan. At the end of its investigation, the panel indicted several independent marketers, including Mr. Femi Otedola, who confessed to have compromised the chairman of the panel Farouk Lawan by giving him thousands of US dollars as bribe to remove the name of his oil company from the list of defaulters. The case is still pending in a high court sitting in Abuja, the Federal Capital Territory. Mr. Femi Otedola was one of the major the individuals that bankrolled the presidential election of Mr. Goodluck Jonathan. This incident is a testimony to the corruption embedded in the subsidy policy. It goes to show that not every marketer that collected the subsidy actually imported the products, hence the persistent scarcity of the commodity. To make matters worse, those who were caught or indicted in the subsidy scam were not prosecuted nor punished to act as deterrent to others, perhaps because of their political connection. The consequences of this are not lost on us.

CONCLUDING REMARKS

The discourse on deregulation of the downstream oil sector in Nigeria has revolved around the removal of subsidy on the petroleum products without fully understanding how the evolution of the Nigerian oil industry has come to define the inefficiency in the industry. In this paper we provided a political economy framework for understanding the industry. We started out by providing the historical evolution of the industry, and after this set out the three tendencies that have come to define the industry. First, we show that the policy of regulation and state domination of the oil industry was a follow up to Nigeria joining the OPEC cartel in 1971. This led to the formation of the national oil company that has come to dominate the Nigerian oil industry since then. Second, we also argue that following the successful deployment of oil as political weapon by Arab oil exporters during the 1976 Arab-Israel war, Nigeria, like other oil exporting countries, came to appreciate the usage of oil as a nationalist weapon and promptly used it as such. This led to a policy of nationalization of Nigeria oil industry and the complete takeover of the downstream oil sector by the government. Finally, we argue that as the myth of Nigeria as oil rich country grew among citizens, the people began to consider cheap petroleum products as their right and this resulted into successive periods of oil subsidy payments that distorted market mechanism in the industry. We showed that these three tendencies have combined together to produce a dysfunction oil industry that have stunted investment, promote inefficient resource allocation, and distorts the market for petroleum products. We therefore recommend that nothing short of complete deregulation of the industry will help in capturing the economics of scale of large market for the products and the resultant optimal allocation of resources.

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