SUBSIDY REMOVAL AND INDEPENDENT OIL MARKETERS' ACTIVITIES IN THE NIGERIAN DOWNSTREAM SECTOR: A CATALYST FOR PROGRESS

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ABSTRACT

It is general assumed that the removal of an impediment to the development of a matter can stimulate progress. The Nigerian economy is a mono economy solely dependent on the proceeds from oil for survival Crude oil is the mainstay of the Nigerian economy attracting up to 80% of the country foreign exchange. With its pivotal role in the development of the Nigerian economy this study focuses on accessing the activities of independent oil marketers in the Nigerian downstream oil and gas sector within the context of subsidy removal with the intention of making a case for their scrapping or retention. The marketing function of distribution is at the heart of marketing which borders squarely on logistics. However, the nefarious activities of oil distributors otherwise called independent oil marketers erode this function completely. The study adopts a thematic research design wherein existing literature on the subject matter were reviewed to discover gaps and outcomes for future research. From the findings, the retention of the independent oil marketers' activities due to its vital position in the provision of the final consumer is recommended however, an increase in the *supply of crude oil within the economy through the revitalization of the dilapidated refineries in Nigeria should also be considered; this would reduce the dependency on oil and development other sectors of the economy.*

Introduction

One of the largest producers of oil and gas on the continent of Africa is Nigeria (Kamer, 2023; Nwachukwu & Tumba, 2023). The United State Energy Information Administration (EIA) estimated that the oil reserve of Nigeria stands at between 16 and 22 billion barrels (Sharife, 2014); however, other sources assert that the reserve might be as large as 35.3 billion barrels. By this estimate, Nigeria is the wealthiest oil producing nation in Africa occupying tenth position amongst oil producers globally. As at 2022, oil and gas exports account for up to 95% of export income and about 88% of federal government revenue and produced up to 14% of the country Gross Domestic Product (GDP), 95% of foreign exchange earnings and about 65% of government budgetary revenues (Sharife, 2014; Kamer, 2023).

The Nigerian petroleum industry is divided into three sectors namely: upstream, gas and downstream sectors. The upstream is made up of offshore production and deep waters production which involves submarine drilling that is up to 400 meters (1,300ft) or more underneath the surface of the water. By enlarging to deep water drilling the possible sources for drilling oil is expanded. 50% more oil is extracted from this new form of retrieving oil. The downstream sector is made up of refineries that refine the oil as well as oil marketers who are responsible for the storage, transport and distribution of the product to consumers. The downstream sector is also known as the distribution arm which connects the consumer of refined petroleum product in the domestic economy. The federal government deregulated the downstream sector in 2003 on the premise of improving the performance of the sector to the customers' satisfaction. The 2003 deregulation of the downstream sector failed to record any success; this is due partly to the "strangeness" of the Nigeria economy (Ijeh, 2010). The Nigerian economy on oil is contradictory because in spite of rising crude oil prices which translates to increased external earnings for Nigeria; Nigeria spends more on imported refined petroleum products. This is because the refineries (which are four in number) in Nigeria which have a refinery capacity of 445,000 barrels per day are operating far below their installed capacities. The refineries capacity of 445,000 barrels per day falls short of the country daily fuel consumption of 566, 000 barrels (NNPC, 2023); hence, there is a need for importation of fuel and subsequent subsidizing to ensure purchase by the poor of the society.

The deregulation policy has lessened public sector domination and ensured a free market as well as the adequate supply of goods and services (Basil, 2016; Okafor, 2006). In August 2021, the Petroleum Industry Act was signed into law. This Act seeks to provide legal, governance, regulatory and fiscal framework for the Nigerian Petroleum Industry which when fully implemented is expected to have a significant implication on the Nigerian economy. Petroleum product distribution is therefore concerned with the flow of fuel from the plant to the ultimate consumers across a range of locations of delivery in the country. In Nigeria, the Pipeline and Product Marketing Company (PPMC) is charged with the wholesale, supply, distribution and marketing of petroleum product in Nigeria. Petroleum distribution in Nigeria is a complex task that involves transporting and storing of the product across the country. It involves a variety of major marketers and independent distributors that transport these products to their branded service stations (Ehinomen &Adeleke, 2012).

In every marketing operation, the place of distribution is distinct. Kolter (2009) adjudged that a well-designed and rightly valued product must be appropriately place at various locations to enable customers to access the product. The intermediary also known as the distributor stands between the manufacturer and the consumer. Independent distributors are not owned by manufacturers and as such have limited control over their activities (Kotler, 2009). One of the distinct characteristic of the independent intermediaries is that they tend to act primarily in the interest of their customers and only secondarily on behalf of the suppliers (Kotler & Armstrong, 2009) If this statement is anything to go by, then the independent distributors in the Nigerian oil sector are not living up to their responsibility. The frequent cases of price hikes as a result of incessant hoarding of petrol make for second thought. It is then pertinent to ask "is there a need for these distributors?" The deregulation of the oil industry in September of 2003 was in order to address problems of uneven provision of the petroleum product , hoarding, heightened product scarcity, adulteration, smuggling and long lines at service stations. The deregulation exercise conferred on the oil distributors some responsibilities which NNPC highlighted in its 2006 bulletin. In discharging these responsibilities (Ehinomen & Adeleke, 2012) observed that the marketers would still make profit as well as distribute their product effectively when adopted. Emedosibe (2009) noted that the marketers are likely to make an abnormal profit of 106% per liter in the performance of their responsibilities. These responsibilities range from supply, logistics and delivery of the products to various destinations.

If the independent marketers through the PPMC (the organ responsibility for the marketing of the product) have fully performed their responsibility as stipulated in the NNPC bulletin of 2006 then why are there still instance of fuel hoarding and long queues at filling stations? "The sole reason it aim to solve". In the same vein, oil subsidy was introduced into the Nigerian oil sector for this singular purpose: "to mitigate the consequence of real market prices of the product on the citizenry. Subsidy was introduced by the military regime in Nigeria who wanted to alleviate the sufferings of the poor masses by paying a little amount of the total cost of fuel for every Nigerian to make such product be at the reach of everyone. This is truly what is referred to as fuel subsidy; "that is the government paying part of the total amount of fuel cost. Government intention of cushioning the effect of actual market price of fuel product actually worked for a period of time" (ThisDay, 2023). However, the increasing sum of money paid as subsidy is becoming an impediment to the growth and development of the economy. For instance, in 2022 NNPC spent $10 billion on fuel subsidy and this amount exceeded the combined budget for the 36 states of the federation. The total amount of money spent on subsidy over the years is staggering; from 2015 to 2020 a sum of $5.5billion was spent on subsidy;; in 2021, it went up to $3.8 billion and $6.2 billion in the first quarter of 2022; this amount for more than half of the N10 trillion budget deficit for 2023. More so, other challenges such as oil theft led to $700 million monthly loss of crude oil (ThisDay, 2023). Like previous administrations, the Goodluck Ebele-led federal government made attempt at removing the subsidy in 2012, however, this move was aborted. Currently the present administration in Nigeria has pronounced the removal of subsidy. With the enormous importance of the oil sector on the economic development of Nigeria, it is imperative that studies accessing the possibility of such removal as well as identifying the challenges that would be faced by both the independent oil marketers and the end users who are the consumer. It is the aim of this paper to identify those salient reasons that might be responsible for fuel hoarding in Nigeria and possibly for the scrapping of the oil distributors in the channel of distribution.

The Progression of Oil and Gas Deregulation in Nigeria

In 2003, the Nigerian government made attempts to deregulate the Nigerian oil and gas sector. This exercise was to follow the trend that has been embraced by several countries globally. Countries such as Peru, Argentina, Pakistan, Chile, Thailand, Philippines, Mexico, Japan, U.S.A and Venezuela have witnessed significant turnaround in the success story of their individual petroleum industry as a result of the reduced dominance of government and the liberalization of such economies to include activities of the private sector. By and large, it seems the deregulation policy in Nigeria was not successful.

The announcement by the "governing board of the Petroleum Pricing Regulatory Authority (PPRA)" of full regulation in Nigeria caused massive investment in the sector by foreign and local investors. These investors invested in constructing of quays, storage tanks, construction of new service stations with new pump operation, expansion of trucking fleet and modernization of equipment. Is this investment felt by Nigerians? What is the multiplier effect of these numerous investment that happened as a result of deregulation?

With the full implementation of the deregulation policy in the Nigerian petroleum sector, the independent marketers were poised to benefit much from the policy. It is discovered that if the oil marketers adheres to the tenets of the policy and performs their duties optimally as stipulated by the policy, the oil marketers could make 104% profit on investment. With such juicy returns, it is expected that long queues at filling stations and the hoarding of fuel would be a thing of the past, albeit, this is not the case.

More so, the Petroleum Industry Act is expected to make a significant sweeping changes to the administration, management, legal, social, fiscal, tax and environmental aspects of the Nigerian petroleum industry. More so, the act aims at creating a separate supervisor for the gas industry as well as amends the activities in the "Associated/Non-Associated Gas Framework", detailed at domestic pricing methodologies strengthening government pledge to domestic supply responsibility amongst others.

The implications of this study includes: firstly, appreciating the central role of the government as well as independent oil marketers in the steady supply of crude oil in the country. Secondly, given the sophistication of today's consumer, it is imperative that the consumer understands the salient features that trigger the hoarding of fuel by these independent oil marketers. Thirdly, this study will help institutions who are in the distribution trade to develop prototype or models that would suit the Nigerian economy given that successive government and policy makers have failed to identify the diverse problems of the Nigerian enemy as it relates to oil.

Literature Review

Petroleum in Nigeria: Exploration and Distribution

In Nigeria, oil was first discovered in non-commercial quantity at Akata near Eket (now Akwa Ibom State) in 1953 by Shell; a consortium of Shell and British Petroleum. In 1956, oil was discovered in Oloribiri and later on in Afam and Bomu of Ogoni territory. In the last two decades the oil and gas industry has taken up a tactical significance in the Nigerian economy (Ehinomen & Adeleke, 2012) occupying 78% of GDP and 90% of the country's total yearly income and foreign exchange earnings.

Actors in the Nigerian Oil Industry

Two prominent actors in the Nigerian petroleum industry are the public and private organizations. The public organization as the name implies is made up of the federal government (either its agents of functionaries) such as Nigeria National Petroleum Corporation (NNPC). The NNPC has several subsidiaries which includes Pipeline and Product Marketing Company (PPMC) , Department of Petroleum Resources (DPR) and the Petroleum Product Pricing Regulation Authority (PPRA) and the amongst others. On the other hand, the private organization is made up of both indigenous sector consisting of private independent marketers and the multi-national companies. In 1978, the scheme to introduce indigenous independent marketers was hatched; it was introduced with the intention of bringing to an end the dominance of foreign multi-national companies otherwise known as major oil marketers; the multi-national companies held up to 60% of the market control. In 1979, just a year after the introduction of the indigenous policy independent oil marketers numbered less than 20. However as at June 2010, independent oil marketers have captured 40% of the market with 7948 outlets across the country, major oil marketers had 2218 outlets and NNPC had 18 service stations across the country (NNPC 2010). Aside the indigenous independent oil marketers, the multi-national companies who are known as major distributor are six in number-they include: Mobil, MRS, Total, ConOil Oando and African Petroleum Plc. They account for about 60% of the market.

When classified using the sector, the Nigerian Oil sector is divided into two namely;

i. **Upstream sector**: which is made up activities geared towards exploration, production, geological and drilling operations, and
ii. **Downstream sector:** which is made up of all activities directed towards the treatment of gas, crude oil and gas conversion as well as the transportation and distribution of refined products. This is made up of the independent oil marketers.

Distribution of Petroleum Product in Nigeria: Challenges and Prospects

Petroleum product distribution is concerned with the flow of fuel from the plants to the ultimate consumers across a range of locations of delivery in the country (Ehinomen & Adeleke, 2012). Pipeline and product marketing company (PPMC) is in charge of the supply, wholesale, distribution and marketing of petroleum products in Nigeria. Kotler & Armstrong (1975) asserts that in making distribution decisions, the organization should be directed by these three overall criteria namely:

a. "Market coverage, which is the size of the potential market to be served"
b. "Control, that is, control over the product" and;
c. "Cost, that is fixed and variable cost".

One major problem with this sector in Nigeria is the fact that the value of petroleum in Nigeria is always fixed by the federal government. This deprives the sector from being directed by the laws of demand and supply.

Other problems include:

- **Inefficiency in the management of oil refineries;** The frequency in shut downs of the refineries and heavy input losses in processing of crude by the refineries has made the Nigerian economy to be heavily dependent on imports: a worrying trend in the face of huge mineral deposit and increase domestic demand (Okigbo, 1993; Amaghionyeodiwe & Udeagu, 2010)
- **Lack of autonomy;** NNPC, the single enterprise responsible for exploration and distribution of this product is a public enterprise which domiciles under the ministry of petroleum

resources. Historically, NNPC has always been faced with management instability; within a space of 19 years (1977-1998), NNPC had 8 managing directors, an average of one every two years.

- **Distribution problems;** This has led to the periodic shortage of nearly every petroleum product at one time or the other. These problems have either been caused by bottleneck in the pipeline system or industrial disputes by tanker drivers. Amaghionyeodiwe & Udeagu (2010) identified these bottlenecks to include:
  - i. Frequent interruption of the power of pipeline stations
  - ii. Inadequate incentives for transporters to serve remote areas.
  - iii. Inadequate capacity of port, pipeline and depots
  - iv. The unconnected nature of the three existing pipeline system
  - v. Poorly maintained and inadequate rolling stock and trucking fleet.

Ehinomen & Adeleke (2012) identified challenges facing the distribution of petroleum product to include: the small capability and subsequent non usage of government owned plants and petrol chemical stations in Port Harcourt, Kaduna and Warri. This small capability and subsequent non usage often result into a situation of product scarcity hence, the need to import fuel; as well as the insufficient crude oil allotted to the plants for national consumption. More so, are the cases of "abandonment and replicated destruction of the state run petroleum product pipelines" coupled with "frequent accident of haulage trucks in the highways"; "Institutionalized corruption with the emergence of oil cabal that controls and co-ordinate crude oil purchase across the country"; "determination of pump price" and the "issue of subsidy" is also another challenge. When marketers sourced the product and fixed prices in consultation with the government, subsidy was not an issue. However, now subsidy is taken a huge chunk of the budget allotted to this industry; other challenges bedeviling the industry include smuggling of the product, illegal bunkering, division of the product, border smuggling of the product among others.

For Christopher & Adepogu (2012) the movement of fuel in the Nigerian economy is burdened with multifaceted issues which sometimes lead to shortage of the product. They recommended the complete deregulation of the downstream activities of the industry. This they hypothesize will give private sector and entrepreneurs' the much needed backing for full participation in the movement of the products. Earlier (Ijeh, 2010) identified over dependence of the economy on oil as one of the problem of distribution of oil in Nigeria. He asserts that smuggling and diversion of petroleum products as well as product adulteration are the menace be-devilling the oil sector. In his opinion if the government can handled the cases of over dependence on oil then, the problem of distribution would be a thing of the part. In their own view, (Amaghionyeodiwe & Udeaju, 2010) oil has contributed so much to Nigeria's economic development, however, her contributions came with it negative impact on the economy. One of these negative impacts is the government control of the pricing of this product which is detrimental to the availability of the product. The study further suggested among other things the deregulation of the sector. They proposed the introduction of individual full participation in the sector while the government role in the sector should be more of supervisory and regulatory.

Oil Subsidy Regime in Nigeria: Existence and Removal

Subsidy is defined by the American Encyclopedia as a "grant of money, property or some other form of, and which the donor expect no direct returns or payments". According to Basil (2016), subsidies become necessary in product where the likely outcomes need to be altered to cushion the effect of high prices on the citizens, such subsidies are paid to producers or distribution in most cases. In Nigeria, the oil subsidy is paid to distributors' who pays for the landing cost of this product. This subsidy helps the distributors to charge less than the supposed amount and the balance is borne by the government. The presence of subsidy is not strange to the Nigerian economy; other aspects of the economy such as education, electricity, forex etc have enjoyed some level of subsidy.

For a developing economy like Nigeria, the use of subsidy is not farfetched; however, recent happenings in the oil sectors such as naira devaluation, high volume of fuel consumed as well as the increase in international price for crude oil amongst others have caused an astronomical rise in oil subsidy paid by the government. This has made subsidy to be unsustainable (PWC, 2023). Between 2000 and 2010, the federal government spent more than half of her budget on financing subsidy to the harm of other important sectors of the economy such as health care, education and defense.

Aside the unsustainable financial cost of subsidy, other challenges of the subsidy regime in Nigeria include economic distortion, smuggling, endemic corruption and unattractiveness to investment opportunities due to all these challenges. Possible solutions to the fuel subsidy problem include the complete removal and full deregulation of the downstream sector of the oil industry; provision of credible, reliable and evidence-based palliatives, these palliative can be in the form of increase in minimum wage and the availability of foreign exchange for import; redesign the subsidy regime so as to redirect appropriately to the poorest of the society if possible (PWC, 2023).

Scholars and professional of the oil industry in Nigeria have argued that the complete removal of the oil subsidy is essential; to the growth of the nation's economy Kamer, 2023; Nwachukwu & Tumba, 2023). Most subsidy payment in Nigeria are financed by loans thereby increasing the nation's debt profile. In order to stop this trend (PWC, 2023) posits that the removal of subsidy will have a short and long term benefit on the Nigerian economy. The short term benefits include: reduction in government borrowing as well as the associated huge deficit; free resources for investment in other crucial sectors; reduce incentive for smuggling and associated security risk. The long term benefit of fuel subsidy removal include: a stronger naira due to a sharp decline in imported inflation; investment flows to the downstream sector; more profitable downstream players; product availability; improved sovereign credit rating.

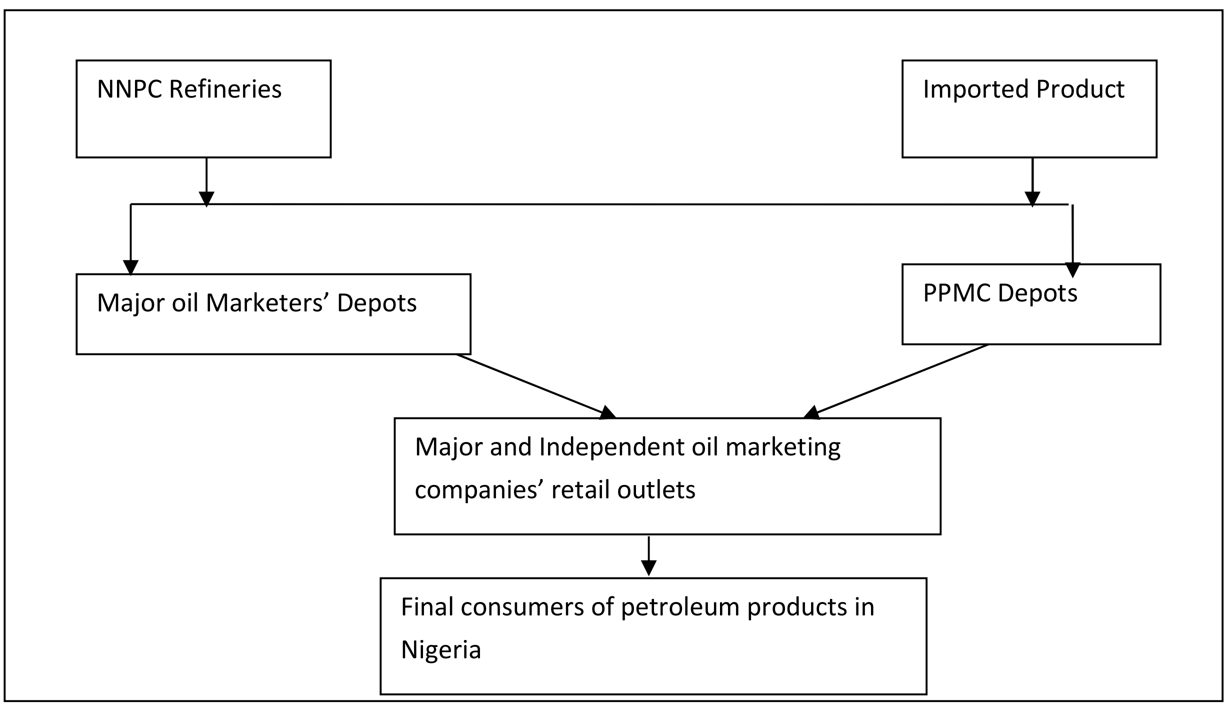

Fig1: *The physical flow of product, the route used by independent marketers*
Source: *NNPC/ PPMC Bulletin 2010 Adapted from Christopher & Adepoju (2012).*

Conclusion

The purpose of this study is concerned with making a case for or against the scrapping of the functions of the independent oil marketers in the face of the recent removal of oil subsidy in the Nigeria oil and gas sector. The study made attempts at assessing the performance of the independent oil marketers and business generally in Nigeria. Doing business in Nigeria is always peculiar due in part to the diverse nature of the Nigerian culture. The average businessman wants to make not only profit but excess profit. They enjoy exploiting the citizens at any given opportunities. This attitude if not checkmate would lead to that which is prevalent today. The government needs to wake up to one of its core mandate which is the protection of citizens from any kind of intimidation or exploitation. There is a need to open up the NNPC to the public. The privatization of this institution would go a long way in ensuring efficiency in the sector. A good example is the telecommunication industry. With the deregulation of that sector, a lot of investment flew in to the industry and today telecommunication sector in Nigeria is one of the most vibrant highly competitive industries.

Recommendation

The study suggested the following recommendation:

1. The removal of oil subsidy is commendable; this is because it consumes a huge chunk of the nation’s budget, however, a gradual removal would have been better
2. It is a known fact that the industry is heavily saddled with corruption: instead of removing subsidy, addressing this corruption would have been better through the dismounting of cabals in the sector
3. The building of refineries is also a sure way of leaving the subsidy regime behind.
4. The Alleviation of the masses sufferings through the provision of cheap transport services for goods and persons
5. More attention should be paid to diversifying the economy into other sectors such as solid mineral development and agriculture. It is economic suicide to have only one foreign exchange earner.

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