

## **DEREGULATION OF DOWNSTREAM PETROLEUM INDUSTRY**

OIL INDUSTRY DATA  
EXCHANGE COMMITTEE

21 APRIL, 1999

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## **TIMELY TOPIC**

- Major Bottleneck Holding Back Economic Recovery
- Key Priority For the Obasanjo Administration
- Need For Public Enlightenment and Facing Up To Reality

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## **DUAL PURPOSE TODAY**

- Foster Better Understanding Based On Facing The Facts
- Focus On "Permanent" Solutions

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## **TOPIC OUTLINE**

- 1) Provide Historical Perspective And Context
- 2) Three Questions
  - Where Are We? (and Why?)
  - Where Do We Want To Be?
  - How Do We Get There?
- 3) Conclude As To Immediate Challenges

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## **1) HISTORIC PERSPECTIVE/ CONTEXT**

- Past Economic Mismanagement
  - Failure of "Commanding Heights"
  - Excessive Government Involvement In The Economy
  - Substituting Government Regulations For Free Markets and Competition
  - Toll Gate and Supply Restriction As a Governing Mentality

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## **1) HISTORIC PERSPECTIVE/CONTEXT (contd)**

- Deregulation Of The Nigerian Economy
  - From 1986 to Date, Considerable Deregulation Has Taken Place
  - Economy Largely Deregulated Except:
    - Parastatal Monopolies
    - Refined Products Pricing
  - But Deregulation Has Been Done Grudgingly (Under Pressure) and With Half Measures
  - Result = More Pains Than Gains

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1) HISTORIC PERSPECTIVE/CONTEXT  
(contd)

- Downstream Petroleum Deregulation
  - Limited Deregulation To Date
    - Uniform Retail Prices
    - Formula Approach For Margins Which Is Not Yet Formalized To Reflect Changes In World Markets and FX Rates
  - Recent Moves Are Commendable and In Right Direction
    - LPG
    - Dec. 1998 Measures

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1) HISTORIC PERSPECTIVE/CONTEXT  
(contd)

- Downstream Petroleum Deregulation contd
  - Main Result Has Been To Get Private Sector Involved in Supply Side (Imports)
    - But Not A “Permanent” Solution

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1) HISTORIC PERSPECTIVE/CONTEXT  
(contd)

- Overall Economic Priorities
  - Aim = Up To 10% Growth With Single Digit Inflation
  - How ?
    - Create Non-Inflationary Demand
    - Debottleneck Constraints
      - Refined Products
      - Power
      - Ports
      - Etc

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1) HISTORIC PERSPECTIVE/CONTEXT  
(contd)

- Overall Economic Priorities (contd)
  - Lower Cost of Doing Business
  - Attract Investment
  - Earn Debt Relief

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1) HISTORIC PERSPECTIVE/CONTEXT  
(contd)

- Conclusions
  - Critical Priority Is To -
    - Assure Unlimited Supply of All Refined Products at Lowest Possible Competitive Prices
  - Current Regulatory System and Industry Structure Will Not Provide A “Permanent” Solution
  - Significant Further Reforms Are Urgently Needed

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(2) THREE QUESTIONS

- Where Are We? (and Why?)
- Where Do We Want To Be?
- How Do We Get There?

**The Vision 2010 Approach**

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## 2A) WHERE ARE WE (AND WHY?)

- Physical Facilities
- Economic Incentives
- Public Understanding/Support
- Vested Interests/Corruption
- Alternative Energy Sources
- Law and Order
- Policy Framework/Issues (Why?)

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## 2A) WHERE ARE WE? (AND WHY) (contd)

- Physical Facilities
  - Crude Pipelines/Supply
  - Refineries
  - Pipelines/Depots (PPMC)
  - Imports
  - Exports
  - Transport
  - Service Stations

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## 2A) WHERE ARE WE? (AND WHY) (contd)

- Physical Facilities (contd)
  - Far Below International Standards and Largely Unsafe
  - Investment Requirements = At Least \$2.0 Billion
  - 30+% Practical Limit On Imports - Hence Refinery System Must Be Made To Work Or Converted To Imports

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## 2A) WHERE ARE WE? (AND WHY) (contd)

- Economic Incentives
  - Oil Marketers Dependent On Margins -- Can Only Invest For Short Term Gain
  - Refineries -- Not Attractive Generally But Certainly Not Unless Prices Are Freed Up
  - Distribution -- PPMC Could Be Attractive As Common Carrier. But All Other Investments Require Free Market Systems

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## 2A) WHERE ARE WE? (AND WHY) (contd)

- Public Understanding/Support
  - Public Has Been Sold An Entitlement Myth - And Reacts Emotionally
  - Government/Politicians View Petrol Prices Akin To Cancer Or The Plague
  - Other Players Slow to Understand and Provide Support
  - Hence -- Major Communications and Lobbying Effort Required

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## 2A) WHERE ARE WE? (AND WHY) (contd)

- Vested Interests/Corruption
  - Few Players Make Lucrative Gains At The Expense Of The Nation
  - Corruption Is Endemic At All Levels Of The Industry - Virtually a Way Of Life
  - Status Quo Forces Are Fighting Hard To Maintain Their Privileged Position

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**2A) WHERE ARE WE? (AND WHY)**  
**(contd)**

- **Alternative Energy Sources**
  - *Biggest Opportunity Is Natural Gas*
    - *Increasingly Favourable Incentives*
    - *Gas Flares Must Be Put Out*
  - *But NNPC Monopoly And Regulated Pricing Remain As Major Bottlenecks*

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**2A) WHERE ARE WE? (AND WHY)**  
**(contd)**

- **Law And Order**
  - *Investor Interest Curtailed By -*
    - *Pipeline Vandalism*
    - *Bunkering/Roundtripping*
    - *Toll Gates*
    - *"Niger Delta" Image*

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**2A) WHERE ARE WE? (AND WHY)**  
**(contd)**

- **Policy Framework/Structure**
  - *Long Term Solution Must Be Free And Intensely Competitive Markets With All Monopoly Situations Eliminated*
  - *Current Policy Framework/Structure Cannot Deliver A Lasting Long Term Solution*
  - *Why Does It Persist? Primarily Because of Self Interest of Those Running The System*

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**2B) WHERE DO WE WANT TO BE?**

- *Readily Available Energy To Meet All The Needs Of The Economy At Lowest Possible, Competitive Prices*
- *Rational Utilization of All Energy Resources*
- *Enabling Environment Conducive to Investment, Job Creation and Rapid Economic Growth*

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**2B) WHERE DO WE WANT TO BE? (contd)**

- *Elimination Of All Forms of Corruption and Abuse In Downstream Petroleum Industry*
- *Intensely Competitive Industry With No Monopolies Or Cartels*

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**2C) HOW DO WE GET THERE?**

- *Need to Pursue a Long Term Vision (VISION 2010 Process) And Clear Objectives*
- *Need Specific Short Term Measures Prioritized and Sequenced So That Systematic Implementation Leads To The Long Term Vision/Objectives*
- *Need to Recognize That Both a Technical and Political Process Must be Managed*

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2C) HOW DO WE GET THERE? (contd)

**Short Term** (Immediate Priority)

- Make Sure The Current System Works
  - Pricing Formula Must Reflect FX Rates and Global Product Prices
  - Retail Prices Must Be Increased To Maintain Margins At Levels Required For Long Term Viability

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2C) HOW DO WE GET THERE? (contd)

**Short Term**

- Abolish NNPC Monopoly Over Supply
  - Allow All Licenced Marketers to Import and Export All Petroleum Products Without Restriction
  - Allow All Licenced Marketers To Own Refineries, Pipelines, Depots and Distribution Facilities

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2C) HOW DO WE GET THERE? (contd)

**Short Term**

- Abolish Uniform Retail Price System
  - Eliminate PEF
  - Let Marketers Set Destination Prices Based On Full Costs and Margins

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2C) HOW DO WE GET THERE? (contd)

**Short Term**

- Improve Incentives
  - Allow Accelerated Writeoff of Investments In All Downstream Facilities
- Refurbish NNPC Facilities
  - Refineries -- TAM +++
  - Pipelines/Depots

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2C) HOW DO WE GET THERE? (contd)

**Short Term**

- Privatize Unipetrol, African Petroleum and National
- Prepare NNPC For Privatization
  - Make Subsidiaries Autonomous and Fund Total Requirements
- Prepare The Public For Totally Free and Competitive Downstream Petroleum Industry

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2C) HOW DO WE GET THERE? (contd)

**Long Term**

- Let Marketers Set Prices In a Free, Competitive Market With No Government Price Regulation
- Privatize All Of Downstream NNPC Through An Open, Transparent Process Based On International Tenders
- Move Crude Prices Systematically To International Market Levels

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### **3) CHALLENGE TO OIL INDUSTRY DATA EXCHANGE COMMITTEE**

- *Downstream Petroleum Is Poorly Understood By Decision Makers, Opinion Shapers And The Public*
- *Your Challenge Is To Provide The Facts And Examples Needed To Shed The Light On The Truth*

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