

An Evaluation of Deregulation Policy of The Downstream Petroleum Sector and Nigeria's Economy

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ABSTRACT

The main objective of this paper is to evaluate the impact of deregulation of downstream petroleum sector on Nigeria's economy between 2007 and 2015. It is a qualitative study built on secondary data which were textually analysed. Upon the pivot of public choice theory as a framework for interrogating the themes of the paper, the study posits that the effective deregulation of downstream petroleum sector offers the necessary recipe and vitality for stemming economic rent-seeking attitudes by the elites and political class, and ultimately lead to economic buoyancy. Other recommendations of the paper are capable of addressing the policy gaps/failures identified.

Keywords: Deregulation, downstream, evaluation, Nigeria's economy, petroleum sector, policy

INTRODUCTION

Doing the needful in Nigeria has often been equated with doing the impossible. The poor performance of the Nigerian economy has from time to time driven successive Nigerian governments to take certain policy actions in the area of economic planning. Many of such policies turn out to

aggravate the problem intended to be solved. Deregulation of the downstream petroleum sector is widely believed to be one of such policies. The Federal Government of Nigeria, irrespective of the head, party or regime, has over the years been faced with the dilemma of deregulating certain sectors of the economy, particularly the petroleum sector. It is posited by some scholars that the motive behind government intervention in the economy, in form of regulation, is for the benefit of the economy and the citizens (Selznick, 1985 as cited in Badie, Berg-Schlusser, & Morlino, 2011).

Government involvement in the Nigerian economy is ordinarily expected. However, in the petroleum sector, it was a

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do or die affair considering the enormous revenue accruable from the sector beginning from the early 1970s when the price of a barrel of oil increased fourfold (Olagunju, 1999). The downstream petroleum sector is particularly important because, it comprises of the refining, distribution and dispensing of petroleum products. The implication is that it determines the price at which petroleum products get to the final consumers; and because petroleum is used in virtually every sector of the economy, the downstream petroleum sector essentially determines the cost of living (Gberevbie & Arowosegbe, 2006).

The Nigerian government immersed itself in the downstream petroleum sector in line with developments in Organisation of Petroleum-Exporting Countries (OPEC) in the early 1970s, as the oil industry was regarded as too politically strategic to be left in the hands of the private sector. Nigeria's downstream petroleum sector was characterized by (Federal) government control and regulated mainly by the state-owned Nigerian National Petroleum Corporation (NNPC) (Federal Republic of Nigeria, 1999). Also, Nigeria's downstream petroleum sector features four refineries and petrochemical plants managed by NNPC. Two of the refineries are located in Port-Harcourt, one in Warri, and one in Kaduna (Adagba, Ugwu, & Eme, 2012). These refineries cannot supply Nigeria's 30-40 million litres daily consumption of refined petrol products, despite recurring investments in turn-around maintenance, leaving Nigeria with no other option but

to import refined petrol products for daily use. The Nigerian government pays the marketers (of the refined petrol products) to subsidize the prices and to ease the economic burden on the people, specifically making the pump price of fuel lower than the price when imported (Soni, 2015).

According to Okonjo-Iweala, Nigeria's two-time former Finance Minister and Head of the Economic Team under the Obasanjo and Jonathan administrations, between 2003 and 2004, subsidies on prices of refined products were approximately 40% of the international price, and the government bore an annual fiscal burden of almost US\$1 billion out of a federal budget of roughly US\$10 billion to keep petrol pump price low. Nigeria's downstream petroleum sector is also characterised by recurrent scarcity; black market sales (which is due to scarcity, and undermines the government fixed pump price of petrol); as well as oil theft in form of pipe vandalism and bunkering (Okonjo-Iweala, 2012).

Deregulation connotes major changes in Nigeria's downstream petroleum sector. The effect of such measures on Nigeria's downstream petroleum sector translates to a turn-around in the way things are done across the sector; but most importantly, it points to a removal of fuel subsidy, because, to the average Nigerian, deregulation in Nigeria's downstream petroleum sector is tantamount to the removal of fuel subsidy. Considering this, deregulation of Nigeria's downstream petroleum sector has its origin in the 1980s when Nigeria's economy encountered an economic crisis, which was

heightened by the 1987 crash in the global oil market. Under the Babangida military regime (1985–1993), the implementation of the 1986 Structural Adjustment Programme (SAP) introduced the first experiment of deregulation in the Nigerian economy as the pump price of petrol increased (Abogan, Olajide, & Oloba, 2014; Dappa & Daminabo, n.d.).

Currently, Nigeria's economy is in a crisis because over the last twenty-four months, international oil prices have fallen by over 60%. As recently as 2013, oil and gas made up 11% of Nigeria's GDP, 70% of the Nigerian government's income, and 94% of Nigerian export revenues (Isu, Nyako, El-Rufai, & Ahmed, 2002; PricewaterhouseCoopers, 2015). Considering the importance of oil to the Nigerian economy, the decline in global oil prices has had a negative effect on the economy as government revenue has reduced, Nigeria's foreign exchange earnings have dropped, economic growth has slowed, and the purchasing power of the Naira to the Dollar has been volatile (Hegarty, 2016).

Oil companies are retrenching as unemployment is rising, and this has sent shock waves throughout Nigeria's economy. Also, the country's revenue has dropped. According to the 2016 Appropriation Act, expected revenue is 3.86 trillion Naira and expenditure is set as 6.08 trillion Naira. Hence, the country has a 2.2 trillion Naira deficit, Nigeria's highest deficit in recent times. In addition, according to the 2016 Appropriation Act, Nigeria will spend a

total of 1.36 trillion Naira servicing debt in 2016. This is also the highest so far (Budget Office of the Federation, 2015). This goes to show that the state of the economy is in steady decline.

In Nigeria, deregulation of the downstream petroleum sector begins with removal of government subsidy on petroleum products. Another major step is the development of a truly competitive market which is, expected to come with removal of subsidy. Whether the government chooses to retain ownership of the four refineries or not, deregulation of the downstream petroleum sector dictates that private actors be allowed in the sector. Policy-wise, deregulation implies a combination of the use of four types of policies, viz: demand management policies, exchange rate and production incentive policies, structural policies and external financing policies (Olashore, 1991).

Proponents of Deregulation argue that the following benefits accrue: eradicating fuel scarcity, encouraging much-needed investment in Nigeria's economy, providing employment opportunities, making the economy more competitive, giving the government more revenue for infrastructural development, increasing the standard of living, and developing the economy (Gendron, 2012). The paper attempts to evaluate the deregulation policy of the downstream petroleum sector in the light of the Nigeria's current economic crisis, considering the relationship between deregulation of the downstream petroleum sector and Nigeria's economy.

METHODS

The data utilised in this study were mainly obtained from secondary sources including journal articles, internet and policy-oriented institutions. A major strength of this paper is its data triangulation from the aforementioned credible sources, and this is pivoted on the submission by White (2000, p. 67) “that if the same method of data collection is from different sources, and over different time...this is often termed data triangulation.” The textual analysis of data anchored on Public Choice as theoretical framework for the interrogation of issues, informed the discussion, conclusion and recommendations that followed.

Main Argument

White (2000, p. 66-67) reinforced the practical utility of triangulation in a research of this nature as being “...complementary, with the outcome resulting in a more thorough understanding of the problem under investigation.” This method offers an illumination on the trajectory of Deregulation Policy with a focus on the Downstream Petroleum Sector and its impact on Nigeria’s economy. Predicated on this, and invigorated by the tenets of public choice theory as utilized in this study, our main argument is that effective deregulation of the downstream petroleum sector offers the necessary recipe and vitality for reducing elite (governing and bureaucratic) rent-seeking behaviours and ultimately galvanise economic growth and development in Nigeria.

LITERATURE REVIEW

The concept of deregulation is explained in this section.

The Concept of Deregulation

To understand deregulation, one must first understand regulation, for as there is no smoke without fire, there is no deregulation without initial regulation (Kalejaiye, Adebayo & Lawal, 2013). According to Badie et al. (2011), regulation refers to any legal instrument, legislative enactment, executive policy, administrative bye-law, constitutional element, economic tool and general means of politico-socio-economic control usually effected by government. It is any government action aimed at shaping individual, group and institutional behaviour. From this understanding of regulation, it might ordinarily be deduced that deregulation is the opposite of regulation. In other words, it is government relinquishing control over individual, group and institutional behaviour. This definition is basic, but a deeper analysis of deregulation as a concept and policy is further necessary. The concept of deregulation, like most concepts in the social sciences, does not have a single, universal definition. This is because, beyond diverse definitions by different scholars, deregulation translates to policies adopted by governments in various parts of the world and the contexts and forms of deregulation employed in policy vary between and within countries.

Deregulation has been defined from different viewpoints. According to Barberis

and May (1993), deregulation is the attempt to eliminate red tape (unnecessary time-consuming procedure) for businesses. To Barnhart (1996), deregulation is basically an economic tool meant to remove restrictions such as price or rate controls from the production, distribution and sales of commodities. In other words, deregulation as a policy option (when faithfully implemented) clears barriers to the smooth running of the economy and galvanizes economic performance.

Cleveland and Morris (2009) saw deregulation as a policy process in which a government agency opened up full-scale competition for the supply of the desired energy resource, often down to household consumption level. This is in order to ensure a competitive economic system that facilitates a price mechanism by the market forces of demand and supply, and at the same time prevent monopolistic tendencies that stifle economic efficiency and growth. Adegbemile (cited in Kudus, 2011) captures deregulation as an attempt to enhance the competitiveness of economic actors via an economic reform comprising one or more fiscal policies that weaken, loosen or completely restrict participation in a market particularly in the aspect of price control (Kudus, 2011). This position was reinforced in the Nigerian situation by Monday, Ekperiware and Muritala (2016) wherein the subsidy regime typified price control, and the serious financial burden of this unsustainable arrangement can only be mitigated by a total deregulation of the downstream petroleum sector.

As a policy option, deregulation ranges from a shift in strict control to a free-market or laissez-faire economic system (where there is minimal government participation in an economy) to the government giving up some aspects, such as competing in the economy, to focus on other aspects, like legislating for the economy. Therefore, it is pertinent to note that deregulation hardly ever translates to the absence of regulation, rather it is the removal or restructuring of certain regulations which are seen as problematic as underscored by the above averments by Monday et al. (2016) in the Nigerian scenario. Usually, the government is still involved, just in different ways, such as provision of legal framework and enabling environment (Gbosi, 2004; Nwachukwu, 2015).

A major concern with conceptualising deregulation lies in the fact that deregulation is lumped, and often confused, with the following concepts: privatisation, commercialisation, and liberalisation. While deregulation amounts to restructuring of government regulation to effect either privatisation, Commercialisation, or liberalisation singly or concurrently, privatisation is described by Jerome (cited in Kalejaiye et al., 2013) as a policy aimed at changing the mix in ownership and management of enterprises away from government to private control.

The purpose of privatisation is explicitly economic growth and development with the assumption that private hands are better in business or have more funds to invest when compared to government (Izibili & Aiya,

2007). Commercialisation connotes the reorientation of public agencies involved in the economy to become profit-driven, thereby beginning to source for funds outside government and adopting methods used by private companies (Kalejaiye et al., 2013). While liberalisation according to Hermann and Verhoest (2012), is the removal of public sector monopolies and the creation of public service markets with at least two actors in a bid to introduce competition and prevent market dominance by a single provider.

In other words, privatisation means transferring ownership and control of a government agency to private hands; Commercialisation means making a government agency profitable; and liberalisation means getting rid of a monopolistic government agency to open a market up to competition. Deregulation is both separate from and aligned with these three concepts because all these are disabled by regulations and enabled by deregulation, which is why deregulation is a combination of commercialisation, privatisation, and liberalisation but not synonymous with one of them individually (Olashore, 1991).

A prominent step towards understanding deregulation is understanding the reason for deregulation. According to Olashore (1991), the chief goal of deregulation is ordinarily to eliminate or reduce distortions (like price control, taxes, subsidies, imperfect competition, exchange rate rigidities and trade restrictions) which may be harmful to an economy. One of these distortions, price control or subsidy for consumer

goods, though welfare-oriented, usually eventually necessitate deregulation, because price controls in points of rising costs squeeze profits and discourage investment as noticeable in the Nigerian dismal experience (Gberevbie, Ibietan, Abasilim, & Excellence-Oluye, 2015). The economist, Adam Smith, recognised as the earliest proponent of deregulation, advocated for a laissez-faire economic system where the government took its hands off the economy because he believed that way, economies would perform better. In the 18th century, Smith's solution to government economic interference and subsequent economic malfunctioning was simply for the government to scale back. In the 21st century, deregulation entails the use of four types of policies: demand management policies; exchange rate and production incentive policies; structural policies; and external financing policies (Olashore, 1991).

To Badie et al. (2011), deregulation has been employed by many developing countries (like Nigeria) for the purpose of attracting foreign direct investment, but this is yet to fully materialise in the country. Deregulation injects competition into an economy, thereby leading to the development of businesses and reducing the unemployment rate (Gendron, 2012). To recap, the underlying idea behind deregulation is the removal, reversal or reduction of some form of government regulation for the purpose of solving a perceived or actual problem which is usually economic. This position was not only underscored by Maduka, Ihonre and

Anochiwa (2015), they corroborated with reference to Nigeria that “various (central) Governments have come up with varying promises to turnaround the situation, yet they end up just increasing the price of petroleum products without considering the impact...on the consumers and the economy.” It is pertinent to note that to the average Nigerian, deregulation of the downstream sector is synonymous with petroleum products price increase, and the details of these are presented in Table 1.

The above situation typifies the Nigerian paradox as one of the largest producer of crude oil among the Organisation of Petroleum Exporting Countries (OPEC), and with large deposits of petroleum products, yet imports and pays international prices for the resources that it has in abundance (Monday et al., 2016). There is a convergence of opinions (Adelabu, 2012; Ayodele, Obafemi, & Ekong, 2013; Owoye & Adetoye, 2016) on this antithetical state of affairs within the Nigerian petroleum sector, and this explains the “inefficiencies in the downstream...sector as reflected in breakdown and low capacity utilisation experienced by the nation’s four refineries” (Ayodele et al., 2013, p. 1). Owoye and Adetoye (2016) corroborated with allusions to the complicity, overbearing and omnibus roles of the Nigerian National Petroleum Corporation (NNPC) – the central government’s bureaucracy that superintended and dominated activities in the upstream and downstream petroleum sectors.

The culmination (of the above) is the multiplicity of bureaus with overarching functions and responsibilities, such as the management of the dramatised subsidy regime, which arose from the failure or refusal of successive central governments to “fully pass increases in international petroleum product prices to domestic consumers” (Ayodele et. al, 2013, p. 5) has resulted in massive fraud and kleptomania (Ijewemere, 2015, p. 4). Deregulation of the downstream petroleum sector (which commenced its partial journey in 2003 during President Obasanjo’s administration) is thus conceived as policy/reform option to attenuate these ills and sundry dysfunctions. However, Nigerians are apprehensive that “rather than use the fund realised from the deregulation exercise to better the lot of the populace, the fund will find its way into private purses” (Adelabu, 2012, p. 197). This underscores the argument made (earlier) on elite complicity in corruption and resource plunder. The application of appropriate administrative and institutional reform imperatives anchored on the tenets of public choice theory holds the promise of redressing these malaise (Ibietan & Joshua, 2015).

Stanley (2016) illuminated our understanding on this discourse with the anatomy of Nigeria’s downstream sector as follows: lack of clarity in the deregulation process; operators under threat of losing their investments; centralised product supply system driven by NNPC; marketers depots were grossly underutilised, proliferations of depots; forex challenges to import

products; pipeline vandalism; fuel tankers destroying roads; perennial fuel shortage cross the country; confusion on regulation between the Department of Petroleum Resources (DPR) and Petroleum Products Pricing Regulatory Agency (PPPRA); and ancillary bottlenecks. These call for holistic review and intricate examination of policies, practices and processes, backed by strong political will and reform initiatives located in the Public Choice theory.

RESULTS AND DISCUSSION

Theoretical Framework: Public Choice Theory

The theoretical framework considered appropriate for this research is the Public Choice theory. The degree of its suitability makes it quite tempting to posit that the theory was designed specifically to explain the impact of deregulation of the downstream petroleum sector on Nigeria's economy. Public choice theory was developed to explain government decision-making in the face of government failure. Also called, 'the economic theory of politics, the theory was designed to analyse issues that are both political and economic (Buchanan, 1999, p. 45). The theory is more political than economic because, it does not seek to explain how the economy works, but uses the economic methods and tools to explore political phenomena (Butler, 2012). The theory emphasises the fact that economic self-interest, also referred to as utility-maximization, is the driving force of politics and governments will not always make the best decisions for a country's economy

(Mariotti, 2015). Also, in policy analysis, public choice theory stresses that because political actors are utility maximizers, a policy cannot be adequately evaluated in isolation of the incentives for politicians and the people (voters) to adopt it (Hill, 1999; Matthews, 2013). The political dimension to the narrative on the deregulation of the downstream sector in Nigeria reflects in unsettled debates and public discourse by disparate segments of the society as documented in Adelabu (2012, 194) and Temitayo (2014, 100).

The foundations and applications of public choice theory are varied and feature prominent scholars including Duncan Black (the median-voter theorem), Gordon Tullock (logrolling), Anthony Downs (representative democracy), Ronald Coase (social costs), and Mancur Olson (interest-group activity). The above scholars were influenced by Kenneth Arrow, winner of the 1972 Nobel Prize in Economics, and James Buchanan, winner of the 1986 Nobel Prize in Economics, who was inspired by Knut Wicksell's ideas on protecting minorities during decision-making (Blankart & Koester, 2006). The later part of this averment does not typify Nigerian situation, "as policies designed to address the deficiencies and defects in the structure end up being poorly articulated and/or implemented because of...political or rent-seeking selfish interests" (Adedipe as cited in Adelabu, 2012, p. 197).

Arrow is a forerunner to Buchanan and Tullock (1962). Arrow formulated the "impossibility theorem" to prove that it is impossible for the democratic decision-

making to allocate resources optimally (Shaw, n.d). Buchanan and Tullock are regarded as the initiators of public choice theory. The theory is traced to their 1962 book *The Calculus of Consent* which expressly explains how collective decision-making is overrated and unfair because the majority has its way and this puts a burden on a minority that did not support such a decision. Therefore, not only does the theory posit that governments tend not to make the best decisions for a country's economy, it also argues that governments are bound to make the best decisions that are unfair to some. Furthermore, bureaucracies are instrumental in diverting government efforts and resources to achieve interests that are hardly ever public-oriented (Butler, 2012). Ibietan and Joshua (2015, p. 61) argues that:

“...the relevance of this theory to governance and the management of public affairs in Nigeria cannot be overemphasised. The poor state of infrastructures, social services and delivery of essential public goods in the face of abundant human and material resources shows a yawning gap between resource endowment and management on one hand, and development outcomes on the other.”

According to Buchanan (1999, p. 57), “politics is a game, a set of arrangements, in which many players with different goals interact for the purpose of producing results that may neither be efficient nor internally consistent” Buchanan (1999) insisted that his description exposed politics without

romance politics, in other words, politics as it is, not as it should be. It is therefore not surprising that Adelabu (2012, p. 194) argued with reference to Nigeria thus “those who have presided over the state have tend to personalise power and...collective national resources, while being excessively reckless in managing the affairs of the nation.”

Todaro and Smith (2011, p. 128-782), in portraying the economic utility of public choice theory, stated that the public choice theory is “the theory that self-interest guides all individual behaviour and that governments are inefficient and corrupt because people use government to pursue their own agendas...(which leads to) misallocation of resources.” Out of self-interest, individuals seek political influence to get special benefits (called “rents”) from government policies that constrain access to essential resources and commodities, politicians use public resources to ensure they win elections, and public officials use their positions to get payoffs from rent-seeking citizens as well as to operate their sheltered businesses. These add up to government mismanagement of an economy. Since government decision-making is flawed, public choice theorists argue for deregulation to tackle regulation which was developed by George Stigler (1971) and Sam Peltzman (1976). Ijewereme (2015) presented copious emblems of economic rent-seeking behaviours manifesting in avaricious and rapacious tendencies among the Nigerian governing and bureaucratic elites, which circumscribed development.

In a related discourse, Ibietan (2013), building on earlier scholars stated that the central idea of public choice theory is that the ideal means of forming policies and delivering services were offered by market principles in the private sector, because the government (public sector) tended to be over bloated, over-politicized, detached from the citizens, and distracted by vested interests. Therefore, government officials either have little or no idea of citizens' desires and demands or know and simply ignore them, then oversupply insufficient and inefficient services. Ibietan and Joshua (2015) reinforced the notion that self-interest drove government actions and decisions. They argue that government officials, including politicians and public bureaucrats (often supported by organised interest groups), out of self-interest, conceal economic realities from the citizens and then try to fulfil political campaign promises via deficit funding which eventually has a negative effect on the country's economy. Hence, the argument for deregulation in the efficient provision of public oriented services in Nigeria predicated on the reversal of "inadequacies and deficiencies of the policy measures" (Ibietan & Itodo, 2015, p. 3).

Nigeria's Petroleum Sector

Petroleum is a collective term for crude oil, natural gas, natural gas liquids, and other related products naturally found underground as a result of fossilisation. Petroleum is extracted via drilling. Before petroleum is extracted it has to be discovered.

After petroleum is discovered and extracted, it is separated into potential products including petrol, kerosene, lubricating oil, aviation fuel, asphalt, petroleum jelly, diesel, and paraffin wax among others via the processes of fractional distillation and cracking (Harrison & Waites, 1998).

Petroleum literally largely powers civilization as it is the most used source of fuel in industrialized and industrialising countries around the world. Almost 90% of the world's petroleum is used as fuel, while the remainder is used in the manufacture of products like plastics, paints, insecticides, synthetic fibres, drugs, detergents, and fertilizers (Cleveland and Morris, 2009). Due to the global utility and demand for petroleum, the international petroleum industry has existed since the 19th century.

Nigeria's petroleum industry began operations in the 1950s. Petroleum, in commercial quantity, was discovered in Oloibiri, Nigeria in 1956, and by 1958 production had commenced. Currently, Nigeria has an estimated crude oil reserve of over 22 billion barrels and an estimated production rate of 2 million barrels a day (Buhari, 2015).

Upstream Petroleum Sector. Nigeria's upstream petroleum sector involves the exploration and extraction of petroleum. It is engaged in, by various foreign and domestic companies, but its most important actor is the NNPC which is both a competitor and a regulator. The Nigeria National Petroleum Corporation (NNPC) works with private actors in Nigeria's upstream sector using

the following arrangements: concession agreement; joint venture; production sharing contracts; and risk service contracts. From a (KPMG, 2014) report, it is noted that the Nigerian upstream oil sector is the single most important sector in the economy. It accounts for over 90% of the country's exports; about 80% of Nigeria's revenue. Oil is currently produced from the Anambra onshore basin; Benin/Dahomey deepwater basins; and the Niger Delta deep offshore basins. The bulk of oil reserves and a huge portion of current production are from the Benin and Niger Delta basins (KPMG, 2014).

Midstream Petroleum Sector. In Nigeria, the midstream petroleum sector encompasses the movement of extracted petroleum from oil wells in Nigeria to refineries within and outside Nigeria. The sector also covers the import of refined petroleum products to Nigeria for domestic consumption. This necessitates transportation (by pipeline, rail, barge, oil tanker or truck), storage, and wholesale distribution of crude or refined petroleum products. Pipelines and other means are used to move crude oil from production sites (oil wells and drilling rigs) to refineries, as well as to deliver the various refined products to downstream distributors. This also includes natural gas. Largely because crude oil is transported outside Nigeria and refined petroleum products are then imported, the midstream petroleum sector is almost non-existent in Nigeria (Arong & Egber, 2013).

Downstream Petroleum Sector. The downstream petroleum sector refers to the last stage of processing and actual use of petroleum products (Cleveland & Morris, 2009). Nigeria's downstream petroleum sector, encompasses refineries, depots, and petrol stations that make consumer access to refined petroleum products possible. Nigeria's downstream petroleum sector is currently characterized by federal government control, and regulated mainly by the state-owned Nigerian National Petroleum Corporation (NNPC) (Federal Republic of Nigeria, 1999).

Nigeria's downstream petroleum sector comprises four refineries and petrochemical plants managed by the NNPC. Two located in Port-Harcourt, one in Warri, and one in Kaduna (Adagba, Ugwu, & Eme, 2012). These refineries are ineffective, despite recurring investments in turn-around maintenance, and they cannot supply Nigeria's 30-40 million litres daily consumption of refined petrol products leaving Nigeria with no other option but to import refined petrol products for daily use (Soni, 2015). Then, the Nigerian government pays the marketers of the refined petrol products to subsidize the prices of these imported refined products and ease the economic burden on the people, specifically making the pump price of fuel lower than the price when imported. To this effect, the Petroleum Products Pricing Regulatory Authority (PPPRA), an NNPC subsidiary, was created in 2003 to fix prices of petroleum products sold in the country. Today, the PPPRA fixes only the price of

petrol (Premium Motor Spirit) because the prices of kerosene (Dual Purpose Kerosene), Diesel (Automotive Gas Oil) and Aviation Fuel have been left to the market for price determination (Arong & Egbere, 2013). According to Okonjo-Iweala, Nigeria's two-time former Finance Minister and Head of the Economic Team under the Obasanjo and Jonathan administrations, between 2003 and 2004, subsidies on prices of refined products were approximately 40% of the international price, and the government bore an annual fiscal burden of almost US\$1 billion out of a federal budget of roughly US\$10 billion to keep pump price of petrol low. Nigeria's downstream petroleum sector was also characterized by recurrent scarcity; black market sales, which is due to scarcity and serves to undermine the government fixed pump price of petrol; smuggling of refined products to neighbouring countries; and oil theft as a result of pipe vandalism and bunkering. (Okonjo-Iweala, 2012).

Deregulation Policy of Downstream Sector

The idea of deregulation when applied to Nigeria's downstream petroleum sector connotes the reduction and restructuring of the regulations that guide the downstream petroleum sector. The deregulation of Nigeria's downstream petroleum sector is a Federal Government policy which has been undertaken by several military regimes and civilian administrations over the last thirty years. Underscoring the deregulation policy in the downstream petroleum sector,

Agbebaku et al. (2005) (cited in Gberevbie et al., 2015, p. 138) posit as follows:

“...that the Nigerian government recognises the inadequacies of the existing state-owned oil companies and desires to maximise supply sources for the refined products market in the country; that local and private investors would be willing to take over the state-owned facilities in their current state of dilapidation and operate them efficiently and profitably thereafter; that government monopoly of refining and distribution from the state-owned storage depot would be completely unbundled and abolished; that private refineries would procure crude oil at competitive rates and sell their refined products profitably and at international prices both in and outside Nigeria as desired by the operator; that private investors would have open access to state-owned facilities like petroleum reception jetties at Escravos, Atlas Cove, Okrika, Effurun and Calabar, including the storage tanks at Port-Harcourt, Warri and Kaduna for expediting the logistics of improving petroleum products availability in Nigeria; that prospective private operators must have the necessary financial and technical capacities and be liable to applicable environmental, community relations obligations, safety, quality and other standards, and that unnecessary impediment, including over-bearing procedures for granting

licences to prospective private refiners and other potential investors in the downstream sector that need to be removed may remain, given the nature of the bureaucracy in Nigeria.”

In line with the above, the Federal Government of Nigeria established the PPPRA to ensure the proper implementation of the policy and saddled them with the following responsibilities:

“...establish an information and data bank through liaising with all relevant agencies; facilitate informed decisions on pricing policies; moderate volatility in petroleum products pricing, while ensuring reasonable returns to operators; oversee the implementation of relevant recommendations and programmes of the Federal Government; establish parameters and codes of conduct for all operators; maintain constant surveillance over all petroleum products; identify macroeconomic factors in relation to pricing of petroleum products and advise the government on appropriate strategies for dealing with them; establish linkages with key segments of the Nigerian society and ensuring that their expectation enjoy the widest possible understanding and support; prevent conspiracy and restrictive trade practices that are harmful to the sector; and play a mediating role for all stakeholders in

the sector.” (Agbebaku et al., 2005 as cited in Gberevbie et al., 2015, p. 138).

Additionally, it is noteworthy that every Nigerian government in the past three decades has been on the path of deregulating the country's downstream petroleum sector. Though various governments have differed in their approach to deregulating the country's downstream petroleum sector, however what they all have in common is changing the official prices of petroleum products in the country, particularly petrol (PMS), as shown in Table 1 because it is the most consumed petroleum product in the country (Emejuiwe, 2014).

Therefore, it can be persuasively argued that deregulation of Nigeria's downstream petroleum sector is tantamount to changing the pump price of petrol (Ogwo & Onuoha, 2013).

On a broader scale, deregulation of Nigeria's downstream petroleum sector comprises reconstituting the various government agencies involved in the downstream petroleum sector as well as restructuring the variety of laws and policies that shape the downstream petroleum sector. Okonjo-Iweala (2012), avered that the binding idea behind changing the pump price of petrol, reconstituting the various government agencies involved in the downstream petroleum sector, and restructuring the regulations amount to reforming the sector with the aim of reducing government involvement in the sector.

Table 1
Petrol Price increases in Nigeria (1978-2012)

S/No	Date	Administration	Price Per Litre	Percentage Change (%)
1.	1978	Obasanjo	15 Kobo	-
2.	1990	Babangida	60 Kobo	300
3.	1992	Babangida	70 Kobo	17
4.	1992	Babangida	NGN3.25	364
5.	1993	Shonekan	NGN5.00	54
6.	1994	Abacha	NGN11.00	120
7.	1994/98	Obasanjo	NGN11.00	-
8.	2000	Obasanjo	NGN20.00	82
9.	2000	Obasanjo	NGN22.00	10
10.	2001	Obasanjo	NGN26.00	18
11.	2003	Obasanjo	NGN40.00	54
12.	2004	Obasanjo	NGN45.00	13
13.	2007	Obasanjo	NGN70.00	56
14.	2007	Yar-Adua	NGN65.00	0.07
15.	2012	Jonathan	NGN141.00	117

Source: South-South Elder's Forum cited in Soyinka (2012, p. 47)

Note: The only major change after the last revision in 2012 as shown in Table 1 was under this present (Buhari) Administration which increased the price of Petrol Motor Spirit from N141 to N145 per litre in 2016

Analysis of the Deregulation Policy and Nigeria's Economy

A country's economy refers to its wealth and resources in terms of production and consumption of commodities, which is measured by its Gross Domestic Product (GDP). GDP refers to the value of goods and services produced in an economy within a year (Umo, 2007). The state of a country's economy embodies its consumption, investment, savings, government expenditure, and net exports (exports minus imports) as primary indicators. Secondary indicators include foreign exchange, inflation and unemployment rates.

Though Nigeria has a developing lower/middle-income economy, it had the largest nominal economy in Africa with a 2014

GDP of \$568.5 billion. In spite of this, over half the estimated 170 million people live on less than a dollar per day. Since 2004, the Nigerian economy has expanded at an average rate of 7% a year—faster than the West African average (The Economist, 2014; World Bank, 2014).

The most striking feature of Nigeria's economy is its over-dependence on petroleum. Nigeria is afflicted with Dutch Disease, which according to Brahmhatt et al. (2010) is a phenomenon reflecting changes in the structure of production in the wake of a favourable shock, occasioned by large natural resource discovery and a rise in the international price of an exportable commodity which leads to reduction in the contribution of other sectors of the economy due to neglect.

In Nigeria, the overdependence on petroleum translated to neglect of other sectors of the economy. The dependence on petroleum is so much that budgets are drawn up with revenue from petroleum in consideration. Therefore, according to Ayida (1987), petroleum is the root of all evils in Nigeria, and oil is the heart through which the country breathes (Ikejiani-Clark, 2007). The country is unduly reliant on oil for its foreign exchange earnings and is at the mercy of global oil prices (Nnebe, 2009). In 2013, the petroleum industry accounted for 11% of Nigeria's GDP, 70% of the Nigerian government's income, and 94% of Nigerian export revenues (Isu et al., 2002; PricewaterhouseCoopers, 2015).

To illustrate how much the Nigerian government has come to rely on petroleum for revenue over the years: in 1960, the percentage of Nigerian government revenue derived from petroleum was 2.7%, by 1970 it was 57.6, by 1975 the figure stood at 92.6%, in 1995 it was 70.5%, and in 2013 it was 70% (Ehinomen & Adeleke, 2012). These statistics underline the profligacy and serious unaccountability of successive Nigerian central governments and validates the resource curse theory.

Another significant fact is that Nigeria's economy is heavily import-driven. Nigerian consumers, producers and investors are chronically dependent on imports. The implication of this is dual: firstly, billions of dollars leave the country annually; and secondly, the economy has not developed a strong manufacturing sector. This situation combined with the over-dependence on

petroleum spell calamity for Nigeria's economy (Nigerian Institute of Social and Economic Research, 2010).

Nigeria's economy is currently in crisis. The revenue accruable from petroleum has dropped significantly over the last two years. Between 2015 and 2016, the projected government revenue from petroleum dropped by 50% from N1.64 trillion to N820 billion because the price of petroleum fell from about \$100 dollars a barrel to around \$33 (Buhari, 2015). The reason for this is that in 2014, Nigeria lost the largest buyer of its petroleum, the United States, because the United States secured domestic source of petroleum from shale oil (the United States production of petroleum has nearly doubled since 2010). On a wider scale, the effect of the United States petroleum independence had an international magnitude and led to other countries increasing their supply of oil. Most notably, Saudi Arabia increased its oil production to a record 10.3 million barrels per day. Due to the abundance of supply and less demand, the result is that the price of petroleum in the international market has plunged, so has Nigeria's main source of national income (Plumer, 2016; *The Economist*, 2014, 2015). The economic implications of the drop in Nigeria's oil revenue is that the purchasing power of the Naira to the Dollar has been volatile for the cost of imported goods. Also, there is less money in the economy for investment (Hegarty, 2016). Hence, Nigeria's economy is currently facing a crisis and addressing its petroleum industry is tantamount to taking steps to solving the problem.

It is evident from the foregoing that there is a significant relationship between the downstream petroleum sector and the economy. It is also clear that Nigeria's downstream petroleum sector and Nigeria's economy are linked in various ways. According to Adelabu (cited in Majekodunmi, 2013, p. 76), "To say that the economy is heavily dependent on the oil industry will amount to an understatement as the oil industry is nothing short of a life-blood for the Nigerian economy." In 2013, petroleum was Nigeria's most exported commodity, providing 11% of Nigeria's GDP, 70% of the Nigerian government's income, and 94% of Nigerian export revenues (PricewaterhouseCoopers, 2015). This was still the case in 2015. The importance of petroleum to Nigeria's economy is so much that budgets are planned around the international price of petroleum and how much is expected to be sold; for instance, Nigeria's 2015 budget was based on a benchmark oil price of \$53 per barrel and oil production of 2.28 million barrels per day, while the 2016 Budget was projected on a petroleum price of \$38 per barrel and a production estimate of 2.2 million barrels per day (Buhari, 2015).

Furthermore, petroleum is essential to businesses in Nigeria's economy. Emejuwe (2014) states that diesel is the source of energy for large firms and petrol is the energy source of the small firms and households across the country. Petrol, the most consumed of the products, has a consumption rate of 31-40 million litres

daily due to the fact that businesses are left to power themselves because of the dismal state of Nigeria's public electricity supply (House of Representatives, 2012). In addition, transportation of commodities by automobiles which run on petrol adds to their cost (Onyemaechi, 2012). Moreover, the economic productivity of millions of working-class Nigerians is influenced by their ability to power their houses with diesel and petrol on a daily basis, as well as their transportation for work purposes. Therefore, underscoring the relationship between Nigeria's downstream petroleum sector and Nigeria's economy.

Predicated on the link between Nigeria's downstream petroleum sector and Nigeria's economy, the nexus between deregulation of Nigeria's downstream petroleum sector and Nigeria's economy cannot be overemphasised. Sabiu and Reza, (2014) proved that changes in the price of petrol due to deregulation result in changes in GDP and unemployment in the country. Changes in the price of petrol have a strong impact on the prices of commodities and cost of electricity which in turn affect the cost of living as well as cost of doing business, and these constitute the GDP (the value of goods and services) produced and consumed in Nigeria (Sabiu & Reza, 2014).

CONCLUSION

Nigeria's economy is arguably subject to the vagaries of the OPEC oligopolistic market and global economic swings. This explains the current economic situation which lies in

“intensive care unit”, gasping desperately for “oxygen”, and there is no consensus yet among the “Mindors” of the economy on the appropriate solution to restore stability.

An objective analysis of the potential and capacity of the Nigerian economy continues to validate Ibeanu's (2008) thesis on the concomitant juxtaposition of affluence with affliction in Nigeria. Unless and until the elites and political class wake to the realization of using affluence (oil wealth) to neutralise rising affliction (poverty) of the populace, Nigeria matches precariously towards political rebellion. The Economist (2014) and World Bank (2014) revealing poverty statistics in the Country gives vent to this conclusion. The situation appears quite worse now, as the Nigerian Currency (Naira) has tumbled against the US Dollar at over 200%, with the Dollar exchanging for N480.00 as at first week of October 2016. These submissions are further strengthened by the theoretical framework of the study as follows: Public choice theory as a pivot for this study is anchored on the peculiarities and specificities that characterise successive central government policies (formation and implementation) in Nigeria, and zero-in on the impact of deregulation of the downstream petroleum sector on Nigeria's economy between 2007 and 2015.

The theory presents a profile and graphic illustration of the Nigerian bureaucratic and political elite, and demonstrates or reveals how government policies led to negative economic consequences as typified by the

observable flaws in the deregulation policy of the downstream petroleum sector. This is reinforced by the situation in which the hitherto subsidy regime benefitted only the rent-seeking elite class to the detriment of the greater majority of the populace.

Thus, notwithstanding Farazmand's (2012) criticism of the public choice theorists armed with the gospel that “eliminates public spheres' irrelevance of the state” and the “end of public administration” (Farazmand, 2012, p. 490, 492), this study avers that the effective deregulation of the downstream petroleum sector built on the tenets of public choice theory offers the necessary recipe and vitality for stemming economic rent-seeking attitudes of Nigerian governing/bureaucratic elites and the political class.

Based on the foregoing, the paper recommends the following: There is an urgent and compelling need to reconstitute the various government agencies involved in the downstream petroleum sector, and a restructuring of the various laws and policies shaping the sector. Additionally, in order to stem the tide of profligacy, unaccountability and corruption, Nigeria must commit to building and sustaining strong bureaucratic and governance institutions anchored on effective controls, transparency and probity in public governance process. It is further suggested that the Nigerian paradox and long-standing amorous but dangerous romance with the “Dutch Disease” call for not only urgent scrutiny but proactive steps to robustly and productively diversify its

economy, and exit the current precarious economic situation. As a corollary to the above, it must be reiterated that oil is a depleting asset, and when indeed, Nigeria escapes from its present economic condition, adequate care must be taken and deliberate strategy evolved to invest wisely, the proceeds and returns on petroleum oil wealth, thus keeping the country in a constant state of liquidity and economic buoyancy.

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