

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 BACKGROUND TO THE STUDY**

In many development countries, structural reform of petroleum market has become a critical component of macro-economics liberation policies. The role of government in the petroleum sector is being re-defined and markets are being deregulated that is state interventions such as special treatments of state owned oil companies, price control and restriction to trade are being removed and monopolies are being broken up.

Increasingly, the private sector is particularly in more competitive petroleum markets. The low capacity utilization of Nigeria state owned refineries and petrochemicals plants in Kaduna, Port Harcourt and Warri. The sorry state of despair, neglect and repeated canals of the state ran petroleum products pipelines and oil movement infrastructure nationwide, the collateral damage of institutionalized competition, with the frightening emergency of a local nouveau riche oil mafia that controls and coordinates crude-oil and refined petroleum products pipeline sabotage and theft ("illegal bunkering") nationwide, the instability corrupt military task force operations that assist diversions of both crude oil and petroleum products and large scale cross boarder smuggling of petroleum products all of which are the root causes of protracted and seemingly intractable severe fuel crisis to a decade now, are all predictable outcomes of government involvement in the downstream sector of Nigeria petroleum industry.

Today, Nigeria needs about 30 million litres of gasoline daily, up from about 22 million liters per day in 1996, through in 25 million liters per day in 2001. Thus, the annual petrol consumption growth rate between 2011 and 2003 is about 10% per annum. Meanwhile, Nigerian refinery all of them operating at a very low efficiency are defective or are frequently shut down and can hardly produce 60% of the fuel needed to keep Nigeria going strong, even if they were all brand new and optimally operational given the imposed feed stock constraint of 300,000 bbl/d.

While Nigeria refineries need about 530,000 bbl/d of crude oil in order to satisfy a pent up daily demand for about refining capacity amounts of only 445, 000 bbl/d but the federal government of Nigeria allows only 300,000 bbl/d of crude oil for the export of excess refined petroleum products even when the local demand has not been met. These inefficiencies of the petroleum industry of Nigeria have necessitated the introduction of deregulation and liberalization policies of the downstream sector of the industry. However deregulation is seen as desirable in freeing government products in the Nigerian market. It is refined petroleum products in the Nigerian market. It is the reduction of government control and allowing the market forces to dominate in industry decision making. This shows that government will stop interfering in the downstream activities of the petroleum industry and would allow private investors to refine, distribute and sell petroleum products at prices not determined by government or its agencies. The fundamental objectives of deregulation are to allow for

competition in the petroleum products market with its attendant increased economic efficiency and welfare packages.

Given a fore going analysis on deregulation, it was assumed that technically, the price of petroleum products may not be easily deregulated however when the petroleum products markets are deregulated, the new competitive environment would affect the prices. Thus to make economic deregulation work, particularly in the petroleum products market, in Nigeria government inaugurated the petroleum products pricing regulatory Agency (PPPRA) on 19 June, 2003 to monitor and regulate the pricing and distribution of petroleum products. Despite this, the prices of petroleum products tend to move towards international prices, some factors competitive force particular impeded the setting of prices at import party. Presently, hundreds of small enterprises are being strengthened by the deterioration in economic conditions especially inadequate credit, rising production costs caused by the rise in price of petroleum products for running the business and diminishing consumer demand which was brought about by like in prices of the goods demand for the capacity of the economy to provide full time employment has diminished. It is difficult to estimate the size of Nigeria's informal sector, since virtually its entire city residents peoples busy scratching a livelihood from micro and small-scale enterprises. The apparent resilience of this sector, which provides a widerange of services and goods for the poor and the pauperized middle classes, sharply contrast with the fragility of the formal sector. According to the international labour organization, small and medium scale enterprises and particular informal sector undertakings account for over 60 percent of economic activities in Nigeria and over 35 percent of urban employment.

The deregulation policy of the government was based on some objectives are elimination of large welfare losses emanating from supply inefficiencies and poor quality of services establishment of a perfectly competitive energy market environment so much so that consumers needs are adequately not dynamic efficiency gains associated more with market oriented pricing, providing the necessary incentive to innovate and improve the quality of supply through investment prevention of any possible collusion by producers to form cartels to controls the market products quality and quantity prices investment etc.

Establishment of optimal and affordable energy prices such that the poor is not neglected in the consumption of energy products institutional frame work for energy planning and management in the country.

## **1.2 STATEMENT OF PROBLEM**

The government is faced with the task of ensuring effective allocation or distribution of petroleum products through price mechanism. Price mechanism has been adjusted to be the most efficient means of distributing/allocating scarce resources in the country. The policy maker or government has now position deregulation has a means for proper allocation. Deregulation involves a shift from administered pricing mechanism.

The questions to be answered by this research work are:

- a. What measures have been taken toward achieving the desired goals of deregulation?
- b. What has been the effect of deregulation of the petroleum industry on the informal

sector of the economy?

c. What have been the benefits and losses of deregulation of petroleum industry on the formal sector of the economy?

d. Is deregulation really a way out of the inefficiencies of the petroleum industry in Nigeria?

### **1.3 OBJECTIVES OF THE STUDY**

The broad aim of this work is to assess the government deregulation policy of the petroleum industry and its effect on the small and medium scale enterprises in the Nigerian economy specially, the study aimed at examining.

a. The need for deregulation in the Nigerian petroleum industry.

b. The implication of the policy on small scale business in terms of cost of doing business productivity competitiveness, and the response of the consumer in terms of demand.

c. Examine the survival strategies being adopted by the small scale enterprises in Nigeria.

d. Make recommend action and suggestions

### **1.4 HYPOTHESIS**

The research hypothesis used here is whether deregulation policy of the petroleum industry has had any adverse effect on rates of returns in the informal sector or not.

Thus, the null hypothesis ( $H_0$ ) will be tested against the alternative hypothesis ( $H_1$ )

**$H_0$ :** deregulation of petroleum industry has no adverse effect on the rate of returns of small medium scale enterprises in Nigeria.

**$H_1$ :** deregulation of petroleum industry has adverse effect on the rate of the small and medium enterprises in Nigeria.

### **1.5 SCOPE AND LIMITATIONS OF THE STUDY**

This study examined whether deregulation of the petroleum industry has affected the informal sector of the Nigerian economy especially with respect to small scale enterprises in Ado-Odo Ota local govt. area. It examined the effect of this policy on the productivity of these enterprises. It enlightens the benefits and the shortcomings for the small scale enterprises.

This study was limited by unavailability of accurate or sufficient data due to the fact that virtually most of the SME's have no records of activities. This brings about an inaccurate analysis of these data.

### **1.6 RESEARCH METHODOLOGY**

Some of the data used in this study was collected primarily. The use of questionnaire will be engaged in the collection of these data. Also some of these data was from the secondary source like articles from individuals and texts the chi-square method was used to test for the hypothesis. This was to test if there is any dependency or independency between the policies of petroleum products specially, the petrol and the level of productivity of the small scale enterprises.

### **1.7 DEFINITIONS OF TERMS**

**Deregulate:** It simply means when Government reduces its role and allows industry

greater freedom in how it operates. The stated rationale for deregulation is often that fewer and simpler regulations will lead to a raised level of competitiveness.

Therefore, higher productivity more efficiency and lower prices overall. In Canada; Natural gas is deregulated in most of the country, with the exception of some Atlantic provinces and some pockets like Vancouver Island and medicine that most of this deregulation happened in the mid-1980s.

The province of Alberta has deregulated their electricity provision. Customers are free to choose which company they sign up with, but there are few companies to choose from and the price of electricity has increased substantially for consumers because the market is too small to support competition. If they choose they may remain.

**Monopolies:** (From Greek Monos uovoc (alone or single) + Polein NWAEOU (to sell) is the only supplier of a particular commodity (This contrast with a monopoly which relate to a single entity's control of a market to purchase a good or service, and with oligopoly which consists of a few entities dominating an industry.

Monopolies are thus characterized by lack of economic competition to produce the good or service and lack of viable substitute goods. The verb 'Monopolize' refers to the process by which a company gains the ability to raise prices or exclude competitors.

In economics, a monopoly is a single fellow, In law, a monopoly is business entity that has significant market power, that is, the power to change higher prices.

**Smuggling:** This is the clandestine transportation of goods or persons, such as out of a building, into a prison or across an international border, In violation of applicable laws or other regulations.

There are various motivations to smuggle. These include the drug trade, In illegal immigration or illegal emigration, tax erosion, providing contra-band to a prison inmate, or theft of the items being smuggled. Examples of non - financial motivations include bringing barred items past a security checkpoint (such as airline security) or the removal of classified documents from a Government or corporate office.

**Nouvea riche:** It simply means new money, it comprises of those who have acquired considerable wealth within their own generation. The term is generally used to emphasize that the individual was previously part of a lower socioeconomic rank, and that such wealth has provided the means for the acquisition of goods or luxuries that were previously obtainable. The term can also be used in a deregulatory fashion, for the purpose of social class districts there, "Nouvea rich" describes persons with new found wealth as being vulgar, in lacking the experience or value. System to utilized wealth in the same manner as those of "Old money" (Persons whose families have been wealthy for multiple generations.

**Liberalization:** In general, it refers to a relaxation of previous Government restrictions usually in areas of social or economic policy. In some contexts this process or concepts is often, but not always, referred to as deregulation liberation of autocratic regimes they precede democratization (Or not, as in the case of the Prague Spring). There is also a concept of hybrid liberation as, for instance, in Ghana where Cocoa crop can be sold to variety of competing private companies, but there is a minimum price for which it can be sold

and all exports are controlled by the state.

**Refinery:** A refinery is a production facility composed of a group of chemical engineering units processed and unit operations refining certain materials or converting raw materials into products of value. There are different types of refineries which are; Oil refinery, Sugar refinery, natural gas processing, salt refinery, Metal refinery, Vegetable oil refinery etc.

Considering the oil refinery or petroleum refinery, is an industrial process plant where crude oil is processed and refined into more useful petroleum products, such as gasoline, diesel fuel, asphalt base, heating oil, kerosene and liquefied petroleum gas. In many ways oil refineries use much of the technology of, and can be thought of, as types of chemical plants. The crude oil feed stock has typically been processed by an oil production plant. There is usually an oil depot (tank farm) at or near an oil refinery for storage of bulk liquid products.

**Diminish:** Is to make (Someone or something) seem less impressive or valuable.

**Mechanism:** It is the act of designing rules of a game to achieve a specific outcome. Mechanism is also the belief that natural wholes (Principally living things) are like machines or artifacts, composed of parts lacking any intrinsic relationship to each other, and with their order imposed from without. Thus, the source of apparent things activities is not the whole itself, but its parts or an external influence on the parts mechanism is opposed to the organic conception of nature best articulated by Aristotle and more recently elaborated as vitalism.

**Inaugurated:** An Inauguration is a formal ceremony to mark the beginning of a leader's term of office. An example is the ceremony in which the president of the United States officially takes the oath of office. The most common usage of the term is in the context of a formal investiture whereby an individual assumes an office or position of authority or power.

**Illegal Bunkering:** A bunker is a bin or tank especially for fuel storage, as on a ship where a illegal or unlawful, is used to describe something that is prohibited or not authorized by law. i.e. the Niger Delta has been a source of illicit international business deals (like the trans - Atlantic slave trade), as far back as the 15<sup>th</sup> Century. Today a new form syndicated criminal proclivity is threatening the very foundations of Nigeria's petroleum industry, and by extension, the Nigerian economy as well as putting tremendous pressure on chief (General) Olusegun Obasanjo. That problem is the "Illegal bunkering" of crude oil and / or its derivatives.

## CHAPTER TWO

### 2.0 INTRODUCTION

"A Market competition is the only form of organization which can afford a large measure of freedom to the individual. By pursuing his own interest, he frequently promotes that of society more effectively than when he really intends to promote it. I have never known much good done by those which is affected to trade for public good", stated by Adam Smith in wealth of nations in 1776. As the above quote suggests, market competition is a valuable tool in improving the quality and efficiency of processes.

Deregulation of the petroleum industry is based on the same principle at the heart of all

deregulation effort various new services to the customers, including reliability services all designed to meet each customer's specific needs.

Deregulation can be defined as the actor process of removing restrictions and regulation. Regulation is an authoritative rule dealing with detail or procedure. (Website's new collegiate dictionary).

Deregulation of the downstream sector of Nigeria petroleum industry can be said to be the process whereby state intervention such as special treatment owned oil companies, price controls and restrictions to trade are being removed and monopolies are being broken up. It is desirable in freeing government of its concurrent control and involvement in the business of refining, importation and distribution of refined petroleum products in the Nigerian market.

## **2.1 CONCEPTUAL ISSUES**

The informal sector describes economic activity that takes place outside the formal norms of economic transaction established by the state and formal business practices but which is not clearly illegal in it. Generally the term applies to small or micro businesses that are the result of individual or family self employments. It includes the production and exchange of legal goods and services that involves the lack of appropriate business permits, violation of zoning codes, failure to report tax liability, non-compliance with labour regulations governing contracts and work conditions and for the lack of legal guarantees in relations with suppliers and clients. As such, it is conceptually, methodologically and theoretically difficult to define in terms of its precise nature, size and significance leading some authors to criticize the terms for lack of clarity (Peltier 1989 Bromley 1990).

The informal sector is highly heterogeneous encompassing production units of different features and in wide range of economic activities as well as people (i.e. workers, producers, employers) working or producing under many different types of employment relations and production arrangements. Because of the heterogeneity of the informal sector, and its multiple dimensions, conceptual and statistical definitions of this sector are not clear not one might expect. The resolution concerning statistics of employment in the formal sector, adopted by the fifteenth international conference of labour statisticians (ICLS) January 1993, conceives the informal sector as consisting of producing units that "typically operate at low level organization with little or no division between labour and capital and on a small scale. Labour relations where they exist are based mostly on casual employment, kinship or personal and social relations rather than contractual arrangement that the sector represents a growing proportion of economic activity particularly in less developed countries has placed it at the center of debate about its role with respect to economic development. The fact that informal sector

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