

## **CHAPTER ONE**

### **INTRODUCTION**

#### **Background of the study**

The Nigerian national petroleum corporation (NNPC) was established on April 1, 1977 as a merger of the Nigerian National Oil Corporation and the Federal Ministry of Mines and Steel. NNPC by law manages the joint venture between the Nigerian federal government and a number of foreign multinational corporations, which include Royal Dutch Shell, Agip, ExxonMobil, Chevron, and Texaco (now merged with Chevron). Through collaboration with these companies, the Nigerian government conducts petroleum exploration and production. The NNPC Towers in Abuja is the headquarters of NNPC consisting of four identical towers. NNPC also has zonal offices in Lagos, Kaduna, Port Harcourt and Warri. It has an international office located in London, United Kingdom.

In addition to its exploration activities, the Corporation was given powers and operational interests in refining, petrochemicals and products transportation as well as marketing. Between 1978 and 1989, NNPC constructed refineries in Warri, Kaduna and Port Harcourt and took over the 35,000-barrel Shell Refinery established in Port Harcourt in 1965.

In 1988, the NNPC was commercialized into 12 strategic business units, covering the entire spectrum of oil industry operations: exploration and production, gas development, refining, distribution, petrochemicals, engineering, and commercial investments. Currently, the subsidiary companies include:

National Petroleum Investment Management Services (NAPIMS)

Nigerian Petroleum Development Company (NPDC)

The Nigerian Gas Company (NGC)

The Products and Pipelines Marketing Company (PPMC)

Integrated Data Services Limited (IDSL)

Nigerian LNG limited (NLNG)

National Engineering and Technical Company Limited (NETCO)

Hydrocarbon Services Nigeria Limited (HYSON)

Warri Refinery and Petrochemical Co. Limited (WRPC)

Kaduna Refinery and Petrochemical Co. Limited (KRPC)

Port Harcourt Refining Co. Limited (PHRC)

In addition to these subsidiaries, the industry is also regulated by the Department of Petroleum Resources (DPR), a department within the Ministry of Petroleum Resources. The DPR ensures compliance with industry regulations; processes applications for licenses, leases and permits, establishes and enforces environmental regulations. The DPR, and NAPIMS, play a very crucial role in the day to day activities throughout the industry.

According to Onoh J.K (1995), when Nigeria gained independence in 1960, oil production had been established in the country and it was exporting over 170,000 barrels per day. It was Gluf oil company that struck off shore oil on the Okan structure of the then Bendel state (now, Edo state) in 1964. The licenses that were granted these companies were both offshore and onshore. With these commercial discoveries in

petroleum products, the socio-economic and political development of Nigeria began to crystallize as well as its internal dynamics ethnicity.

All crude oil produce before the mid-sixties was exported because of no-availability of local refineries, while domestic demand of petroleum products was met by imports. However the need to conserve foreign exchange creates job opportunities to some extent and other benefits derivable from setting up refineries locally prompted the government of Nigeria to establish and commission a refinery in Port-Harcourt in 1965. The refinery has processing capacity 35,000 barrels per day to meet the increasing domestic demand while excess fuel oil was exported.

Michael Tanzer (1980) states that the demand for oil products continued to outstrip supply which made the government to officially open the Warri refinery in 1978 with a total capacity of 100,000 barrel per day, thereby giving the country its present day potential capacity of 260,000 barrels per day. These were designed to refine 50 percent Nigerian light crude and 50 percent medium crude. Expansion work is currently going on at both the Kaduna and Warri refineries, with a fourth refinery being constructed near port-Harcourt at a cost of about N750 million. It is hoped that when the fourth refinery is completed, it will increase domestic refinery capacity by 150,000 barrels per day, and render unnecessary our offshore processing arrangement by which Nigerian crude is taken abroad for refining and the products are imported to meet the short fall in domestic requirements. As the output from all the refineries will then exceed demand, there will be a surplus available for export.

The evaluating the performance of the Nigerian national petroleum corporation(NNPC) has become necessary since the over dependency of the Nigerian government on oil. The oil sector being the most important sector of the Nigerian economy has to be properly managed to avoid economic failure or recession.

### **Statement of the general problem**

As the leading sector of the economy, the oil industry should have some spill over into the other sectors of the economy.

The Nigerian economy has become dependent oil revenues over the past decades. During the 1986-92 periods, oil export revenues increased at an average of 13 percent per annum which GDP measure in current US Dollars, decrease by an average while oil export revenues alongside the continuing decline of the non-oil economy implies higher dependency.

Over the years, the contributions of the oil industry to the growth of Nigeria economy are great. On this promise, the researchers want to evaluate the performance of the NNPC on the Economic development of Nigeria.

### **Objectives of the study**

The following are the aims and objectives of the study

To evaluate the contribution of NNPC in Nigeria economic development.

To know if there is a relationship between NNPC's performance and the economic development of Nigeria

To point out the negative roles of NNPC and the oil industry.

### **Significance of the study**

This research work would be of importance to policy makers, researchers and the Nigerian government in improving the economy of the country. The findings from the survey would help the government in monitoring the performance of the NNPC and to overhaul the establishment if need be.

### **Scope of the study**

This study is restricted to the performance evaluation of the Nigerian national petroleum corporation (NNPC) in its contribution to the economic development of Nigeria.

### **Research Questions**

How is the performance of the NNPC in the last decade?

Has the performance of NNPC significantly influenced economic development?

Is there a relationship between NNPC's performance and economic development?

### **Research Hypothesis**

H0: there is no significant relationship between the performance of NNPC and economic development of Nigeria.

H1: there is a significant relationship between the performance of NNPC and economic development of Nigeria.

### **Limitations of the study**

**Financial constraint-** Insufficient fund tends to impede the efficiency of the researcher in sourcing for the relevant materials, literature or information and in the process of data collection.

**Time constraint-** The researcher will simultaneously engage in this study with other academic work. This consequently will cut down on the time devoted for the research work.

### **Definition of terms**

**Crude oil:**Crude oil, commonly known as petroleum, is a liquid found within the Earth comprised of hydrocarbons, organic compounds and small amounts of metal. While hydrocarbons are usually the primary component of crude oil, their composition can vary from 50%-97% depending on the type of crude oil and how it is extracted.

**Development:**A gradual growth of something so that it becomes more advanced, stronger, etc.

**Refinery:**A factory where a substance such as oil is refined.

**NNPC:** Nigerian national petroleum corporation.

**GDP:** Gross domestic product.

**REVENUE:** the total income that accrue to the government of a country from various sources, i.e. the money that is received by government from taxes paid by oil companies, organization or firms.

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