

Privatization and Commercialization of Nigerian National Petroleum Corporation Oil Refineries in Nigeria

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Abstract: *Nigeria economy relies solely on Petroleum products. Oil revenue accounts for more than seventy percent (70%) of the total Federal collected revenue. Every sector of the economy relies mostly on power to survive and the main source of power today remains the petroleum industry. The sluggish performances of the economy in the last two decades have been attributed to the problems in Nigerian oil industries. Observers see government involvement in the industry as the major cause of the problem. Government has equally realized the need to move the economy forward, which can only be achieved by her willingness to do away with the monster called "Petrol chemical industry". This paper explains the meaning of privatization and commercialization policy of government, Nigerian refineries' nature, critical issues on privatization by the use of primary and secondary data (structured questionnaire), existing literature and recommendations are based on gathered opinion of Nigerians.*

Keywords: Nigerian economy, petroleum products, privatization and commercialization

1. Introduction

The first formal privatization programme of the Federal government of Nigeria is dated back to 1988, under the technical committee on privatization and commercialization (TCPC) and it was backed by Decree No 25 of July, 1988. In the decree, Forty five (45) were slated for partial privatization, twenty five (25) for partial commercialization, sixty six (66) to be fully commercialized, and other ten (10) are to be fully commercialized, totaling one hundred and forty-six (146) companies. One hundred and forty six National Petroleum Corporation (NNPC) was among the companies stated for commercialization, according to the report on privatization and commercialization in 1993 when TCPC become the Bureau of public enterprises (BPE) by Decree 78 of 1993, #3.7 billion were received as gross sales revenue from 89 enterprises privatized out of 111 slated for privatization.

NNPC was commercialized in such a way that the company and its subsidiaries were expected to generate enough revenue to cover operating costs while government may give grants for capital intensive projects. This idea has not recorded any significant improvement in the operations of the company since 1989. The (NNPC) and its subsidiaries have failed in performing its constitutional role to the public and in achieving a steady operation since it has been commercialized. It was as a result of this that the 1998 Federal government budget listed Nigerian refinery for privatization. This paper which will use both primary data and secondary information (structured questionnaire) from existing literature is organized into four parts.

Part 1, deals with conceptual issues and literatures review; part II, deals with the conditions of Nigerian refineries and situations around; part iii, deals with critical issues in privatization of Nigerian refineries and the final aspect is the summary and conclusion.

We cannot be talking about creating conducive environment for foreign investments if the performance of our transport, telecommunication and energy sectors remain dismal and epileptic. Public enterprises do not achieve the allocative efficiency because they have little incentive to respond to consumer demands, moreover, allocative inefficiency is associated with power monopoly usually granted by statute and other special protections. Public enterprises have therefore become unsustainable burden on the state budget and the banking system. Government credits to capital intensive public enterprises crowd private firm out of credit market (1).

1.1 National Council on Privatization

This is the apex body on privatization and commercialization, established by Act No 28 of 1999 and charged with the following responsibilities among others:

- Approve policies on privatization and commercialization
- Approve guidelines and criteria for valuation of public enterprises for privatization and choice of strategic investors.
- Approve public enterprises to be privatized or commercialized
- Approve the prices for shares or assets of the public enterprises to be offered for sale.
- Approve the appointment of privatization advisers and consultants.

1.2 Objectives of Privatization and Commercialization Programme of Nigerian Government

The objective of the privatization and commercialization programme in Nigeria stated out in Act No 28 of 1999 is as follows:

- To send a clear message to the local and international community that a new transparent Nigeria is now open for business
- To restructure and nationalize the public sector in order to substantially reduce the dominance of unproductive government investment in the sector
- To change the orientation of all public enterprises engaged in economic activities towards a new horizon of performance improvement, viability and overall efficiency
- To raise funds for financing socially-oriented programmes like poverty eradication, health, education and infrastructure improvement
- To ensure positive returns on public sector investments in commercialized enterprises, through more efficient private sector oriented management.
- To check the present absolute dependence on treasury for finding by otherwise commercially oriented parastatals and so, encourage their approach to the Nigerian and International capital markets to meet their finding needs.
- To initiate the process of gradual cession to the private sector of public enterprises that is better operated by the private sector.
- To create jobs, acquire new knowledge, technology and expose Nigeria to International competition.

2. Conceptual Issues on Privatization

The rationale for privatization can be ascribed to the unjustifiable intensive public enterprises, their poor economic performance and the inherent characteristics of public ownership which gave rise to inefficiency. It is important to observe that there was a time when it was considered sound economic policy for government to establish and invest in statutory corporations and state owned companies. Socialism existed side by side with capitalism. It was argued that the public owned companies were better for stimulating and accelerating natural economic development than private capital. The result was a proliferation of such state owned enterprise covering a broad spectrum of economic activities from steel plants and petrochemical through banks and hotels to mass transit and abattoirs, (13).

Obasanjo stated further that successive Nigerian government has invested up to N800 billion naira in public enterprises as at 1998. Annual returns on this huge investment have been below 10 percents. These inefficiency and in many cases huge losses, are charged against public treasury, with declining revenue and escalating demand for effective and affordable social services. The general public has stepped up its yearning for state-owned enterprises to become more efficient.

It should be noted that from economic literature, public ownership is justified on the argument of market failure,

economic of scale, economic planning and development, political and strategic reasons.

Ademuyiwa, (2011) put the reasons for government involvement in private business as follows:-

- The need to provide services to all citizens regardless of their ability to pay.
- To provide benefit to everyone within socially acceptable norms e.g. equality of access to minimum health care's through general practitioners and hospital services.
- To provide services which are beyond the private means of people using this services.
- To correct perceived inequalities e.g. achieving certain minimum standard of roads, education and training schemes)
- To substitute central or local planning in place or consumer choice where an informed choice is difficult.
- To aid control of economic regulation in key area of the National economy
- To enable a consistent approach to certain practical or procedures and to promote certain minimum standard.
- To ensure that the contributor of resources received some direct benefit interest or proportionate benefit from them.

The various reasons listed above account for the nature of economic performance of public enterprises.

Evidence from studies show that when the public and private sectors are compared in terms of producing similar goods and services, the private sector is more efficient (9). The explanation for the efficient private enterprises performance can be attributed to a number of factors including well defined goals and targets especially in the area of profit maximization: good knowledge of customers' needs; high level of discipline and appropriate reward system for staff and management; absence of political interference which allows for employment of the most efficient workers in appropriate number; good pricing policy and competitive market strategies.

Obasanjo, (1999) put expatiated reasons above in the privatization meeting as follows; we want to ensure that many more service providers are brought-in to compete and thereby regulate the market for fairer pricing. 'We want to ensure that those utilities work and deliver quality service, he further stated that privatization is also one of the reforms we have to undertake to integrate our economy into the mainstream of world economic order.

Adogamhe, 2012 identified two interrelated aspect of this integration. In the first place we need the technology, the managerial competence and the capital from the developed world to enhance the performance of our utilities. Secondly there are vey serious linkage between the efficient functioning of our utilities and our ability to attract foreign investment.

- Approval of the legal and regulatory framework for the public enterprises to be privatized.
- Determination of the time and when a public enterprise is to be privatized
- Approval of the budget of the council
- Approval of the budget of the bureau

- Supervision of the activities of the Bureau and issuance of direction on the implementation of the privatization and commercialization programme
- Submission to the president of the federal republic of Nigeria in each year a report on the activities of the council and the bureau.

2.1 Bureau of Public Enterprises

Major functions of the bureau of public enterprises as stated in the privatization handbook (2000) are:

(A) On privatization

- Implementation of the councils policy on privatization
- Preparation of the public enterprises approved by the council for privatization
- Advise the council on further public enterprises that may be privatized
- Advise council on the capital restricting needs of the private enterprises to be privatized.
- Carryout all activities required for the successful issue of shares and sales of assets of the public enterprises to be privatized.
- Advice the council on the allotment pattern for the sales of the shares of the public enterprises set out for privatization.

(B) On commercialization

- Implementation of the council policy on commercialization
- Prepare public enterprises approved by the council for commercialization
- Advise the council on further public enterprises that may be commercialized
- Ensure the updating of the accounts of all commercialized enterprises to ensure financial discipline
- Ensure that public enterprises are managed in accordance with sound commercial principles of prudent financial practices
- Interface with the public enterprises, together with the supervising ministries, in order to ensure effective monitoring and safeguarding of the public enterprises managerial autonomy

2.2 Membership of the Council on Privatization

The Section 9(1) of the privatization Act of 1999 stated that the council shall consist of:

1. The vice president of Federal Republic of Nigeria, as the chairman
2. The minister of finance as vice chairman

Others are; the Attorney-general of the Federation and Minister of Justice; Minister of Industries; Minister of National planning; Secretary to the government of the Federation; Governor of Central bank of Nigeria and Special adviser to the President of FRN on economic affairs and four other members to be appointed by the President of FRN.

2.3 Concept of Privatization and Commercialization

Within the context of the privatization Act of 1999 and economics theory, the fellowship definitions are necessary:

2.3.1 Partial Privatization

This means divestment by the Federal government of part of its ordinary shareholding in the designated enterprises, NNPC, six (6) subsidiaries and thirty (30) others were stated.

2.3.2 Full Privatization

This Means divestment by the Federal government of all its ordinary shareholding in the designated enterprises, Six (6) Cement companies, five (5) banks and other fourteen (14) enterprises were to be fully privatized (Act No 28 of 1999).

2.3.3 Partial commercialization

This means that such enterprises so designated will be expected to generate enough revenue to cover the operating expenditure, the government may consider giving them capital grants to finance their capital projects, Ten (10) River basin development authorities in Nigeria, Nigeria Railway Corporation and thirteen (13) other companies.

2.3.4 Full Commercialization

So designated will be expected to operate profitably on a commercial basis and be able to raise funds from the capital income without government guarantee. Section 6(2) of the Act No28, 1999 set over nine (9).

2.3.5 Management Contracts

The government retains partial or full ownership of public enterprises but hire a private management firm or 'technical expert' or operating partner to come in and turn the enterprise around. This strategy was successfully applied to breweries in Zambia, Five star hotels in the Republic of Benin and the Nigeria Re-insurance Corporation.

2.3.6 Management Skills

The core investor must have a proven management skill to turn that type of enterprise profitably into a competitive environment where market forces largely determine success or failure of the assets. Leasing option has been widely used in Africa in sections that have difficulty attracting private sectors. Examples include road transport in Niger Republic, Port management in Nigeria and water supply in Cote de voir and Guinea.

Leases

Private party pays government for the use of the assets, assures commercial risks and has more incentive to reduce costs and maintain the value using their own resources without relying on shareholders for funds. Each core/strategic investor is expected to prepare short/medium/long term plan for the development of the enterprise and indicate how it will be financed

Concession

This requires private operators to be responsible for capital expenditures, investments and existing assets. This arrangement is more desirable for government but less feasible than leases because private financing (or willingness

to finance) tends to fall short of the exceeded investment, especially in countries where political and economic risks are very high. 'Bi-conteney' in the local wing of Muritala Mohammed International Airport. The concession for Lagos-Ibadan expressway was later revoked.

2.4 Core Groups Strategic Investors

Core group strategic investors can be described as a formidable and experienced corporation or consortia with the capability of adding value to an enterprise and making it operate profitably in the face of international competition. The major characteristics that distinguish strategic/core group investors are:

- **Technical Know-how**

They must possess the technical know-how in relation to the enterprises they which to invest in.

- **Financial resources**

The core investor must possess the financial muscle, not only to pay a competitive price for the enterprise they wish to buy into, but also to turn round its fortune.

2.5 Refineries and Petro-Chemical Companies in Nigeria

Nigerian interest in refinery and petrol chemical dated back to 1965 after the crude oil was discovered. Port-Harcourt refinery company (PHRC) was built with installed capacity of 35,000 barrels per day. Nigeria has four (4) refineries with total installed capacity of 445,000 barrels per day and work force of 5,733 in 2010 distributed as follows:-

2.6 Port-Harcourt Refinery Company (PHRC)

The PHRC has the first and fourth refineries. The first refinery was built in 1965 with its capacity raised from 15,000 to 60,000 bpsd in early 1970s. It was established basically to produce petroleum products to meet domestic demand. The fourth refinery was commissioned in 1988 with a capacity of 150,000 bpsd and was built to refine products for both domestic and export. PHRC total staff position is at 60% production capacity in 2008 and was 1,545 comprising of 22 management staff, 1,047 senior staff and 476 junior staff and thousands of casual staff and sub contractors. The refinery from all indication is seriously understaffed. A field survey carried-out by Central bank of Nigeria and Bureau of public enterprises in 2010 revealed that.

2.7 Warri Refinery And Petro Chemical Company (WRPC)

The WRPC has 125,000 bpsd per day and was commissioned in 1978. It was essentially meant to produce to meet domestic need and the highest production achieved since its inception was 63% in 1997.

WRPC staff position at highest production was 1,662 staff comprising of 18 management staff, 1,139 senior staff, 480 junior staff and 25 expatriates.

2.8 Kaduna Refinery and Petro Chemical Company (KRPC)

The KRPC Ltd was commissioned in 1988 and was designed to process both Nigerian and imported crude oil into different range of petroleum products. Its installed production capacity is 100,000 bpsd. As at June 1997, the last time it functioned properly, the average capacity utilization was 55%. The KRPC limited has total staff strength of 2,526 at best capacity utilization, comprising of 12 management staff, 1,573 senior staff and 941 junior staff.

3. Research Method and Analysis

3.1 Research Area

The research was conducted in South Western states of Nigeria comprising of Lagos, Ogun, Oyo, Osun, Ondo and Ekiti States. This part of the country has an average population of 27,688,826 representing 19.65% of the total population group by the recent 2006 population head count. It is the second largest zone in Nigeria coming after the North western states, with 25.56% population in seven states. South west is the most volatile zone in Nigeria with the highest literate population accounting for the usage as the study area.

3.2 Research Methodology

One hundred and fifty (150) questionnaires were distributed in the major cities of South western states of Nigeria, comprising of Lagos, Oyo, Ogun, Ondo, Osun and Ekiti. These questionnaires were distributed to various professionals to know their position on the privatization plan of the Federal government of Nigeria.

3.3 Data Analysis

Table 1: Questionnaire Analysis of Population distribution of South west States, Nigeria

States	Population	Question Distributed	Question Returned	% Returned	SA	A	D	SD
Lagos	9,113,605	50	41	82.00	19	12	7	3
Oyo	5,580,894	30	26	86.67	14	6	4	2
Ogun	3,751,140	20	16	80.00	9	4	1	2
Ondo	3,460,877	19	14	73.68	3	6	3	2
Osun	3,416,957	19	15	78.95	8	4	2	1
Ekiti	2,365,353	12	10	83.30	6	2	-	2
Total	27688826	150	122	81.30	59	34	17	12

SA: Strongly Agree, A: Agree, D: Disagree, SD: Strongly Disagree

Table 2: Questionnaire Analysis on Agreement on Nigeria refineries Privatization

States	Population	Questions Distributed	Questions Returned	% Response
Lagos	9,113,605	50	41	82.00
Oyo	5,580,894	30	26	86.67
Ogun	3,751,140	20	16	80.00
Ondo	3,460,877	19	14	73.68
Osun	3,416,957	19	15	78.95
Ekiti	2,365,353	12	10	83.30
Total	27,688,826	150	122	81.30

SA: Strongly Agree, A: Agree, D: Disagree, SD: Strongly Disagree

SA: Strongly Agree, A: Agree, D: Disagree, SD: Strongly Disagree

Table 3: Questionnaire Analysis on Responses of Professionals in South west States, Nigeria

States	Response	SA	A	%	D	SA	%
Lagos	41	21	11	75.61	7	3	24.39
Oyo	26	15	5	76.92	4	2	23.08
Ogun	16	9	4	75.00	1	2	25.00
Ondo	14	3	6	64.29	3	2	35.71
Osun	15	8	4	80.00	2	1	20.00
Ekiti	10	6	2	80.00	-	2	20.00
Total	122	62	32	77.05	17	12	23.77

This analysis revealed that 77.05% of Nigerians are in support of privatization, this percentage is more than 75% (three-quarter majority) constitutional required to change the law. 50.81 strongly agree that there is need for the government to sell out its shares in oil sector for effectiveness and proper pricing.

Table 4: Questionnaire Analysis on Responses of Various Professionals

Profession	Distribution	Response	SA	A	%	D	SA	%
Journalist	25	24	13	8	87.50	2	1	12.50
Teachers	25	23	14	6	86.96	3	3	13.04
Traders	25	19	8	4	63.15	4	3	36.85
Bankers	25	17	9	5	82.35	3	-	17.65
Drivers	25	21	10	6	76.19	3	2	23.81
Artisans	25	18	8	2	55.55	5	3	44.45
Total	150	122	62	31	76.23	17	12	23.77

SA: Strongly Agree, A: Agree, D: Disagree, SD: Strongly Disagree, Simple percentage were adopted to analyzed the result

Table 3 revealed that the enlighten societies like journalist, teachers and bankers are aware of the politics in the oil industry and are therefore in full support of its privatization. The fears of others are expressed in the critical issues which would be discussed. Analysis has revealed that Nigerians are in support of privatization of Nigerian refineries.

4. Discussion

4.1 Enlightenment

The government before embarking on the privatization must ensure that there is adequate orientation to sensitize the people on the need for the re-organization of the sector as well as the benefit of such move.

4.2 Staff Overhauling

There is need to look at the caliber of the existing staff and employ fresh graduates with zeal to work and ensure that facilities are put in place for capacity building.

4.3 Redistribution of Roles

It is time when the role of the oil sector in the national economy should be redefined. Nigerian government needs to move from high dependence on oil as major source of income, the only source of power by diversifying the economy and introducing other source of energy.

4.4 Equitable Distribution of Shares/Ownership

There must be adequate spread of the shares to be sold. The Federal government holdings should not be more than 20%; 10% to all interested states; not more than 5% to each geographical zone; 5% to road workers associations, 10% to the staff of NNPC and only few to experts.

4.5 Quality Control/Quality Assurance

There should be measures in place to ensure that the best grade of oil and oil products are refined by the management of the refineries.

4.6 Increases in the Number of Refineries

Total liberalization of the oil sector will encourage more investment in the industry and will create further opportunities.

4.7 Rail System Improvement

The existing method of transporting oil and gas across the nation should be checked and major work should be given to train to reduce the hazards caused by the tankers and trailers.

4.8 Price Control

There must be a price control broad and existing price comparison with foreign price may not be the best if Nigerian refineries are fully working.

4.9 Avoid Foreign Dependence

It is critical that measures be put in place to ensure that Nigerian are trained and retrained from time to time to prevent foreign dominance and total reliance on foreigners to manage this strategic industry of Nigeria.

4.10 Staff Involvement/Labour Union

It is essential that the staff and labour union in the industry are carried along in the whole privatization process. This is the only way the whole process can be successful.

5. Conclusion

This paper has revealed the need for the privatization of the upstream oil sector in Nigeria for effectiveness and efficiency. It also revealed that:

- Nigerians are suffering as a result of inefficiency and ineffectiveness in the managing of the sector.
- There is high level of corruption in the industry because of the ownership structure.
- Oil industry can change the present unemployment situation in Nigeria if properly managed.

5.1 Recommendation

- There is urgent need to use oil money to diversify the economy for the future of our youths.
- There is urgent need for privatization and commercialization of the sector in Nigeria to reduce corruption.
- Critical issues discussed above must be considered in the process of privatization.
- Ede, 2013 also recommended that anti-corruption agencies should be included in the privatization process if the system is to achieve the desired result

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