

Regulating a Deregulated Petroleum Products Market (Landmarks and Landmines)

By

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**Downstream regulatory
monitoring**

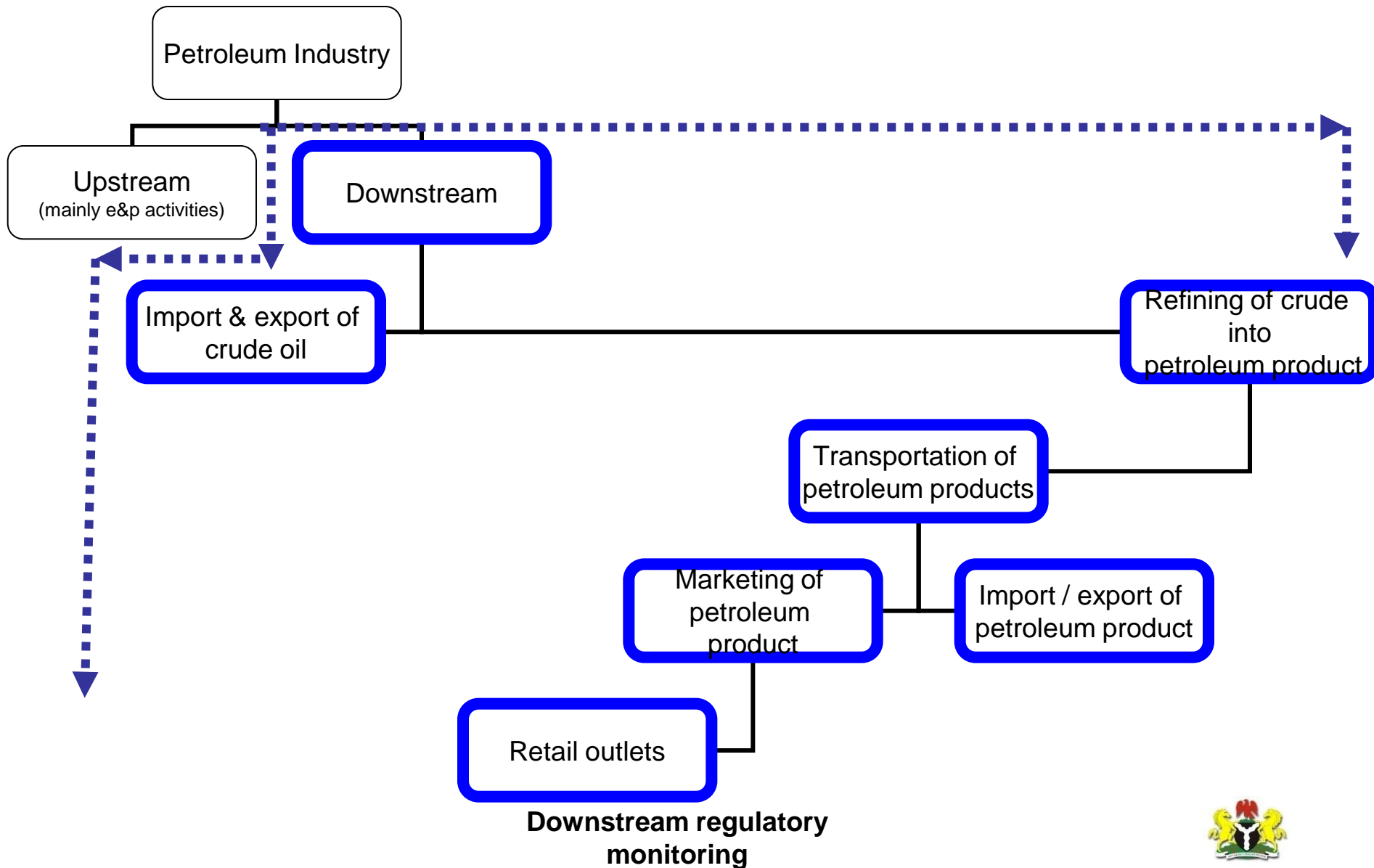


Presentation Order

- Deregulation
- Overview of the Downstream Sector
- Phases of Deregulation
- Advantages of deregulation
- DPR roles in a deregulated economy
- Challenges in a deregulated economy
- Way forward to improve productivity



Downstream Sector An Overview



Deregulation

Definition

- Complete removal of government regulations or control in the downstream sector.
(especially with regard to pricing of petroleum products)
- Allowing a pricing regime that shall be determined mainly by the prevailing market dynamics,
(to encourage creation of a robustly competitive downstream sector)

Aim

Stabilization of petroleum products supply at realistic and sustainable prices



Downstream sector: Over-view

- **Four (4) Refineries** in Port Harcourt (old and new), Warri and Kaduna.
- **22 Storage Depots** and
- **Over 5,000km of Pipelines** for crude oil and refined products,
- **About 13300 Retail Outlets** (MOMAN 20% IPMAN 80%),
- **29 Lube Blending Plants** and
- **250 LPG Plants** in Nigeria .

(The major and independent marketers also have storage and transportation facilities)



Phases of Deregulation

Pre-Deregulated Regime

1. Retail pricing of petroleum product before 1973 was dependant on the point of sale relative to the only primary distribution depot then at River state, implying that **uniform pricing regime was not applicable**
2. The military regime in October 1973 introduced a **uniform pricing regime** for all refined petroleum products in the Nigerian market under decree no 9 known as the petroleum equalization fund decree of 1973
3. The government supplies almost 100% of the petroleum product in the downstream market
4. Retail price of petroleum product is controlled by the government



Phases of Deregulation

Pre-Deregulated Regime contd.

5. Domestic refining capacity is wholly owned and managed by the government
6. Major marketing / distribution infrastructure of petroleum product is owned and managed by the government
7. Market is not significantly influenced by any form of competition
8. Crude supply to domestic refining plants was subsidized
9. Government is actively involved in both commercial and technical regulation of the industry



Phases of Deregulation

Partial Deregulation Regime

1. Liberalization of the downstream sector
2. Market dynamics pricing mechanism were allowed for deregulated petroleum products
3. Uniform pricing is still being sustained through petroleum equalization funding scheme for non-deregulated petroleum product
4. Petroleum support fund (PSF) is also being used to encourage participation of private sector in the supply of petroleum products for non-deregulated products
5. Grant of private refinery, bulk storage, pipelines, import and export facility license

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Phases of Deregulation

Full Deregulation Regime

- 1. Supply of Petroleum product shall be fully liberalized**
- 2. Market dynamics pricing mechanism shall be applicable to all products in the downstream sector**
- 3. Major marketing / distribution infrastructure shall be owned and operated by private investors**
- 4. Government may elect to divest its substantial interest in the mainstream activities of the sector to allow major investment in these areas to be driven by the private sector**
- 5. Current uniform pricing regime of petroleum products vide bridging support and petroleum support fund may be abolished**
- 6. Government's interference in regulatory process of the industry will be significantly minimized**

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Advantages of Deregulation

- Create and enhance the efficiency required in this sector
- Enhance adequate supply of petroleum products.
- Ensuring availability and reliability of marketing & distribution infrastructure
- Create and sustain sufficient refining capacity
- Save fund expended on subsidy of imported products.



DPR Roles in a Deregulated Environment

Technical Regulation

1. Enforcement of technical standards, environmental, planning, product quality, health & safety guidelines

Note A fully deregulated downstream is likely to create additional challenges on environmental management of air and effluent pollution due to increased activities in the refining, storage and distribution activities

2. Enforcement of necessary legislations / policies on refinery, petrochemical, marketing, distribution and retail of petroleum product
3. Provide regulatory oversights for all technical activities of the downstream sector



DPR Roles in a Deregulated economy

4. Setting and reviewing technical standards for optimal regulation of the downstream sector
5. Enhancing the optimal availability and reliability of facilities in the downstream sector



Challenges in a Deregulated market

Technical Regulation

- Surge in downstream activities
- pressure on the regulatory agency
- Environmental and safety measures will likely be easy trade-offs for profit
- Multiplicity of regulatory Standards & Agencies
- Dearth of knowledge update among regulatory officials (applicable laws and technical standards)



Challenges in a Deregulated market

- Dearth of adequate work tools and regulatory officials
(the sector may be under-monitored)
- Facility insecurity within the downstream sector
- Likely concentration of most downstream facilities in areas considered commercially favourable to the detriment of other areas



Challenges in a Deregulated market

Commercial Regulation

- Tendency of stiff anti-competitive practices and abuses
- Lack of coherent regulatory framework for the regulation of the commercial activities of the downstream sector
- Dearth of relevant knowledge among regulatory officials of applicable laws and commercial / technical standards
- Labour issues shall be more pronounced in a bit to maximize profits



WAY FORWARD TO IMPROVE PRODUCTIVITY

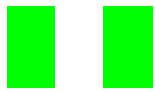
- Provide a coherent regulatory framework for the regulation of the sector
- Training of downstream regulatory officials should be given adequate commitment / attention
- Proper work tools should be provided for regulatory officials of the downstream sector
- Internal work process of the regulatory agencies should be designed and developed to enhance effective service delivery



WAY FORWARD TO IMPROVE PRODUCTIVITY

- Where multiple agencies shall be required to administer regulatory roles, proper delineation of such roles should be done to ensure that un-productive overlaps are not created





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