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THE EFFECT OF GOVERNMENT POLICIES ON INDEPENDENT MARKETERS OF PETROLEUM PRODUCTS IN NIGERIA

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Abstract. The study was designed to examine the effects of some government policies on the operations and activities of these independent marketers. The work touched on the effects of petroleum on the country's economy, describing how distribution and marketing of petroleum products are done and the activities of these independent marketers.

Questionnaires were distributed to 40 out of 61 independent marketers within and around Port Harcourt. Interview sessions were held with some managers of the outlets and some executives of NNPC and DPR. Data were analyzed using simple percentage and Chi square statistical tools.

From the finding of the research carried out, we were able to determine the inadequacy of the profit margin for these marketers per litre for PMS and some other petroleum products. The introduction of independent marketers into the business has immensely improved the government effort for the distribution and marketing of petroleum products although they were affected by some problems.

We therefore recommended that government should reconsider some policies to reduce the effect on the independent marketers, for example, the cash and carry or deposit-before-lifting-of-products adopted at the refinery and loading depots which has greatly slowed down business for the marketers. And also the pre-qualification guidelines before approval is granted to a marketer is seen as cumbersome and a bane of the business.

I. INTRODUCTION

It is ironical to note that Nigeria, one of the world's highest producer and exporter of crude oil and its products, is constantly experiencing scarcity of

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petroleum products, characterized by long queues at filling stations. Petroleum, usually referred to as the Black Gold, is Nigeria's major source of revenue since the liquid mineral was first struck in commercial quantity in Oloibiri, Rivers State in 1956, by Shell-BP. The first major fuel scarcity experienced in the country in the 1970s made the Federal Government, who was then the sole marketer of crude oil, to invite and come into contractual agreement with oil marketing companies (major marketers) so as to meet the increasing demands of the populace.

Even with the introduction of these major marketers who have retailing outlets spread all over the country, Nigeria still faces the ugly situation of scarcity. It prompted the government in 1979 to look inwards and promulgate a decree, introducing indigenous (independent marketers) companies so as to break the monopoly enjoyed by the major marketers and meet up the marketing and distribution of petroleum products. As a result of the importance of the oil industry to the national economy, the government has over the years promulgated decrees and laws regulating the exploration, exploitation, refining, marketing and distribution of petroleum and its products. These decrees and laws also state the social responsibilities of oil producing and servicing companies, penalties and sanctions in the event of sabotage, hoarding, illegal bunkering and smuggling of crude oil and its products by companies, group of persons and individuals.

As these laws become pervasive and the relevant government agencies continue to assume dominant positions, it is imperative that both major and independent marketers and other principal actors in the oil industry be acquainted and made to understand the scope, purpose and effects of these laws and decrees the issues arising there from.

The NNPC has, therefore, since 1977, continued to implement the Federal Government's Policy on Petroleum "by the effective and active control (through participation interest acquired in existing oil companies and supervision) of their operations. Within its relative short history, it has grown to become a fully integrated oil company. It is now involved in all aspects of the oil industry — exploration and production, marketing and distribution of crude oil and refined products, refining, transportation by pipeline and ocean vessels, gas production and petrochemicals" (NNPC, 1994). From a very centralized structure, the NNPC has continued to evolve new organizational structures with a view to running its business much more effectively and efficiently. Today, the NNPC comprises of six directorates and eleven subsidiary companies charged with the execution of the Corporation's business.

There are the corporate services, exploration and production, refining and petrochemicals, engineering and technical, commercial and investments and finance and accounts. Today, the NNPC operates four refineries with installed capacity of 445,000 barrels per day (Imoukhuede, 1996).

TABLE 1

Refinery Installed Capacity (Historical Trend)

Refineries		Year	1978	1988	1994
1.	P/H Refinery 1	1965	35,000	60,000	60,000
2.	Warri Refinery	1978	110,000	125,000	125,000
3.	Kaduna Refinery	1980	100,000	110,000	110,000
4.	P/H Refinery 2	1989	–		150,000
Total Capacity			245,000		445,000

Source: NNPC/PPMC, June 1994.

This research work will, therefore, attempt to elicit the existing decrees and laws as it concerns major and independent marketers of petroleum products. We will, therefore, try to examine the implications of various decrees and laws promulgated by government on the activities of Independent Petroleum Product Marketers and to determine if the decree establishing the independent marketers as perceived by government have been able to achieve its purpose, determine whether or not independent marketers are responsible for the consistent fuel scarcity in the country. Furthermore to find out whether the terms of payment at the depot lead to low investment in the business and to examine if the stipulated profit margin for marketers per litre of petroleum products is adequate.

HYPOTHESES

In carrying out this study we shall test the following hypotheses:

Ho_1 Term of payment does not significantly affect independent petroleum marketers' performance in Nigeria.

Ho_2 The independent marketers are not responsible for frequent shortages of fuel in Nigeria.

Ho_3 The government policies have no significant effect on independent petroleum marketers distributions performance.

II. INDEPENDENT MARKETERS

The Independent Marketer Programme was a result of the petroleum products shortage of the 1970s which was partly attributed to lack of sufficient investment by the major oil marketing companies in petroleum retailing outlets, especially in the rural and more distant areas of the country.

Consequently, in 1979, the indigenous independent marketers scheme was established to increase the number of outlets, particularly in the rural areas and to permit the direct participation of Nigerians in the petroleum marketing and distribution business (Medo, 1996).

As a date a total of 1,490 independent marketers spread all over the country are registered with the PPMC to lift products from all the depots. These independent marketers own less than 100 outlets as compared with their major marketers that own more than 100 outlets. In Rivers State, there are currently 61 independent marketers that lift petroleum products from the Port Harcourt Refinery and depot.

Byrne (1980) said, “until recently, the prime function of the independents was as price-cuts, providing a competitive spur to the market, while Gauntlet (1978) feels acting as a market balance the independent’s therefore carrying out the classic function of a wholesaler/retailer divorced from the means of production but controlling a market share whose influence can far exceed its apparent size.” He continued that some people think the independents provide the catalyst for competition and that without them the market would be decidedly more subject to manipulation and less competitive.

He concluded that the independents could be a vital ‘release’ valve for the oil market and support for the right of the customer to real choice attempt the similar. Simply, by existing within the market without financial or legislative assistance from government, the independent is helping to create wealth and employment and provide service in its widest meaning. This includes responsibility for increasing areas of the market from which the major choose to withdraw. They all obtain supply of petroleum products from the NNPC depots all around the country. Their function included the provision of petroleum products to meet the ever-increasing demand, to reach to the rural communities not easily reached by the major marketers and most importantly to serve as a competitor to break the monopoly of the more financially stable major marketers and provide consumers a wide choice.

III. PETROLEUM PRODUCTS DEMAND/SUPPLY

Over the years demand for petroleum has always been matched with crude allocation. From 1965 to 1977, the major marketers purchased crude oil from the government and refined it at the privately owned Nigerian Petroleum Refining Company at Port Harcourt under a processing fee arrangement. Surplus products were exported and deficits imported after securing necessary clearance from government (Imoukhuede, 1996).

With the establishment of NNPC in 1977, the crude oil procurement was taken over by NNPC for processing in its refineries. From crude oil allocation of 160,000 bpd in late 1970s, it increased to 230,000 bpd in mid 1980s, 260,000 bpd in late 1980s and thereafter peaked 300,000 bpd in the 1990s in consonance with the perceived demand. However, as from October 1994 (Imoukhuede, 1996), there was a redistribution to 280,000 B/LS/day for domestic consumption and 20,000 B/LS/day for financing the Bonny Export Terminal Project. With the release of the 1996 Federal Government Budget, the crude oil allocation for domestic consumption is now pegged at 250,000 B/LS/day. From the 300,000 B/LS/day of crude oil allocated to NNPC for domestic consumption under normal refinery operations, the yields obtainable are stated below in million litres a day.

TABLE 2

Refinery Yield — Normal Operations (Million Litres/Day)

	Throughput	PMS	AGO	DPK
PHRC	120	7.13	4.57	2.8
WRPC	100	5.3	3.23	2.43
KRPC	80	4.21	2.17	2.07
TOTAL	300	16.64	9.97	7.3
NATIONAL/DEMAND		21.4	9.6	8.6
SURPLUS/DEFICIT		(4.76)	0.37	(1.30)

Source: NNPC/PPMC, 1994.

The national demand however for PMS and DPK exceeds the production levels by about 5 million litres per day for PMS and 1.3 million litres per day for DPK. This shortfall had continued to be augmented by imports, this according to NNPC sources has arisen because of production difficulties that have been continually experienced in all the four refineries in the country.

VI. METHODOLOGY

The research was based mainly on Independent Petroleum Products Marketers, who, as already stated, privately own filling stations as retail outlets for petroleum products within Port Harcourt and its environs. Port Harcourt being the capital of Rivers State which produces about 60% of the nation's crude oil and blessed with two refineries is the only major city in the state (NPC Pamphlet). With this high concentration of independent marketers, their mode of operation will be taken as similar to what obtains in other parts of the country.

There are a total of 61 Independent Petroleum Products Marketers operating presently in Rivers State, with 1,495 independent marketers in the whole of Nigeria and the eight major marketers.

The non-probability sampling method of hand-picking was adopted; this involves the researcher's personal judgement during the process of selection, because it was expected that they would serve the purpose of the study.

The fact that the elements were not selected based on probability, prevented an assessment of sampling errors, therefore, limits cannot be placed on the precision of the estimates, though some randomization was employed.

Both primary and secondary data were used in the study. A validated structured questionnaire containing open and closed-ended questions was used to obtain primary data from these owners/operators of independent retail outlets, while the secondary data (literature materials) do not require any special instrument of collection.

An interview schedule was also conducted in gathering information from marketers and also NNPC/PPMC executives, especially the depot personnel and the marketing department personnel and relevant documents collected.

A total of sixty-one independent marketers have approval to operate within Port Harcourt and its environs. Using the random sampling method, forty independent marketers were selected giving a 66% of the population. The data were collected and analyzed using simple percentage and Chi square (χ^2) statistical tool.

VII. FINDINGS

The initial interest was to know the number of independent marketers that owned tanks and the storage capacity of these tanks. According to Table 3, 22 marketers owned tanks with capacity below 60,000 litres while 8 owned tanks with storage capacity between 60,000 to 100,000 litres, for PMS, while they all had tanks with storage capacity below 60,000 litres for other products like HHK and AGO (*see* Table 3).

TABLE 3

Storage Capacity of Outlets (Litres)

Products	Below 60,000	Percentage	60,000-100,000	Percentage
PMS	22	73.33	8	26.67
HHK	30	100	–	–
AGO	30	100	–	–

Source: Survey Data 1998.

From the interview sessions with the marketers, it was gathered that they opted for low storage capacity tanks because of the large sum of money required to construct tanks with larger capacity which will also require a large space of land.

SUPPLIES OF PETROLEUM PRODUCTS AT REFINERY AND DEPOT

The mode of supplies of petroleum products at the Port Harcourt refinery and depot was investigated. All marketers responded that they were supplied these products based on request at either the refinery or at the depot. Eighteen (60%) marketers disagreed that there was freedom to lift as many trucks as they wish while 9 (30%) responded that they have the freedom to lift as they wish to do.

TERMS OF PAYMENT

With the large volume of products to be lifted at the refinery or depot, which involves a large sum of money, it was necessary to know the method of payment, whether credit or cash.

The marketers responded that they were allowed credit facilities with a repayment period of 30 days while 90% do lift them on cash and carry basis. Those that pay cash before lifting do so through bank draft or through personal cheques. This also applies to those granted credit when they are due for payment. With this method of payment, most marketers feel it will not be too easy for a new investor to go into the business if his financial base is not strong enough.

PROFIT MARGIN PER LITRE OF PRODUCTS

Profit being the backbone of any business, we sort to know the profit margin per litre of each petroleum product marketed by these marketers if it is adequate for the business.

From the survey, it is very clear that the profit margin per litre of these petroleum products is inadequate. The research showed that of the ₦ 11.00 per litre of PMS only a paltry sum of ₦ 0.90 K is the profit for the marketer, it applies for HHK and AGO. From the interview sessions, we were able to gather that out of the ₦ 11.00 per litre of PMS, PTF gets ₦ 5.00, NNPC gets ₦ 2.00 and the Federation Account ₦ 2.70 K, leaving ₦ 1.30 K for the marketer out of which other expenses will leave him with only ₦ 0.90 K.

INTRODUCTION OF INDEPENDENT MARKETERS INTO THE BUSINESS

Since the efforts of the major marketers did not meet the demands of the population, we decided to determine if the introduction of independent marketers into the distribution and marketing of petroleum products was necessary. Hundred percent of the marketers agreed that the move by the Federal Government was very timely and in the best interest of the indigenous investors and to the business *per se*.

On the success of independent marketers in the distribution and marketing of products, 60% of the marketers agreed that independent marketers have succeeded in their bid towards the distribution of petroleum products to the rural and riverine areas which had earlier been neglected by major marketers, 26% are of the opinion that the success is only partial while the remaining 10% totally disagree in their success.

Reasons put forward by those who disagree with their success are as follows:

1. Diversion of petroleum products meant for the rural and riverine areas.
2. Low patronage in the rural areas.
3. Adulteration of petroleum products by dealers.

The 60% that agreed in their bid to the distribution of petroleum products to rural areas give the following to support their stance:

1. Prompt services to customers for quick turnover.
2. Constant supply of products to meet demands of customers.

3. The low financial investment by marketers in rural areas as compared to the cities.
4. The use of surface tanks as storage for products.
5. Increase in the distribution network as planned by NNPC.
6. Competition amongst marketers which will eventually reduce smuggling, adulteration, etc.

SCARCITY OF PETROLEUM PRODUCTS

In this case, we set out to determine if the marketers, mainly independent marketers, solely cause the scarcity of petroleum products. Ninety percent of the marketers disagree that independent marketers are solely responsible for scarcity of these products while 10% blamed the marketers. The reasons put forwarded by 10% that blamed the marketers are:

1. To make higher profit, these marketers indulge in hoarding, adulterating and diverting products meant for their outlets.
2. Over-pricing the pump price of products is another way they adopt to make their higher profits which causes scarcity.

The 90% of marketers who did not agree that they are responsible for scarcity of petroleum products rather passed the blame on NNPC, giving the following reasons:

1. Inability to lift products at depot as and when due, even after payment.
2. Incessant cancellation of marketers loading by depot chief.
3. The story of stock out at depot or lack of constant electricity supplies.
4. The constant turn around maintenance by NNPC and refineries operating far below capacity.
5. The existence of middlemen at depot who hike up the prices of petroleum products.

DECREES, LAWS AND POLICIES

Laws, decrees and policies are made to streamline the activities of a system, it is based on this fact and it was necessary to determine how these policies have affected the activities of independent marketers.

Eighty of the marketers respond that the pre-qualification guidelines for the issuance of license to a marketer by DPR is perceived to be the most cumbersome to satisfy, followed by the long protocol at NNPC/PPMC before approval is granted. The police and fire service guidelines are not easy to satisfy but the usual Nigerian factor is always brought to play.

VIII. TEST OF HYPOTHESES

Ho_1 Term of payment does not significantly affect independent petroleum marketers' performance in Nigeria.

TABLE 4

Terms of Payment Affect Independent Marketers' Performance

Responses	Observed	Expected	$\frac{O-E}{E}$
Yes	34	(20)	7.8
No	6	(20)	9.8
Total	40		19.6

Source: Survey Data 1999

$$\text{Test statistic} = \text{Chi square } (\chi^2) = \frac{(f_o - f_e)^2}{f_e}$$

$$\text{Computed value} = \frac{(34-20)^2}{20} + \frac{(6-20)^2}{20} = 19.6$$

Degrees of freedom (df) = 2 – 1 = 1

Level of significance = 0.05

Critical value = 3.84

Therefore, since the computed value 19.6 is greater than critical value of 3.84, we reject the Ho_1. We can confidently say that terms of payment significantly affect the distribution performance of independent marketers in Nigeria.

Ho_2 The independent marketers are not responsible for frequent shortages of fuel in Nigeria.

TABLE 5

Independent Marketers are not Responsible for Frequent Shortage of Fuel in Nigeria

Responses	Observed	Expected	$\frac{O-E}{E}$
Yes	32	20	7.2
No	8	20	7.2
Total	40		14.4

Source: Survey Data 1999

$$\text{Test statistic} = \text{Chi square } (\chi^2) = \frac{(f_o - f_e)^2}{f_e}$$

$$\text{Computed value} = \frac{(32-20)^2}{20} + \frac{(8-20)^2}{20} = 14.4$$

Degrees of freedom (df) = 2 – 1 = 1

Level of significance = 0.05

Critical value = 3.84

Since the computed value (χ^2) of 14.4 is greater than critical value of 3.84, we reject Ho_2 that independent marketers are not responsible for frequent fuel shortages in Nigeria.

Ho_3 Government policies have no effect on independent marketers performance.

TABLE 6

Government Policies have no Effect on Independent Marketers Performance

Responses	Observed	Expected	$\frac{O-E}{E}$
Yes	12	20	3.2
No	28	20	3.2
Total	40		6.4

Source: Survey Data 1999

Test statistic = Chi square (χ^2) = $\frac{(O-E)^2}{E}$

Computed value = $\frac{(12-20)^2}{20} + \frac{(28-20)^2}{20} = 6.4$

Degrees of freedom (df) = $2-1 = 1$

Level of significance = 0.05

Critical value = 3.84

Since the computed (χ^2) value 6.4 is greater than the critical value of 3.84, we reject Ho_3. Government policies have effect on independent marketers' performance.

This introduction of independent marketers was to break the monopoly of major distributors, the respondents were therefore asked to state the extent to which this aim has been fulfilled. The result is shown in Table 7.

TABLE 7

The Extent the Introduction of Independent Marketers Breaks the Monopoly of the Major Marketers

Degree	Weight	Responses	Weighted Score	Percentage of Weight Score
To a great extent	3	12	36	40.45%
To some extent	2	25	50	56.18%
Not all	1	3	3	3.97%
Total		40	89	100.0%

Source: Survey Data 1999

With the application of Likert Scale, we were able to arrive at the conclusion that the introduction of independent petroleum marketers into the distribution of petroleum products has broken the monopoly of major distributors to some extent as shown in Table 7.

IX. CONCLUSION

The introduction of independent marketers into the business of distribution and marketing of petroleum products by the Federal Government, the monopoly earlier enjoyed by the major marketers have been broken and this has provided avenue for competition between the major marketers on the one hand and independent marketers on the other hand. This competition, therefore, gave rise to increase in the number of outlets owned by the marketers who further enhanced the distribution of the product to meet the ever-increasing demand by the populace.

From this study, it can also be concluded that the appointment of independent marketers by the Government is a right move in the right direction. These marketers have been able to capture some percentage of the market share of the business mainly in the distribution of PMS (Petrol) and HHK (Kerosene) in the rural and riverine areas, which had been neglected by major marketers. Though the scarcity of petroleum products is still experienced in the country, the blame inclines more to NNPC and PPMC, but this did not completely exonerate the marketers who are accused of product adulteration, diversion, hoarding and smuggling across the country's boarder for higher profits. Independent marketers though more in number than their major counterparts generally have outlets with low storage capacity. This was due to the high amount required for the construction of storage tanks with larger capacities, coupled with the high cost for acquiring and maintenance of pumps and staff at their various outlets. This high sum of money required to start off the business has resulted to the low participation into the business by private individuals.

The non-supply of petroleum products to both major and independent marketers by NNPC/PPMC at the refinery/depot partly accounts for the scarcity of these products. Most marketers complained of the long protocols encountered at the Port Harcourt Refinery and depot is near frustrating. The NNPC and PPMC on their own part passed the buck partly to the incessant irregular supply of electricity from NEPA for the operation of their machines; also forwarded by NNPC and PPMC is the lack of constant maintenance of the refinery and depot equipment.

Most major marketers and a few independent marketers are allowed to lift petroleum products as requested but majority of independent marketers are of the opinion that the business is not made as free as the investors would wish to participate due to the restriction on the number of lorry/taner or litres of petroleum product a marketer is allowed to lift at the refinery or depot. On the terms of payment at the refinery or depot only a small percentage of independent marketers are granted credit facilities after lifting their consignments but majority are made to pay cash before they are given their products. The researcher gathered from interview sessions conducted that this mode of cash payment was adopted due to the abuse of the credit facility granted to all class of marketers, but some of them (marketers) most times default in payment, which resulted to NNPC/PPMC writing them off as bad debt.

The payment by cash is normally through bank draft or personal cheques to NNPC while those that are granted the credit facilities are given thirty days to pay up. This system of cash and carry payment has severely affected these marketers, coupled with the present economic conditions in the country which was not helped matters, it can be attributed to the cause of the low percentage of interested indigenous entrepreneurs into the business.

Majority of the independent and major marketers is of the opinion that the amount (₦ 1.30 K) set aside by government as their margin per litre of PMS, is grossly inadequate. They, therefore, would want an upward review of their profit margin. This can be achieved by increasing the present pump price of these products and this will likely attract investors into the business. (Just at the completion of this study pump price of petroleum has been increased to ₦ 20 per litre, we can now wait for the desired effect.) On various laws, decrees and policies promulgated by government and/or its agencies on the distribution and marketing petroleum products, most marketers see the guidelines and/or pre-qualification requirements of NNPC, DPR and PPMC as bottlenecks for marketers to satisfy. They complained of red-tapeism or long protocols attached to these pre-requisites and the luke-worm attitudes of the staff of these establishments towards marketers is not encouraging to a new or prospective entrant into the business. These laws, the marketers want the government agencies to review them so that it can make them not too rich Nigerians to invent in the business and also to enhance the smooth operation of their activities.

X. RECOMMENDATIONS

The following recommendations are therefore put forward which is hoped would be very useful to the government and its agencies like NNPC, DPR, PPMC, etc. the marketers and the public in general for the constant supply of petroleum products in the country.

GOVERNMENT

(*a*) Due to the difficulties encountered by marketers in their bid to obtain license for the marketing of petroleum products some of the guidelines, pre-qualification requirements and protocols should be scraped to create easy entrance into the business.

(*b*) The government should enforce the ban of roadside sales of products by authorized dealers.

(*c*) Increase efforts of task forces monitoring the sales and distribution of petroleum products to curb the constant fuel shortages and diversions.

(*d*) Funds should be made available for expansion and increase working capacities of all four refineries in the country.

(*e*) The turn-around maintenance of the refineries should not all be taken at the same time but one after the other.

NNPC, PPMC AND DEPOTS

(*a*) The distribution of petroleum products should be closely monitored by the appropriate agency to avoid sabotage, smuggling, diversion and adulteration.

(*b*) Marketers should be given free hand to lift as many trucks as they are capable to lift, provided they meet their financial obligations.

(*c*) Credit facility can be encouraged pegging an upper limit, which if not cleared within the stipulated time frame, further credit will not be given to the marketer.

(*d*) The capacity of product tanks at the depots should be increased to cope with the increasing demand of the public.

(*e*) Generator and modern equipment that is relevant to such a depot should be installed to enhance the distribution of products to marketers.

(*f*) Staff of the depot be made to run shift duty so as to provide 24 hours service at these depots.

MARKETERS

(*a*) Marketers and their staff should endeavour to avoid the temptation of high profit by diversion of products and selling above the stipulated pump price as given by the government.

(*b*) To ensure an increase in their business is to increase their profit. This can be achieved by forming a strong union that can agitate that per litre margin for marketers be reviewed upward.

(*c*) Provide generator which will supply constant electricity for their outlets and for those that can increase their outlet storage capacity.

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