INTERNATIONAL JOURNAL OF PUBLIC ADMINISTRATION AND MANAGEMENT RESEARCH (IJPAMR), VOLUME 2, NUMBER 1, OCTOBER, 2013.

Website: http://www.rcmss.com *ISSN 2350-2231(Online)* *ISSN 2346-7215(Print)*

The Perception of Nigerians on the Deregulation and Privatization Moves of the Government in the Oil and Gas Industry in Nigeria

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Manuscript ID: RCMSS/IJPAMR/1313

Abstract

Nigeria is blessed with a vast quantity of oil and is the sixth largest oil exporter in the Organization of Petroleum Exporting Countries (OPEC). This has generated billions of dollars in revenues over the last forty (40) years since oil was found in Nigeria. As in most developing countries, this has not translated into an improved economy for the country. Thus, the government has set out plans to deregulate the downstream sector of the oil industry which has been vehemently opposed by the civil society and majority of the citizens. This logjam has been detrimental to national advancement/development. Therefore, the purpose of this study is to examine the perception of Nigerians on the deregulation and privatization moves of the government in the oil and gas industry in Nigeria. The oil and gas industry is strategic to national development and growth in Nigeria. Oil and gas constitute about 90% of Nigeria's foreign exchange earnings and 83% of its GDP. This study adopted the survey research design. It was found that the deregulation and privatization of the oil and gas industry will usher in sustainable national development and will be a blessing rather than a curse for the citizenry. 77.8% of the respondents believe that the deregulation and privatization of the oil and gas industry will be a blessing to Nigerians and 80.6% of the respondents do not believe that the deregulation and privatization of the oil and gas industry will be a curse to Nigerians. The authors recommend that strategic sectors such as oil and gas as well as the power sector should be deregulated and privatized for sustainable national development.

Key words: *Deregulation, Privatization, Upstream, Downstream, Oil and Gas Sector, Curse, Blessing.*

Introduction

Oil was discovered in Nigeria in 1956 at Oloibiri in the Niger-Delta after half a century of exploration. The discovery was made by Shell-BP, which was at that time, the sole concessionaire in the sector. According to Gbenga (2008), Nigeria joined the rank of oil-producers in 1958 when its first oil-field came on stream producing 5,100 bpd. After 1960, exploration rights in onshore and offshore areas adjoining the Niger-Delta were extended to other foreign companies. In 1970, the end of the Biafran war coincided with the rise in the world oil price and Nigeria was able to reap instant riches from its oil production. Nigeria joined the Organization of Petroleum Exporting Countries (OPEC) in 1971 and established the Nigerian National Petroleum Company (NNPC) in 1977 - a state-owned and controlled company which is a major player in both the upstream and downstream sectors. Gbenga (2008) further asserted that Nigeria is one of the world's largest producers of crude oil.

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The oil and gas industry is strategic to national development and growth in Nigeria. Oil and gas constitute about 90% of Nigeria's foreign exchange earnings and 83% of its GDP (Ogbeifun, 2008). According to Adewumi and Adenugba (2010), Nigeria is one of the world's largest producers of crude oil, the 10th largest producer and the 6th largest exporter among Organization of Petroleum Exporting Countries (OPEC) members. Nigeria, Africa's largest crude exporter has continued to import refined petroleum products after over fifty (50) years of crude oil extraction (Nwanze, 2007). Many hold the view that for the oil and gas sector in Nigeria to satisfy the yearnings and aspirations of the citizenry, the sector should be deregulated and privatized. Deregulation and privatization are now global phenomena. They are the offshoots of economic globalization. Many developed and developing countries have experienced one form of economic reform or the other as a result of the global economic system.

The attitude of some Nigerians toward deregulation and privatization of the oil and gas industry has been indifferent as many hold the notion that such government policies will lead to job loss as well as high cost of living in the country. From experience, it appears that government cannot manage this strategic sector for sustainable development in Nigeria. Efforts being made to deregulate downstream oil and gas sectors are welcome relief to the sector and Nigerians generally. There have been crises in this strategic sector. The crises have resulted in production shutdowns, high cost of obtaining fuel from the black market and scarcity or unavailability of petroleum products. This has had negative impacts on the economy with industrial capacity utilization nose-diving drastically. Many companies operating in Nigeria have relocated their businesses to other neighbouring countries as a result of the high cost of petroleum products as many rely on generating-sets to power their operations. The deregulation and privatization of this industry will reduce constant shortages and reduce time-wasting in queues for fuel at filling-stations. We are all living witnesses to the dramatic changes that have taken place in the telecommunications sector and the quantum leap that has been achieved in this sector. The oil and gas free-zone in Onne, Rivers State is a welcome development. However, since the oil and gas sector is capital-intensive in nature and requires foreign technologies, the government should give adequate incentives for private sector participation.

The Nigerian oil industry is divided into two sectors: the upstream sector deals with exploration and production and the downstream sector deals with refining of crude oil for domestic consumption. Nigeria's downstream petroleum sector is not as developed as the upstream as most of the operations (apart from the NLNG and a few other projects) are operated by the government as a monopoly. The downstream gas sector is defined to "comprise the activities of transportation, distribution and supply of gas to customers. It includes the extraction of liquefied petroleum gas for commercial purposes and the sale and purchase of gas for industrial purposes such as the production of compressed natural gas, electric power, gas to liquids, liquefied natural gas, methanol and fertilizer but excludes pipelines for the transportation of natural gas from producing-wells to facilities producing pipeline specification gas" Gbenga (2008).

According to Jaiyeoba (2009), oil and gas is the lifeblood of the nation's revenue, economy and national survival. It accounts for about 40% of the Gross Domestic Product and 70% of government revenues. In 2003, oil and gas accounted for 80.6% of

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total federal government receipts. However, the revenue generated from crude oil is being eroded by the activities in the downstream sector through the importation of petroleum products, oil subsidies and a petroleum equalization fund. The economic cost lost to the crude oil subsidy and petroleum equalization fund is $4.418 billion representing about 17.6% percent of Nigeria's annual revenue from crude oil. Meanwhile, MARS (2009) argued that Nigeria's insufficient refining capacity to meet domestic demand was responsible for the importation of petroleum products. Nigeria's state-held refineries (Port Harcourt I and II, Warri, and Kaduna) have a combined nameplate capacity of 438,750 bbl/d but problems including sabotage, fire, poor management and lack of regular maintenance contributed to the operating capacity of about 214,000 bbl/d as at 2009. This and the sorry state of disrepair, neglect, and repeated vandalism of petroleum-product-pipelines and oil movement infrastructures nationwide, corruption, the emergence of a local nouveau riche oil mafia that controls and coordinates crude oil products, pipelines, sabotage and theft (illegal bunkering), diversion of both crude oil and petroleum products and large-scale cross-border smuggling of petroleum products are the root causes of the protracted and seemingly intractable severe fuel crises that have bedeviled the country's downstream sector with their negative impact on national development (MARS, 2009).

The purpose of this study is to examine the perception of Nigerians on the deregulation and privatization moves of the government in the oil and gas industry in Nigeria. The rest of the paper consists of the following sections: first is the literature review; second is the methodology of the study; third is the data analysis and findings; fourth are the summary, conclusion and recommendations.

Literature Review

Understanding the Concept of Deregulation

To deregulate means to do away with the regulations concerning financial markets and trades. Basically, Ernest and Young (1988) posit that deregulation and privatization are elements of economic reform program charged with the ultimate goal of improving the overall economy through properly spelt out ways. For example, freeing government from the bondage of continuous financing of extensive projects which are best suited for private investment by the sale of such enterprises; encouraging efficiency and effectiveness in resource utilization; reducing government borrowing while raising revenue; promoting healthy market competition in a free market environment; improving returns from investment and broadening enterprises share ownership, thus engendering capital market development. To deregulate, as defined by the Oxford Advanced Learners' Dictionary (2005) means to free a trade, a business activity from rules and controls; i.e. to decontrol while to privatize means to sell a business or an industry so that it is no longer owned by the government i.e. to denationalize.

Deregulation as defined by 'investorwords.com' means the removal of government controls from an industry or sector to allow for a free and efficient marketplace. Deregulation occurs when the government seeks to allow more competition in an industry that allows near-monopolies. "Deregulation enhances competitive service-delivery that will enable consumers to have wide range of choices as regards their quest

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for satisfaction. A glaring example can be seen in the telecommunications sector" (Omodia, 2007). As noted by the World Bank (1988), experience has shown that competitive markets (mainly involving private sectors) are the most efficient ways to supply goods and services. "Government's role usually can be limited to policy-making while leaving actual investment, operation and maintenance to non-governmental entities" (Omodia, 2007). According to Onipede (2003), the continuous abysmal performances by most of the government parastatals are the undisputable evidences of inappropriateness of government involvement in business. Onipede further asserts that those who continuously argue against NEPA's (now PHCN) privatization cited loss of jobs and national security as reasons. Rational minds would definitely disagree with this reasoning. Thus, deregulation and privatization are believed to be capable of enhancing efficiency and effectiveness in service-delivery.

According to Olayiwola (2009), oil and gas operations commenced in Nigeria effectively in 1956. A brief historical excursion indicates that oil exploration started in 1908 in Lagos and Okitipupa coastal areas both in western Nigeria by the Nigerian Bitumen Company established by a German consortium. "Between 1908 and 1956, various explorations and exploitations continued in various parts of Nigeria. In 1956, oil was discovered in commercial quantity at Oloibiri (present day Bayelsa State) in the Niger-Delta region of Nigeria by Shell D'Arcy" (Ihua, Ajayi & Eloji, 2009). This development heralded Nigeria's membership of Organization of Petroleum Exporting Countries (OPEC) in 1971. The exploration of oil and gas is predominantly concentrated in the Niger-Delta where multinational companies and a few of the indigenous ones are engaged in production and exploration of oil and gas. "The oil and gas industry comprises the upstream, the downstream and service sectors. The upstream sector focuses on mining, exploration, production and exportation, and is dominated by multinational companies" (Ogbeifun, 2009). Chevron, Shell, Agip, Elf, Texaco, Esso-Mobil inter alia belong to the upstream sector.

According to Adewumi and Adenugba (2010), these multinational companies wield so much power within the Nigerian state and the communities. They have been able to exploit, explore and produce oil within the Niger-Delta region axis without corresponding development. A few indigenous upstream oil and gas companies exist in line with the provision of local content policy of the government. The downstream sector is involved in refining of crude oil into useable products through distillation, conversion and other special treatments to arrive at petroleum products and gas. It is also involved in distribution of products. "The downstream sector has been constrained by unenviable state of the refineries which have been producing at minimal capacities despite huge expenses incurred on turnaround maintenance of the crises-ridden refineries" (Aigbedion and Iyayi, 2007). Petrochemical plants and fuel-stations belong to this sector. The service sector provides technical and consultancy services to aid the upstream sector in drilling, exploration and production activities. The Nigerian government is a major investor in the production activities of the upstream sector and its activities are coordinated mainly by the Nigerian National Petroleum Corporation (NNPC). The Department of Petroleum Resources (DPR) acts as the regulatory agency for the oil and gas sector. "Asides from the NNPC and DPR, the Ministry of Energy, the Federal Ministry of Environment, the Federal Inland Revenue Service and the Niger-Delta Development Commission are the

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principal government agencies responsible for oil and gas matters in Nigeria" (Chidi, Badejo and Ogunyomi, 2011). Three major business arrangements are operated in the industry via:

1. **Joint Ventures (JV)** also called Joint Operating Agreements (JOA) between the federal government and multinational operators such as Shell, Agip, Chevron and Elf.
2. **Production Sharing Contract (PSC)** or arrangements between the government and operators where NNPC acts as concessionaire usually in the deep offshore operations where the operator funds exploration, development and production activities and revenues are shared between both parties.
3. **Service Contract (SC)** i.e. where Oil Prospecting License (OPL) title is held by the NNPC while the operator designated as the service contractor provides all the funds required for exploration and production works. In the event of a commercial fund, the contractor recoups his cost in line with the procedures stipulated in the contract. "The difference with the PSC is that while the SC covers only one OPL, the PSC may span more than two or more OPLs at a time. The SC covers a fixed period of five (5) years and if the efforts do not result in commercial discovery, the contract automatically terminates" (Agusto, 2004).

Ariweriokuma (2009) broadly divided the sector into two, being the upstream and downstream oil and gas activities. "Upstream oil and gas activities involve operations in the areas of Exploration and Production (E&P) of oil as well as services that lead to these E&P activities" (Nwosu, 2007). The Nigerian government is a major investor in the production activities of the upstream sector. Her activities are coordinated mainly by the NNPC which has shares in the major upstream activities. The downstream oil and gas activities involve refining the products from crude oil and distribution until it reaches the final consumer. There are also three (3) main functional areas within the downstream sector - refining, distribution and marketing of petroleum products. "The downstream sector is of strategic importance to the nation as petroleum products constitute a key source of energy used for various purposes" (Obasi, 2003).

However, despite being a major oil-producing country for decades and accruing huge revenues from oil, Nigeria is ranked as one of the poorest countries in the world. Also, "the lack of equitable distribution of the oil-wealth and environmental degradation resulting from exploration activities have been identified as key factors aggravating actions from environmental rights groups, inter-ethnic conflicts and civil disturbances from ethnic militias such as the Movement for the Emancipation of the Niger-Delta (MEND) and Niger- Delta Vigilante Force (NDVF)" (NDDC Report). Warner (2007) noted that the Nigeria case is similar to a number of oil-rich countries where their governments have failed to translate their oil wealth into economic sustainability and higher standards of living, stressing that literature abounds on these issues of 'resource curse' and 'Dutch disease.' Apart from these oil wealth failures, there was also the problem of capital flight from the county via monies used in servicing the industry which was attributed to low local content. Many therefore called for an urgent deregulation and liberalization of the downstream sector to enable indigenous entrepreneurs with experience in the oil and gas sector come in and fill the gap that is evident.

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Wunmi (2007) reinforced this point when he called for a pragmatic petroleum development policy framework, with serious emphasis on managing revenue flows and expectations, creating linkages with non-petroleum sectors, expanding local capacity and infrastructure development, human capacity building and development and advancing technical progress and entrepreneurship and managerial skills. President Obasanjo had the above pragmatic policy objectives and instruments in mind when he inaugurated the first Oil and Gas Sector Reform Implementation Committee (OGIC) in year 2000. The essence of the National Oil and Gas Policy (NOGP) that emerged from the OGIC efforts was anchored on the need to separate the commercial institutions in the oil and gas sector from the regulatory and policy-making institutions. Unfortunately, Obasanjo's administration did not completely put into operation the recommended OGIC policy instruments to facilitate oil and gas sector institutional restructuring. In 2007 however, the government of President Umaru Yar'Adua appointed Dr. Riwlanu Lukman to chair a reconstituted OGIC with a mandate to transform the broad provisions in the NOGP into functional institutional structures that are legal and practical for the effective management of the oil and gas sector. "The mandate basically called for a restructuring of the petroleum industry in Nigeria that can facilitate the propelling of the national economy to a GDP level comparable to the top twenty (20) largest worldwide economies by 2020. This led to the petroleum industry bill which is currently before the federal legislature" (Reginald, 2009). Furthermore, the Goodluck Jonathan administration has called for the deregulation of the downstream sector which is being vehemently opposed by the civil society.

Government's Rationale for Deregulation

Government's argument on deregulation of the downstream oil sector is premised on the expectation that it will improve the efficient use of scarce economic resources by subjecting decisions in the sector to the operations of the forces of demand and supply. Appropriate pricing of petroleum products is one of the major factors that will attract private investment into the Nigerian downstream petroleum sector, thereby increasing competition, promoting overall higher productivity and consequently, lowering prices overtime. Independent oil-marketers would be free to set their prices. This would lead to further reduction in prices for refined oil-products until an appropriate market price is attained. Continued subsidization by the government will not help achieve such appropriate pricing. Deregulation through subsidy removal will lead to adjustments that will push prices towards its market-determined level. "Appropriate pricing achieved through this policy will make activities in the sector more profitable and attractive to private, domestic and foreign investors. The ultimate effect of this chain of activities is increased gains for the citizens who would be getting the most out of their natural resources. For example, following government's deregulation in the telecommunication, there has been a reduction in call tariffs. Similar successes have also been recorded in the banking sector with the emergence of stronger banks with unprecedented spread to several other African countries" (Richard, 2012).

Furthermore, government expects deregulation to reduce economic waste and lighten social burdens caused by government control. For several years, Nigeria experienced scarcity of petroleum products that crippled national economic activities and

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increased the cost of doing business several times over. The resulting scarcity inevitably led to a flooding of the market with adulterated products which caused damages to vehicles and machines. In many parts of the rural areas, some were forced to buy petroleum products at 30% higher than their original price. "Deregulation of the downstream oil sector remains the path forward in expanding opportunities for economic growth and a competitive downstream sector. If regulation is limited to oversight and supervisory functions, aimed at guaranteeing quality of products and preventing consumer exploitation, then, the process of deregulation could help achieve greater cost-effectiveness" (Richard, 2012).

Richard (2012) further asserted that research and analysis shows that even if all the country's refineries were to operate at full capacity, there would still be a petrol supply gap of 15 million liters per day. Therefore, importation will remain inevitable until additional refining capacities are built through the ongoing Greenfield Refinery Project. Discussions are currently underway with prospective investors who are willing to provide Foreign Direct Investment (FDI) to build additional refineries in the country to ensure domestic self-sufficiency and the export of refined petroleum products within the next few years. The Petroleum Industry Bill (PIB) contains special fiscal incentives in place to encourage the establishment of new refineries around the country. A viable local refining sector will in the long term, bring down the pump price of petroleum products below the current import parity level.

The current nature of the Downstream Oil Sector

The downstream sector of the oil and gas is currently partially deregulated, making it difficult for prices of petroleum products to be market-determined. The sector was regulated with government maintaining a monopoly of supply of petroleum products and it is dominated by few oil majors. The dominance of these firms in the market has made the petroleum marketing industry in Nigeria an oligopolistic one; it could therefore be described as the survival of the fittest. Due to the market structure, the leading marketers dictate the trends in the market while the fringe independent marketers struggle to match up with the competition (MARS, 2009). However, in line with the nation's economic reform agenda that was launched in the 1980s but effected gradually, till date, policy-makers have embarked on a regime of deregulation of the sector which was intended to remove price control mechanisms that have undermined the growth of the sub-sector in previous years, allowing private stakeholders to complement the government's efforts in developing the industry. "As a major solution to the economic crises experienced in Nigeria in the 1980s, the Structural Adjustment Programme (SAP) was introduced with the central aim of deregulating the economy; the sub-sector is particularly volatile in recent times" (Aigbedion and Iyayi, 2007).

Research Methodology

This study adopted the survey research design with a view to elicit information from respondents. A self-developed questionnaire was designed using the dichotomous scale (Yes/No). The instrument has two sections: Section A has thirteen (13) items which sought the views of respondents on the deregulation and privatization of the upstream and downstream oil and gas industry in Nigeria. Section B elicited the demographic profile of

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respondents. A total of two hundred and fifteen (215) questionnaires were distributed to the target population using the simple random sampling technique. The questionnaires were self-administered to respondents with the help of three research assistants. However, one hundred and eighty (180) of them were returned upon which the data analysis was based. This represents 83.7% response rate. Data analysis was carried out with the aid of SPSS (Statistical Package for Social Sciences) Version 17.

Data Analysis and Results

With respect to respondents' category, respondents to this survey consist of government agencies which represent 22.2% of the respondents. Market-women make up 16.7%; students 12.2%; workers account for 19.4%; upstream oil sector comprises 16.1% while the downstream oil sector consists of 13.3%. With respect to sex distribution, 68% of the respondents were male while 32% were female. 78% of respondents were not in support of the monopoly enjoyed by the NNPC. This implies that they were in support of the deregulation of the oil and gas industry which will break the monopoly of NNPC. 67% of the respondents believed that deregulation and privatization of the oil and gas industry will force down the prices of petroleum products. 82% of the respondents believed that deregulation and privatization will result in the elimination of smuggling of petroleum products across the borders to neighbouring countries. 78% of the respondents believed that deregulation and privatization have nothing to do with political factor except if the government is not sincere with its policy implementation. 88% of respondents agreed that deregulation and privatization policies will improve the Nigerian economy. 86% of respondents did not agree that the political implications outweigh the economic implications for deregulation and privatization.

This corroborates the views of respondents to the preceding question. 94% of the respondents agreed that the government should go ahead with deregulation and privatization of the oil and gas industry. 50% of the respondents agreed that the removal of fuel subsidy is necessary while 50% disagreed. 72.2% agreed that government should subsidize the prices of petroleum products. 100% of the respondents believed that the deregulation and privatization of the oil and gas industry will create job opportunities for Nigerians. 67% of the respondents opined that the government should deregulate and privatize the oil and gas industry gradually. 77.8% of the respondents believed that the deregulation and privatization of the oil and gas industry will be a blessing to Nigerians. 80.6% of the respondents did not believe that the deregulation and privatization of the oil and gas industry will be a curse to Nigerians. This corroborates the views of respondents to the preceding question.

Summary and Conclusion

From the foregoing, it is evident that the deregulation and privatization of the oil and gas industry will usher in sustainable national development and will be a blessing rather than a curse Nigerians. These findings are consistent with the views of Omodia (2007). According to Omodia (2007), "government's role usually can be limited to policy-making while leaving actual investment, operation and maintenance to non-governmental entities." Omodia (2007) views deregulation and privatization in positive light as it is believed that deregulation and privatization are capable of enhancing efficiency and effectiveness in service-delivery.

Deregulation and privatization are now global phenomena. They are the offshoots of economic globalization. For an economy to be competitive, it needs to embrace global standards. We cannot escape globalization, and so, we must be part of it. The attitude of some Nigerians toward deregulation and privatization of the oil and gas industry has been indifferent as many hold the notion that such government policies will lead to job loss as well as high cost of living. This negative attitudinal posture poses the greatest problem to the Nigerian economy. It was found that the deregulation and privatization of the oil and gas industry will usher in sustainable national development and will be a blessing rather than a curse for the citizenry.

Recommendations

The following recommendations are made:

1. The authors recommend that strategic sectors such as oil and gas as well as the power sector should be deregulated and privatized for sustainable national development.
2. It is recommended that the regulatory framework and environment should be such that encourages maximum competition. Accordingly, government must repeal all laws that inhibit competition and should pass laws that protect investors.
3. Government should prepare to address the labour problems which may arise as a result of deregulation and privatization. A proactive programme of education of labour unions should be pursued. More so, safeguards against job losses should be embarked upon.
4. It is recommended that government should leave the management of a company in the hands of the strategic partner.
5. Government sales option (of 40% to strategic partner, 20% Nigerian public and 40% government) should be implemented accordingly even at the reduced equity holding by government. However, it is recommended that government divests gradually its remaining shares at a minimum of 5% per year to the Nigerian public.
6. It is recommended that workers should be allowed to have a stake in the refineries in the form of equity participation. This will reduce the risk of shortage usually associated with workers' union activities and ensure greater commitment to the survival of the refineries.
7. It is recommended that the government should in effect, provide the broad guidelines for the operation of the refineries and allow private initiatives in the running of refineries.

Website: http://www.rcmss.com ISSN 2350-2231(Online) ISSN 2346-7215(Print)

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