
Nigeria: A new dawn?

AMRITA SEN believes Nigeria's oil production looks set to continue to grow poorly

'Let's say there are prospects for a new Nigeria, but I don't think we have a new Nigeria yet.'

Wole Soyinka

Despite being the largest oil producer in Africa, Nigeria has been in the limelight over the last decade for all the wrong reasons. Beginning in the late 1990s, the cosy relationship between Big Oil and a despotic Nigerian state was challenged by popular, and increasingly militant, pressure from local communities,

or more properly from armed youth movements. The shift from non-violent protest to militancy, and ultimately to armed struggle, was in many respects the inevitable result of the Nigerian government's brutal repression of the Ogoni movement. A decade later, the Niger delta is home to a fully-grown

local insurgency. While sporadic episodes of violence and attacks on oil facilities have always proved an inherent feature of the Nigerian oil sector, the problems have escalated dramatically since the election cycle of 2003.

In late 2005, a new and well organised militant group the Movement for

the Emancipation of the Niger Delta (MEND) exploded out of the creeks of the western delta promising to close down the oil industry. Since then, the increased frequency of the attacks translated into a growing chunk of production capacity exiting the market. After reaching a peak of 2.45 mb/d in October 2005, Nigerian production fell steadily through to 2009, touching a low of 1.7 mb/d in mid 2009, despite Nigeria's nameplate oil production capacity being around 2.9 mb/d. Companies declared force majeure on a regular basis and key facilities that were shut down in early 2006 repeatedly failed to resume operations according to schedule. Tentative restarts usually proved ineffective as poor security in the region continued to hamper repairs and prevent the normal flow of oil through the country. Indeed the Nigerian oil production outlook cannot be easily linked to particular events affecting individual oil installations. The return of a facility was normally followed by the downing of another, as attacks continued to make the output flow from the country increasingly unsteady.

Following years of negotiation, in October 2009, MEND declared an indefinite ceasefire under the government's amnesty programme. Although the militants have threatened to end the truce from time to time, in general there have been fewer attacks on oil installations than in the pre-ceasefire period. The ceasefire has also enabled some companies to repair damaged oil infrastructure, allowing Nigerian production to climb back above 2 mb/d since 2011.

Yet today, Nigeria is the world's capital of oil theft. The Minister of Finance, Dr. Ngozi Okonjo-Iweala, puts the figure of oil theft and illegal bunkering at 0.4 mb/d, which equates to around \$40 million lost per day (or around \$15 billion annually) at a price of \$100 per barrel. Others put the estimate lower, but still staggeringly high. According to Shell, Nigeria has been losing about \$5 bn annually to the activities of illegal oil bunkers operating in the oil fields located in the coastal parts of the country due to the loss of an estimated 0.15 mb/d of oil output. Crude oil theft has degenerated from the occasional and haphazard operations of some local thieves to a well-coordinated syndicate of criminals who are prepared to do anything to obtain the crude oil,

according to officials. An increasing number of canoes, barges and illegal refineries are visible all over the coastal area these days. The Joint Task Force in the Niger Delta recently reported that it had destroyed 3778 illegal refineries and seized eight vessels, 120 barges, 878 Cotonou boats, 178 fuel pumps, 5238 surface tanks, 606 pumping machines and 626 outbound engines allegedly belonging to oil thieves in the first quarter of 2012. Despite the efforts, oil theft is on the rise in Nigeria, playing a significant role in taking production in September down below 2 mb/d for the first time in over a year. Shell has declared force majeure on its Bonny Light crude exports several times this year due to illegal bunkering on the Nembe Creek Trunkline.

But oil theft is only a part of a wider industry problem. The oil industry is characterised by wastage, corruption, low productivity and unchecked dominance of foreign multinationals. Many commentators allege that high-level politicians, former and serving military officers, militant leaders and former workers of oil companies are all complicit. This makes a crackdown on oil theft almost impossible, as the Government simply does not have production figures and has to rely on export numbers. In the absence of production data, companies currently pay taxes and royalties based on available export figures and not production figures as stipulated by law. Further, in terms of know-how and upstream technology, the initiative still remains with foreign multinationals and local contribution is abysmally low.

Gas flaring is another significant issue, with areas near Port Harcourt particularly impacted, and for many, it underscores the failure of upstream operations. According to World Bank statistics, more than 150 billion cubic metres (bcm) of gas are flared and vented annually around the world and Nigeria leads that list. The annual 35 bcm of gas flared in Africa alone is equal to half the continent's power consumption. Considerable attention has also been drawn to the environmental damage caused by oil spills in the Niger Delta. According to the Nigerian National Oil Spill Detection and Response Agency (NOSDRA) approximately 2400 oil spills were reported between 2006 and 2010 as a result of sabotage, bunkering and poor infrastructure.

Then there is Nigeria's National Petroleum Corporation (NNPC). NNPC's financial situation has been a long-standing constraint for the country's oil industry. The funding problems of the state-owned company have been well documented and its inability to meet its cash obligations to IOCs in a period of heightened liquidity constraints has added further impediments to the country's growth. Corruption was rife among members, with a KPMG Report in 2010 detailing the manipulative opacity, deliberate duplicity, self-inflicted inconsistencies and corruption within the NNPC network. As a result, oil companies were severely lamenting that NNPC was underfunding projects. In July this year, the board of NNPC was completely revamped, but it is too soon to tell whether this will herald a new era for Nigeria's oil industry.

Last week, President Goodluck Jonathan presented a \$31 billion budget to parliament for 2013, which assumed total oil production of 2.53 mb/d. Even if one includes NGL output, Nigeria will struggle to reach 2.5 mb/d by next year. Despite the amnesty programme and various steps taken in the right direction, tackling the deep structural problems facing the Nigerian energy sector will require firm and decisive leadership in Abuja.

Within the oil sector itself, the current laws governing the oil and gas sector are obsolete and have failed to address many current issues. The Petroleum Industry Bill (PIB), which was first presented to the National Assembly in 2008 is yet to become a law and is holding back some \$40 billion worth of investments in the oil sector. The federal Government recently sent a new version of the bill to the National Assembly after the previous copy was rejected yet again by the Sixth National Assembly. But there are still contentious issues in the new draft. Shell thinks the tax terms in the new oil bill are so uncompetitive that they risk rendering offshore oil and gas projects unviable, as the Government now intends to raise its stake in deep offshore blocks from 61 percent to 73 percent. Many suggest that the bill has taken away all the good provisions such as incorporated joint ventures recommended in the old version that is capable of turning Nigeria into an oil production state.

Thus, the start-up timing of planned upstream projects remains in doldrums.

Although Total managed to start up the 180 thousand b/d Usan field in February this year, the start-up of the remainder will depend heavily on the PIB and the fiscal/regulatory terms it imposes on the oil industry. Most of these projects have

already been delayed several times. Thus, current and future performance of the Nigerian oil sector remains ultimately and intimately linked to the evolution of the structural problems affecting Nigeria's oil producing region – poverty, poor

governance and proliferation of weapons. In the absence of a clear shift in the current dynamics, which seems unlikely at present despite the recent changes in the oil sector, Nigerian oil production is set to continue to perform poorly. ■