

Oil industry in Nigeria: Past and current situation



by
Eyitayo Onadipe

- Introduction -

◦ **NIGERIA**

Total land: 923,768 km²

Population: 154,729,000 (2009 estimate)

GDP per capita: (\$) 1,415


Crude Oil:

- 40% of GDP and 80% of Government earnings
- more than 98% of export earnings
- 95% of foreign exchange earnings
- about 65% of government budgetary revenues

* 12th largest producer of petroleum in the world

- Nigerian Oil Industry -

- ❑ Oil was discovered in the Niger Delta in the late 1950s
- ❑ Nigeria is reported to have about 500 oil fields. Of these, 193 are currently producing while 23 have either been closed-down or abandoned
- ❑ Nigeria hosts the world's 10th largest reserves at about 25 billion barrels and has the 6th position in terms of reserves and daily production
- ❑ Average oil depletion rate is 15%



❑ The natural gas reserves is put at more than 166 TSCF (trillion standard cubic feet), with current daily production put at 2 billion TSCF (AG)

❑ The industry is dominated by Shell, Chevron, Mobil, Agip, Elf and Texaco, together holding about 98% of the oil reserves and operating assets

❑ Activities within the industry is controlled by the Nigerian National Petroleum Corporation (NNPC)



- Problems “generated” by the discovery of Oil -

***** Corruption

- ❑ Neglect of other viable sectors
- ❑ Pollution
- ❑ Improper distribution of wealth
- ❑ “MEND”



❑ Neglect of other viable sectors

- Nigerian GDP originating in the agricultural sector shrank from 65.7 percent in FY 1959 to 30.9 percent by 1976
-
- Currently contributes about 32%
 - Employed about 60% of the labor force in 2002
 - Major crops include cocoa beans, rubber, palm nuts, cotton & groundnuts



Pollution

- Degradation of the environment due to unchecked pollution produced by the oil industry.

- Up to 1.5 million tons of oil, 50 times the pollution unleashed in the Exxon Valdez tanker disaster, has been spilt in the Niger Delta over the past 50 years
- Gas flaring

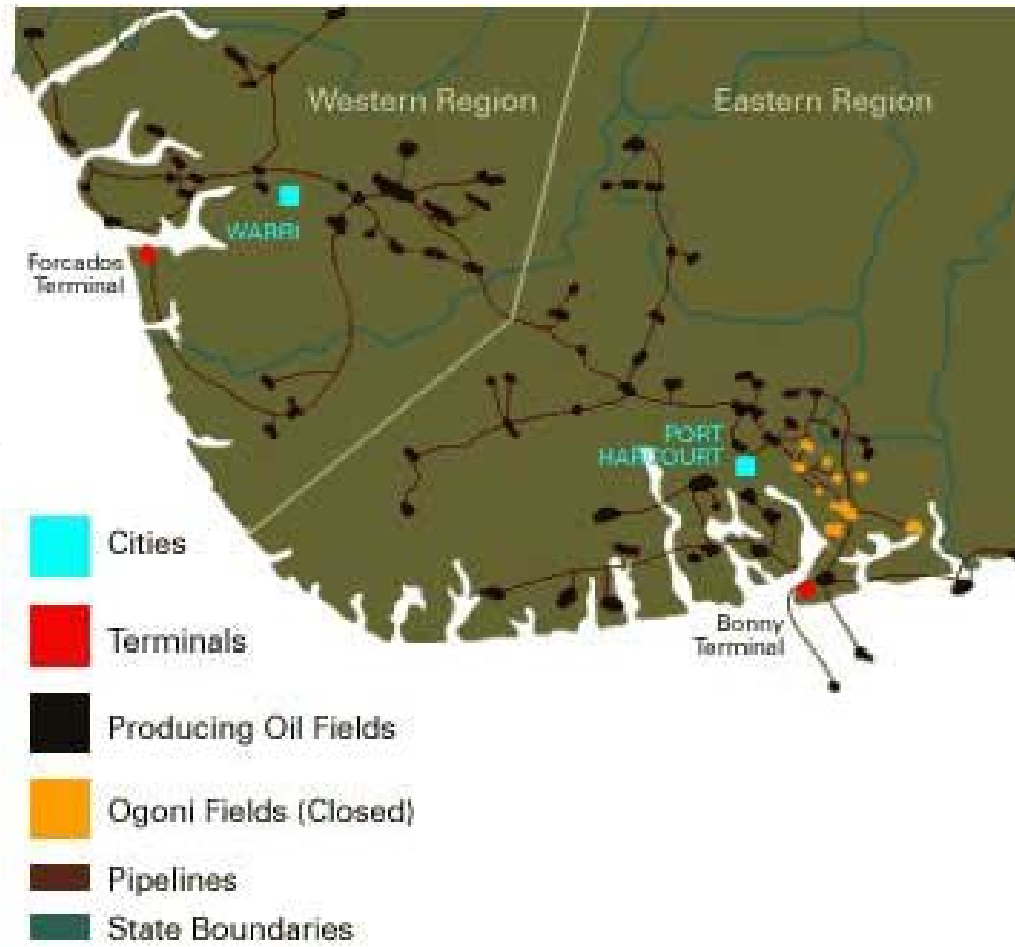


Source: Reuters, 2006



❑ Improper distribution of “Oil wealth”

- People living in the Niger Delta have found themselves in a situation where their government and the international oil companies own all the oil under their feet, the revenues of which are rarely seen by the people who are suffering from the consequences of it.
- Inhabitants of the Niger Delta region lack basic needs such as good housing, water, health care, electricity & basic education



The Niger Delta region

Source: Reuters, 2006



Source: Reuters, 2006



Source: Reuters, 2006

□ Movement for the Emancipation of the Niger Delta - **MEND** -



"It must be clear that the Nigerian government cannot protect your workers or assets. Leave our land while you can or die in it... Our aim is to totally destroy the capacity of the Nigerian government to export oil....."

❑ MEND is one of the largest militant groups in the Niger Delta region of Nigeria

❑ MEND's stated goals are to localize control of Nigeria's oil and to secure reparations from the federal government for pollution caused by the oil industry



Source: Reuters, 2006

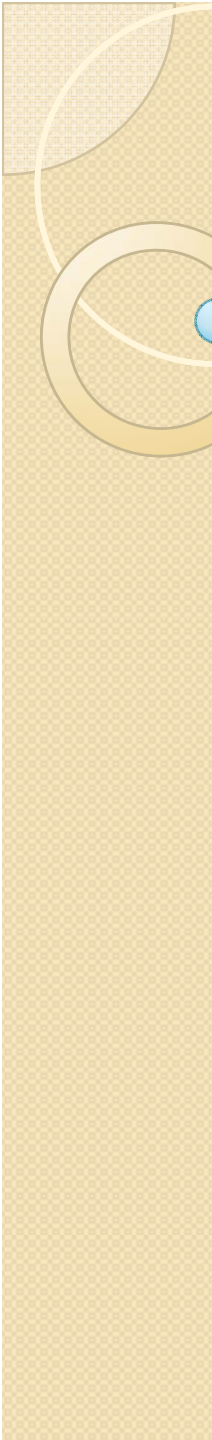
❑ MEND has been linked to attacks on foreign-owned petroleum companies in Nigeria as part of the Conflict in the Niger Delta, engaging in actions including sabotage, theft, property destruction, guerilla warfare, and kidnapping



Source: Reuters, 2006

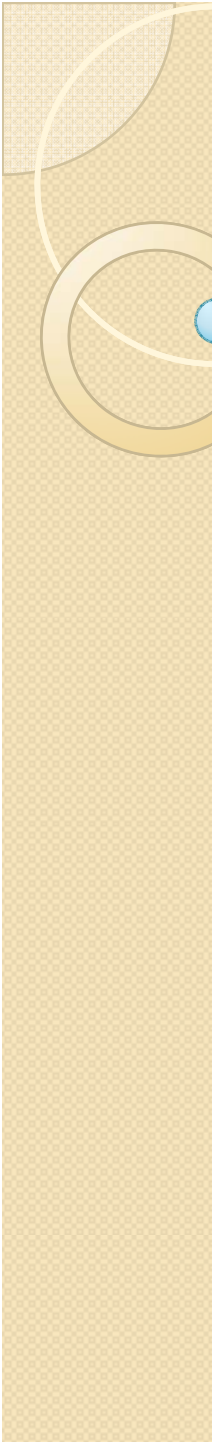


Source: Reuters, 2007



MEND's attacks involve substantially more sophisticated tactics than those of previous militant groups in the Niger Delta. MEND's recent tactics have included:

- Swarm-based maneuvers: guerrillas are using speed boats in the Niger Delta's swamps to quickly attack targets in succession. Multiple, highly maneuverable units have kept the government and Shell's defensive systems off-balance defending their sprawling networks.
- Radically improved firepower and combat training: allowing guerrillas to overpower a combination of Shell's Western-trained private military guards and elite Nigerian units in several engagements. (One of Shell's private military operators was captured as a hostage.)



□ Effective use of system disruption: targets have been systematically and accurately selected to completely shut down production and delay and/or halt repairs, and the guerrillas are making effective use of Shell's hostages to coerce both the government and the multinationals

□ On the 18th of June 2009, MEND claimed they had blown up a Shell pipeline, as a warning to Russian president Dmitry Medvedev who was arriving to Nigeria the next day and to any potential foreign investors



□ Effects of MEND on the Oil Industry

- In 2006 a wave of attacks on oil installations and kidnapping of foreign oil workers reduced output by about 25%
- According to industry sources, Nigeria's oil production has fallen to less than half its capacity as fighting escalates. The country now pumps about 1.6 million barrels per day, compared with a full capacity of 3.2 million and the 2.2 million barrels per day of the budget benchmark
- Oil output from Nigeria fell as low as 1.2 million barrels a day in the past few months, with the Royal Dutch Shell Plc's onshore fields being the worst affected
- As much as 164,000 barrels a day of Shell's oil production had been halted by militant attacks this year

- Current Status -

- ❑ Deregulation of the Industry

- ❑ The Petroleum Industry Bill (PIB)



❏ Deregulation of the Industry

- The focus of Government is the deregulation of the sector through the licensing of private refineries and the removal of Government subsidies to the downstream sector, and the privatization of existing ones
- The government spends more than \$4 million a year spent on subsidies.



□ The Petroleum Industry Bill (PIB)

- The Petroleum Bill seeks to create new regulatory agencies and transform existing institutions into efficient and profit-oriented enterprises
- Local opposition argues that the introduction would lead to an increase in the fuel pump price



- Economic experts and the IOCs argue that the aggregate impact of increased taxation and royalty as contained in the proposed PIB would threaten the global competitiveness

- Nigeria's tax and royalty regime clocked at 82 percent pre-PIB and 91 percent under the PIB, compared with Equatorial Guinea 33%; Ghana 50%; United Kingdom 55%; Venezuela 71%; and Angola 78%



The way forward

?????