

The Nigerian Petroleum Industry and the Nigerian National Petroleum Corporation

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The Nigerian Petroleum Industry

- The most important industry in Nigeria, accounting for the great majority of money collected, distributed and spent by the 3 tiers of government.
 - History
 - Evolution
 - The Importance of Petroleum in Nigerian and in my life
 - Why the state of the industry is a matter of life and death to you and I
 - NNPC- the 'Custodian of the Industry.
 - The State of NNPC
 - The Way forward

History of Control (1)

THE COLONIAL PERIOD (BRITAIN IN CONTROL)

- FIRST EXPLORATION ATTEMPTS 1903-1914
- SHELL IN NIGERIA
- COMMERCIAL DISCOVERY - 1959

POST-INDEPENDENCE I: (COMPANIES IN CONTROL)

- CONCESSIONARY PERIOD
- COMMENCEMENT OF PARTICIPATION/ JOINT VENTURES
- ESTABLISHMENT OF NNOC

POST INDEPENDENCE II: COMPANIES/NNPC IN CONTROL

- MERGER: MINISTRY + NNOC = NNPC
- COMMENCEMENT OF PRODUCTION SHARING SAND - BRIEFLY - SERVICE CONTRACTS

Legal History

THE COLONIAL PERIOD (BRITAIN IN CONTROL)

- Oil Ordinance of 1907
- Petroleum Profits Tax Act 1959

POST-INDEPENDENCE I: (COMPANIES IN CONTROL)

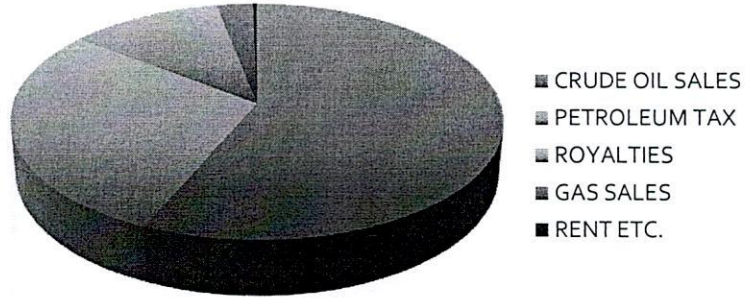
- Petroleum Act 1969
- NNOC Act

POST INDEPENDENCE II FROM MID 1970s: COMPANIES/NNPC IN CONTROL

- NNPC ACT
- PETROLEUM ACT 1969 PLUS AMENDMENTS
- PETROLEUM PROFITS TAX ACT 1959 PLUS AMENDMENTS
- OTHER LAWS ON SUBSECTORS

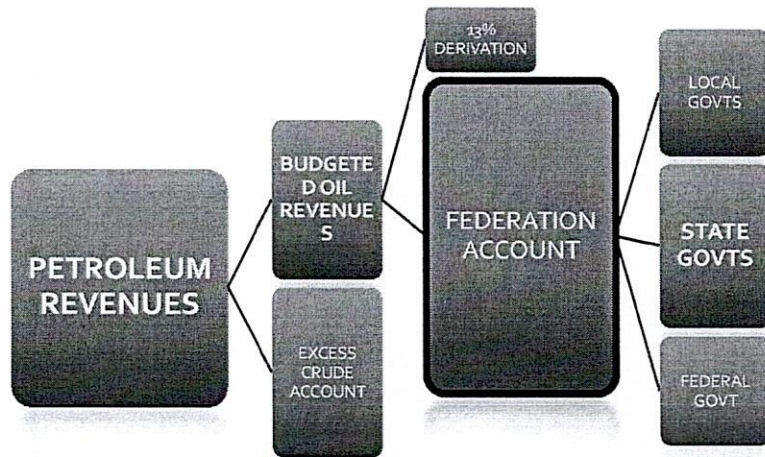
REVENUES FROM PETROLEUM 2005-2011

Sales

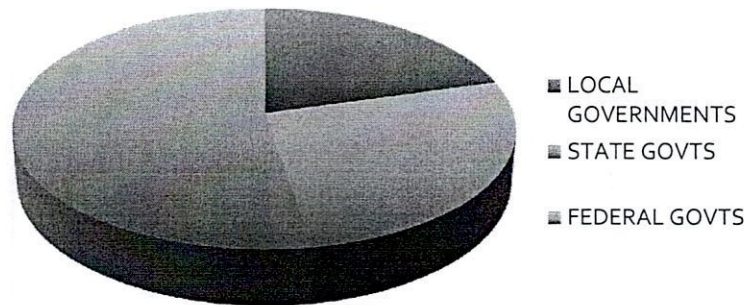


WHICH ARE PAID INTO

Money Movement



The Federation Account



Which is distributed amongst the 3 tiers of Government and is the principal source of revenues for Federal, state and local governments

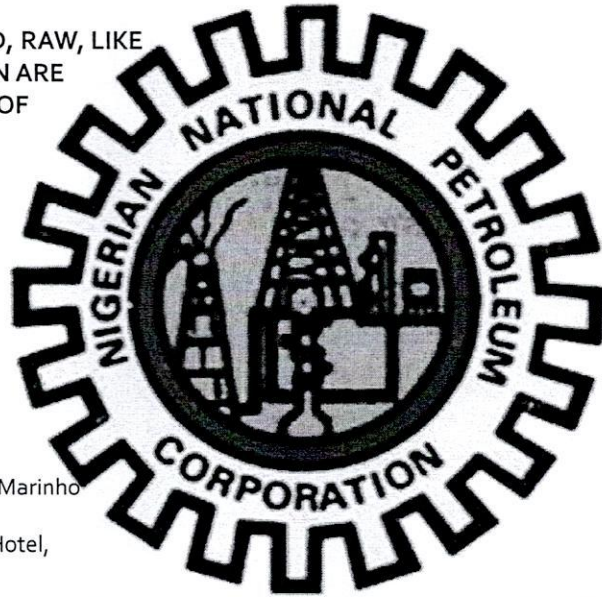
The institution that manages these funds on behalf of Nigeria is therefore of vital importance.

COG WHEEL= TECH. ADVANCEMENT: NNPC
WAS FORMED FOR THE DEVELOPMENT OF NIGERIA

GREEN CORE= UNREFINED, RAW, LIKE
CRUDE. INSIDE THE GREEN ARE
DIFFERENT IMPLEMENTS OF
THE INDUSTRY

RED = PROCESS OF
TRANSFORMATION OR
CRUDE INTO ENERGY

GOLD (YELLOW)
= WEALTH



Source: Description by Mr FRA Marinho
Former GMD, at a GMDs
Brainstorming Session, Hilton Hotel,
Abuja, 13th November 2010

NNPC in Focus

- *Interim Report on the Process and Forensic Review of NNPC* (KPMG Report), September 2010.
- *Report Of The Ad-hoc Committee To Verify And Determine The Actual Subsidy Requirements And Monitor The Implementation Of The Subsidy Regime In Nigeria"* Resolution No. (Hr.1/2012) (House of Representatives Report)
- *Report of the Petroleum Revenue Special Task Force*, August 2012 (Ribadu Report)
- *NEITI Financial Audit: An Independent Report Assessing and Reconciling Financial Flows within Nigeria's Oil and Gas Industry- 2009-2011*, NEITI, www.neiti.org.
- *Nigeria's Criminal Crude: International Options to Combat the Export of Stolen Oil*, Chatham House, September 2013
- *Swiss Traders' Opaque Deals in Nigeria*, Berne Declaration 2013

NNPC (1)

- Has been in dire need of reform for some decades, leading to various internal reorganisations and attempted reorganisations, as the Corporation believes that it is in the best position to reform itself.
 - Accenture
 - Mckinsey
- SELF-REFORM, PARTICULARLY WHEN THE REWARDS OF 'BUSINESS- AS- USUAL' ARE SO LARGE, IS AN ILLUSION.
- It has NEVER cooperated with any attempts to reform it and to make it functional, and in alignment with the stated intents of its logo.

NNPC (2)

- "The "state-run Nigerian National Petroleum Corporation (NNPC) is widely seen as one of the most politicized and compromised institutions of any oil-producing nation."
 - Criminal Crude, p.1
- "The most problematic, however, [of the institutions of the Nigerian petroleum industry] remains the National Oil Company, the Nigerian National Petroleum Corporation (NNPC). It is simply a typical State institution that operates as a huge amorphous cost centre with little or no sensitivity to the bottom-line."
 - The National Oil and Gas Policy, www.dregbogah.com

LOSSES TO THE FEDERATION ACCOUNT (SOME EXAMPLES)

Crude Oil Allocations

- Why have the refineries been malfunctioning for so many years, and why is NNPC given crude allocations that presuppose that the refineries are functioning at capacity?

	Allocated Crude	Refinery Delivery	Export	Offshore Processing	Crude Exchange	Product Exchange
	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000	Bbl'000
2009	161,914	19,363	142,551			
2010	166,523	34,703	97,792	27,336	950	5742
2011	164,455	45,394	39,341	23,688		56,032
TOTAL		99,458	279,684	51,024	960	61,774
	Percentage	20.2%	56.7%	10.4%	0.2%	12.5%

Source: NEITI

Conversion Losses

Why is NNPC allowed to set its own exchange rate?

Year	Volume	Value	Value	Derived NNPC Average Exchange Rate	CBN Average Exchange Rate	Apparent Conversion Losses Value
	Bbl'000	\$'000	N'000			N'000
2009	161,914	9,903,033	1,451,586,060	146.579948	148.880000	22,777,490
2010	166,523	13,228,942	1,954,124,959	147.715891	150.343300	34,757,841
2011	164,455	18,363,100	2,776,893,070	151.221366	153.444200	40,818,123
TOTAL	492,891	41,495,075	6,182,604,089			98,353,455

Source: NEITI

Summary of Subsidies Paid by Federal Government: 2009-2011

Product/ Entity	2009	2010	2011	TOTAL
	N' 000	N' 000	N' 000	N' 000
Other Marketers through PPPRA	Audited	Audited	Pre-Audited	
Premium Motor Spirit	158,898,484	278,055,311	1,115,581,732	1,552,535,527
Kerosine	48,900,201			48,900,201
Sub total	207,798,685	278,055,311	1,115,581,732	1,601,435,728
NNPC	198,110,212	416,459,361	785,908,668	1,400,478,241
Sub total	198,110,212	416,459,361	785,908,668	1,400,478,241
Grand Total	405,908,897	694,514,672	1,901,490,400	3,001,913,969

SOURCE: NEITI

Total volume of crude oil theft and losses (deferment) due to sabotage from SPDC, CHEVRON and NAOC and equivalent values in US Dollars

2009	Yearly Avg. price/bbl	SPDC (bbls)	Chevron (bbls)	NAOC(bbls)	Sum total	Value(A x E)
	(\$) (A)	(B)	(C)	(D)	(bbls)	\$
					E = (B+C+D)	
Theft	62.02	4,690,780	1,835,417	1,895,836	8,422,033	522,334,486.66
Sabotage	62.02	37,537,900	21,917,620	1,615,038	61,070,558	3,787,596,007.16
Sub Total		42,228,680	23,753,037	3,510,874	69,492,591	4,309,930,493.82
2010	(A)	(B)	(C)	(D)	(E)	(Ax(E))
Theft	80.92	9,256,481	211,456	3,674,224	13,142,161	1,063,463,668
Sabotage	80.92	8,475,889	3,570,415	3,119,388	15,165,692	1,227,207,797
Sub Total		17,732,370	3,781,871	6,793,612	28,307,853	2,290,671,464.76
2011	(A)	(B)	(C)	(D)	(E)	(A)x(E) (\$)
Theft	113.76	17,227,447	461,347	6,274,446	23,963,240	1,984,890,395.52
Sabotage	113.76	12,651,192	333,189	1,661,508	14,645,889	1,445,500,995.84
Sub Total		29,878,639	794,536	7,935,954	38,609,129	3,430,505,151.36
Grand total		89,839,689	28,329,444	18,240,440	136,409,573	10,031,107,110

Source: NEITI

**Cumulative Crude Oil Losses in Pipeline supply to Domestic Refineries
(January 2009- 2011)**

Cumulative Crude oil Pipe Line losses January 2009- December 2011							
Pumped (m ³)	Received (m ³)	Variance (m ³)	Variance (Barrels)	Variance %	Amount (\$)	Amount (N)	Remarks
3,669,791	3,389,095	(280,696)	(1,765,522)	(8)	(88,276,085)	(13,241,412,756)	\$50/bbl
7,105,746	6,737,486	(368,260)	(2,316,281)	(5)	(166,772,252)	(25,015,837,745)	\$72/bbl
7,948,065	6,931,926	(1,016,139)	(6,391,311)	(13)	(639,131,141)	(95,869,671,223)	\$100/bbl
18,723,602	17,058,507	(1,665,095)	(10,473,114)	(9)	(894,179,478)	(134,126,921,724)	

SOURCE: NEITI

Strategic Alliance Agreements (1)

- With the exception of one company, the newest JVs, between the various companies that are beneficiaries of the recent divestments by the multinational companies are subject to Strategic Alliance Agreements, e.g.
 - First Hydrocarbons
- NNPC has assigned its JV interests in respect of these acreages to NPDC, and therefore these JVs are now Coy/NPDC JVs, and not Coy/NNPC JVs.

Sources: Sahara Reporters, ThisDay

Strategic Alliance Agreements (2)

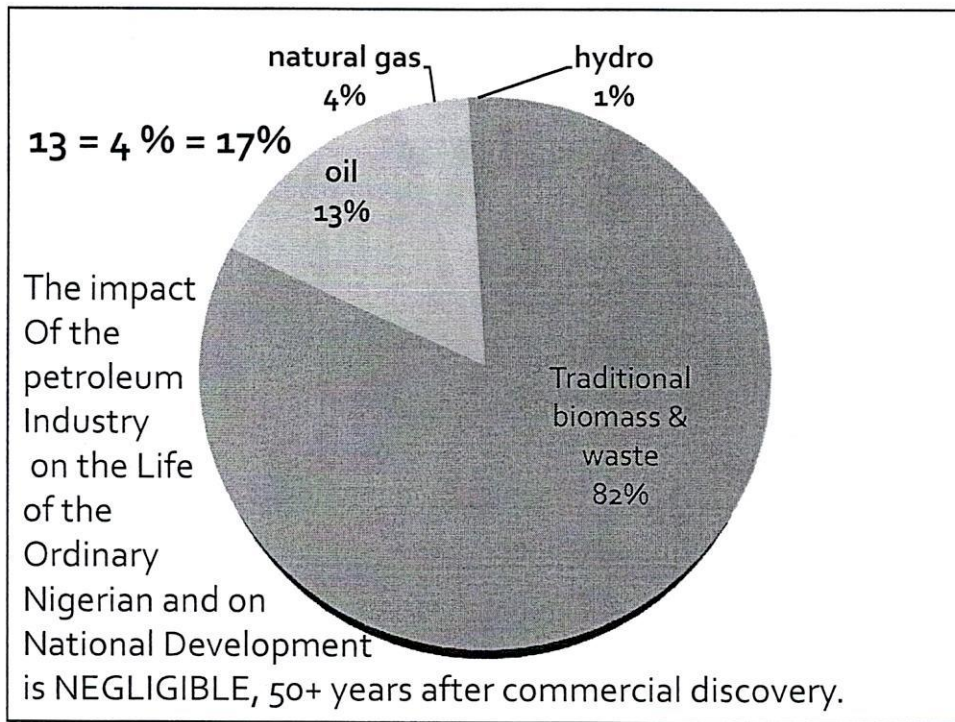
- Unlike all the other JVs in Nigeria, NPDC is designated Operator
- This would normally be a fantastic achievement.
HOWEVER
- NPDC has now entered into Strategic Alliance Agreements with some companies, e.g. Septa Energy, in respect of the Operatorship of these blocks, so in fact, it is not the operator.

Strategic Alliance Agreements (3)

- On the face of it, the Agreement is "for the provision of funding and technical expertise. In reality it is a PSC in respect of the 55% held by NNPC/NPDC on behalf of the Federal government (Federation account money.)
- The Company buys into the development of the reserves, funds all operating costs, and becomes *de facto* operator because it controls the Project Management Team.
- These SAA's reduce funds that should have accrued into the Federation Account from these Joint Ventures.

Salient Facts

- Notwithstanding its substantial petroleum resources, Nigeria is one of the least developed countries in the world.
- The poor state of the petroleum industry is primarily responsible for this.
- THE STATE OF THE INDUSTRY AND THE STATE OF NNPC ARE ONE AND THE SAME.



Will the gap widen or reduce?

The image contains two side-by-side photographs. The left photograph shows a woman in a rural setting, carrying a large, heavy bundle of sticks or branches on her back. The right photograph is a professional headshot of a woman with dark hair, wearing a dark blazer over a striped top, smiling at the camera.

**Your Excellencies,
Distinguished Ladies
and Gentlemen,
Thank you very much!**