This report focuses on the first theme of the Oil Revenue Tracking Initiative. It seeks to create an understanding of Nigeria’s oil industry using info-graphics as the medium of visual communication to inform, educate and engage with citizens and stakeholders.
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Nigeria’s oily beginnings started in the depths of the delta region on a destined June day in 1956 when the oil explorer Shell D’Arcy hit the “black gold” jackpot. The company succeeded in unearthing the first commercial find at Oloibiri, a community in Bayelsa State, following decades of exploration activities. Subsequently, production commenced with twenty-two oil wells pumping out 5,100 barrels of crude oil daily.
After acquiring a 51% stake in the sector, Nigeria joined OPEC, paving the way for enhanced significance on the global stage of oil producing and exporting nations. The country’s OPEC quota presently stands at 2.5m barrels per day.

Trading valuable resources on the international commodities market at competitive prices typically generates economic wealth and development for a country. For instance, Nigeria engaged its human resource in agriculture when trade in commodities such as cocoa, rubber, cotton and groundnuts lucratively earned revenues that sustained the economy.

Crude oil, however, replaced agricultural commodities as Nigeria’s highest export earner as far back as the early seventies. The significance of oil in the economic mix of the country grew from contributing less than 1% in the early years, to currently accounting for over 90% of export earnings.

Nigeria exports its crude oil globally. As the 8th largest exporter in the world, the largest share of exports go to the USA, followed by Europe, India, Brazil and Canada.

Oil wealth is generally good for an economy if the country and its people derive benefits from export earnings, foreign direct investment and tangible development.

OIL PRODUCING STATES

The most prolific oil producing region in the country is the Niger Delta. A brief profile of the respective oil producing states below shows their ranking according to estimated production figures1. Apart from crude oil and natural gas resources, these states have vast deposits of solid minerals and agriculture that could potentially become alternative sources of income.
Out of revenues generated from the sale of crude oil, oil producing states receive 13% as derivation allocation for oil produced from the states before Federation Account distributions to all tiers of government. Our info-graphic on how oil becomes revenue provides a clearer picture of disbursements.
An additional source of funds for the Niger Delta states is the NDDC\(^2\), which gets three per cent (3\%) of the total annual budget from all oil companies operating in the region. NDDC funds are solely for developing the region. How effective this development funding has been is a subject for further discussion and will be explored in subsequent reports.

**STRUCTURE OF THE INDUSTRY**

The oil and gas sector is structured as upstream, midstream and downstream sectors. Upstream operations - exploration, development, production and to a large extent midstream (exportation of crude oil) are capital intensive.

Players in these two sectors are the NNPC and IOCs. Collectively, the IOCs contribute 94\% of total production in the industry.

Downstream, local refineries process a limited amount of the domestic crude oil into various petroleum products for local consumption with distribution and marketing taking place within this sector.
STRUCTURE OF NIGERIA’S OIL INDUSTRY

UPSTREAM

Upstream activities involve exploration - which is “searching for the oil” either onshore or offshore AND the production of the oil after discovery

WHO’S INVOLVED?

EXPLORATION AND PRODUCTION COMPANIES

34TH BIGGEST OIL COMPANY IN THE WORLD
Nigerian National Petroleum Corporation (NNPC)

Shell 860 kbdp
Chevron 516 kbdp
Total 270 kbdp

Marginal oil fields production is estimated at 102kbdp

DOWNSTREAM

The downstream sector comprises of refineries, transportation and marketing of petroleum products

REFINERIES

Port Harcourt Refining Company (PHRC 1) – Rivers State
Capacity: 60,000 BPSD (Barrels per stream day)

Port Harcourt Refining Company (PHRC 2) – Rivers State
Capacity: 150,000 BPSD (Barrels per stream day)

Warri Refining and Petrochemical Company (WRPC) – Delta State
Capacity: 125,000 BPSD (Barrels per stream day)

Kaduna Refining and Petrochemical Company (KRPC) – Kaduna State
Capacity: 110,000 BPSD (Barrels per stream day)

TOTAL CAPACITY: 445,000 BPSD (Barrels per stream day)

Nigeria lacks the capacity to refine most of its crude oil hence the need to export over 98% to other countries.
Pre-independence, the few IOCs operated under the Mineral Ordinances and Petroleum (Production) Act. Five additional laws were put in place before the end of the 1970s reflecting government’s interest in the sector. Some of these laws are highlighted below: Oil Pipelines Act, Petroleum Act, NNPC Act, Land Use Act. Others are the Offshore Oil Revenue Decree No.9 of 1971, Petroleum Production and Distribution (Anti Sabotage) Act 1975 and the Exclusive Economic Zone Act 1978.

Interestingly, early Nigerian laws referenced “All Minerals” whereas with an increased focus on oil, laws referenced “Petroleum”.

Presently, the Petroleum Industry Bill 2012 (PIB) aims to consolidate the affairs of the sector and upgrade redundant parts of existing Acts if passed into law. However, it comes with considerable contentious issues that may not necessarily address the wholesome minerals and mineral oils sector, or existing problems within the sector.
1914 - MINERAL OIL ORDINANCE ACT

1934 - PETROLEUM (PRODUCTION) ACT

1946 - THE MINERALS ORDINANCE ACT

1965 - THE OIL PIPELINES ACT

1969 - PETROLEUM ACT
- The act grants ownership rights of all on-shore, off-shore and continental shelf finds to the Federal Government including all revenues from petroleum resources.

1977 - NNPC ACT
- This act created the NNPC as a result of a merger between NNNOC (Nigerian National Oil Company) and the Federal Ministry of Mines and Power to better manage the affairs of the Federal Government in the sector.

1979 - LAND USE ACT
- The Federal Government owns, controls and manages all natural mineral resources within Nigeria’s geographical area.

2007 - MINERALS AND MINING ACT
- This act operates in accordance with the Land Use Act 1979. Mining operations override any other functional use for the land in question.

2012 - PETROLEUM INDUSTRY BILL
- The Petroleum Industry Bill is an omnibus legislation that seeks to regulate all the activities in the oil and gas industry in Nigeria. It passed into law it repeals some of the existing laws in the industry and absorbs the others.
WHY P.I.B?

+ Improve transparency and competitiveness
+ Address licences and existing agreements
+ Improve existing fiscal regime to boost government revenues
+ Restructuring the NNPC

STAKEHOLDERS LINKED TO PIB

CONTENIOUS ISSUES

10%
Host Community Fund sourced from oil companies operating onshore - what happens to offshore operators?

3
Successor companies created out of NNPC - more bureaucracy?

Allowing the acceptance of gifts – legalizing "petronage"?

Levels of transparency and conflict of interests

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LICENCES

The DPR\textsuperscript{3} (Department of the Ministry of Petroleum Resources) is responsible for processing applications for licenses and supervision of all operations carried out under licences and leases - essentially upstream operations related to petroleum reserves, technical viability of production and exports of crude oil, gas and condensates, in addition to licences and leases.

Ownership of oil blocks and mining licences allows the holder to prospect (OPL) or mine oil fields (OML) in Nigeria. Licencing rounds occur without any regular pattern, the most recent was in 2005/2006.
Discrepancies exist regarding the number of oil fields allocated between 2011 and 2013. As at April 2013, DPR placed the total number of oil blocks in Nigeria at 388, out of which 173 have been awarded - 90 to indigenous companies and 83 to IOCs. The remaining 215 are yet to be awarded.

According to Deep Prospects Concession Maps 2011, 89 oil fields are owned by IOCs while local and independent operators own 51 fields. 114 are yet to be allocated.

Indigenous oil companies include Summit Oil International Ltd (OPL 205), Sahara Energy Field Limited (OPL 274,286,284), and Peak Petroleum Industries Nigeria Limited (OML 122).
AGREEMENTS

Agreements preserve the contractual framework within which the NNPC on behalf of the Nigerian government and the IOCs conduct operations in the industry. These include the Joint Operating Agreement (JOA), Production Sharing Contract (PSC) and Service Contract (SC).

The development of these contractual agreements reflects the readiness of the Nigerian government to respond to trends in the global oil and gas industry as well as tackle inherent problems emanating in previous arrangements. For instance, the PSC is responsible for fears expressed over the JV, particularly as the nation was opening the frontier areas such as the Inland Basins and Deep/Ultra Deep Waters.

1. Joint Operating Agreements (JOA)

The JOA is the basic, standard agreement between the NNPC and operators. It establishes guidelines for running upstream operations.

Joint Ventures

In a Nigerian petroleum joint venture, two or more oil companies enter into an agreement for joint development of oil prospecting licences or oil mining leases (OMLs) and facilities.

Each partner in the joint venture contributes to the costs and shares the benefits or losses of the operations in accordance with its proportionate equity interest in the venture. Each joint venture (JV) operates under a JOA with the NNPC and a Memorandum of Understanding (MOU) with the Federal Government. NNPC operates seven joint venture partnerships with oil companies. Below are some of the details and equity stakes:
Modelled after partnership agreements, the JOA operates as a joint venture partnership, where the participation percentage of each of the partners is spelt out in the Agreement. The NNPC represents the interest of the Nigerian government in the joint ventures (JV). JV partners are expected to back their participation percentages in the agreement by contributing an equivalent share to the production costs. Nigeria is currently phasing out this type of upstream agreement in favor of the PSC.

**THE MOU**

The fiscal terms (allocation of proceeds) of the JV agreement are outlined in and regulated by a Memorandum of Understanding (MOU) signed between the JV parties and the Federal Government. The MOU was introduced in 1986 in response to falling oil prices and global oil glut. It contains incentives for IOCs to develop and grow the oil business in Nigeria. The MOU was revised in 1991 and 2000.

**JOINT VENTURE FISCAL PROFILE**

**JV PARTIES**
Allocated according to participation percentage

**INTERNATIONAL OIL COMPANIES**

**OPERATOR**

**PROFITS**

**PETROLEUM PROFIT TAX**

**GUARANTEED MARGIN**

**ALLOWANCES**

**LEGAL DEDUCTIONS**

**FISCAL TECHNICAL COSTS**

**ROYALTY**

**‘GOVERNMENT TAKE’**

**JV FISCALS - CONVOLUTED CALCULATIONS**

Perhaps one of the biggest challenges for fiscal transparency and accountability with JV revenues is the complexity of the terms. The MOU also applies several layers of incentives and introduces several versions of the same factors. For instance, “realizable price” and “posted price” of petroleum products refer to different assessments of the same thing. Considering the sheer volume of transactions and the lack of accounting automation, this is imaginably difficult to regulate and leads to several versions of “the truth.”
2. Production Sharing Contract (PSC)

The PSC is an agreement put in place in response to funding problems faced by the old Joint Venture arrangement and the desire of the Nigerian government to open up the sector for more foreign participation.

The PSC arrangement governs the understanding between the NNPC and all new participants in the new inland deep & ultra-deep-water acreages. Currently, Statoil, Snepco, Esso, Elf, Nigerian Agip Exploration Limited, Addax, Conoco and Petrobas, Star Deep Water, Chevron, Oranto Philips are operating the PSC in the country. Its main features are iterated below;
3. Service Contract (SC)

Under the SC arrangement, the OPL title is held by the NNPC. Just like the PSC, the operator is designated as the Service Contractor, providing all funds required for exploration and production works. In the event of a commercial find, the contractor’s costs are recouped in line with procedures spelled out in the contract.

One major difference between the SC and PSC is that SC covers only the OPL in question while the PSC may span two or more OPLs at a time. Also, the SC covers a fixed period of five years and should efforts not result in commercial discovery, the contract automatically terminates.

Under the SC, exploration and development costs are paid in instalments over a period of time and the contractor has no title to the crude oil produced, although he may be allowed the option to accept reimbursement and remuneration in oil.

As an incentive for the risk taken, the contractor has the first option to purchase a certain fixed quantity of crude oil produced from the SC area. Only Agip Energy and Natural Resources (AENR) operate the SC in Nigeria.

Other types of agreement exist amongst independent oil companies. Famfa Oil for example is an indigenous oil company awarded leasehold rights to OPL 216. It entered into a Farm-in Agreement with Star Deep Water Petroleum Limited, a subsidiary of Chevron Texaco Inc., to facilitate exploration and production.
BIG DATA, BIG DISCREPANCIES

Most available oil industry data is either provided quarterly, monthly or annually in the form of estimates. It is difficult to find two sources reporting the same information even within the country. Differences can be due to methods of reporting but most times they remain unexplained. To highlight some of the discrepancies, a comparison of production, exports and royalty payment data is presented below:

WHO TO BELIEVE?

AN INFOGRAPHIC REPORT HIGHLIGHTS SOME DATA DISCREPANCIES BETWEEN DIFFERENT SOURCES OF DATA ON NIGERIA’S OIL SECTOR

BACKGROUND

There are several sources of yearly and monthly data for Nigeria’s oil and gas sector. This infographic report has isolated a few domestic and international sources for comparison for the same kind of data. The period covered for production and export data is October 2007 to October 2012, whereas revenue data analysis covers fiscal years from 2006 to 2011.

DATA SOURCES

**CENTRAL BANK OF NIGERIA**

The CBN in the discharge of its statutory responsibilities publishes monthly figures for crude production and export in the “data and statistics” section of its website. **CBN data used is current up to October 2012**

**ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES**

OPEC publishes monthly market reports and annual bulletins which contain production data for OPEC countries within the reporting period. **OPEC data used is current up to February 2013**

**JOINT ORGANIZATIONS DATA INITIATIVE (JODI)**

JODI Oil maintains a database covering 7 product categories and 8 flows consisting of data gathered from over 90 members countries and organizations. These include producer and consumer nations as well as stakeholders like IEA, EUROSTAT, OPEC, APEC, OLADE and UNSD. **JODI data used is current up to February 2013**

**NEITI - NIGERIAN EXtractive INDUSTRIES TRANSPARENCY INITIATIVE**

NEITI is the Nigerian subset of a global initiative aimed at following due process and achieving transparency in payments by Extractive Industry (EI) companies to governments and government-linked entities. NEITI publishes tri-annual audit reports on Nigeria’s oil revenues. **NEITI data used is current up to December 2011.**
Three sources have been selected for comparison for data on Nigeria's oil production. Central Bank of Nigeria (CBN), OPEC and the Joint Organization Data Initiative report monthly on daily production averages for Nigeria.

MONTHLY PRODUCTION AVERAGES:
OCT. 2007 - OCT. 2012

HIGHLIGHTS BETWEEN OCT. 2007 & OCT. 2012
Although exact figures differed, sometimes significantly, JODI data and CBN data followed the same trend.

HOWEVER...

OPEC DATA APPEARS TO TREND AT 12% LESS THAN THE FIGURES PROVIDED BY CBN.
OIL EXPORT DATA

Sources for oil export volume are the Joint Organizations Data Initiative and the Central Bank of Nigeria. These sources report monthly on daily average export volumes (data given in barrels per day).

MONTHLY EXPORTS
OCT. 2007 - OCT. 2012

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HIGHLIGHTS
BETWEEN OCT. 2007 & OCT. 2012

JODI REPORTS VOLUMES OF NIGERIAN OIL EXPORTED TO THE INTERNATIONAL MARKET 4.1 BILLION BARRELS WHICH IS 20% MORE EXPORTS ATTRIBUTED TO NIGERIA THAN THE 3.4 BILLION BARRELS CBN HAS BOOKED.
ROYALTY PAYMENTS

The Nigerian Extractive Industries Transparency Initiative (NEITI) conducts audits of payments made by extractive industries companies to the Federal Government. As part of the audit, it presents data about what Government claims it has received from extractive industries companies to what companies claim they have paid.

DIFFERENCES IN CLAIMS OF YEARLY ROYALTY PAYMENTS
2006 - 2011

BETWEEN 2006 AND 2011
GOVERNMENT CLAIMED IT HAD RECEIVED
APPROXIMATELY
$440m LESS
THAN COMPANIES CLAIMED THEY HAD PAID
Nigeria is ranked as having “Partial Revenue Transparency” (46.5 score) according to Revenue Watch Index\(^\text{10}\). Countries with an average score between 34 and 66 fall in the middle category and are judged to provide citizens with information regarding revenue from the extractive sector but still have gaps in specific categories of the index.

For Nigeria, these gaps exist in Natural Resource Funds and Access to Resources category, despite high compliance with EITI criteria:
✓ Rating - Good
Nigeria complied with these categories

Institutional Setting
Information on the laws, regulations and administrative rules that govern the oil, gas and mining sectors.

Sub-National Transfers
Information on the transfer of natural resource revenues from the federal level to local and sub-national governments and communities.

State-Owned Companies
Information on operation, governance and finances of oil, gas and mining companies controlled by the national government.

EITI
Status and/or progress of countries in the Extractive Industries Transparency Initiative, a voluntary standard for reporting and cross-sector cooperation.

Generation of Revenue
Information on government payments received and other revenues from all extractive activities.
**ECONOMIC OUTLOOK**

Extensive literature has pondered economic challenges faced by resource rich countries like Nigeria that focus on a single product - crude oil. The overdependence on oil resource tends to impact the economy and fiscal bearing of such countries in several ways:

- the generation of sudden wealth or “uneearned revenue”11” prompting unplanned public spending as was evident during Nigeria’s “petrodollar years”12;13;
- rent-seeking13 as a strategy for wealth creation, rendering non-oil exports such as agricultural produce relatively uncompetitive;
- concentration of economic and political power, blurring of the lines between what is public and what is private;
- increased government spending leading to a loss of fiscal control14, making it difficult to make budgetary forecasts;
- a broken social contract15 in the absence of enforceable policies.

Without reforms and the will to implement them, countries like Nigeria may continue to exist as weak states, lacking in institutional capacity and oversight,
bogged down by high levels of corruption, poverty, social instability and poor development.

In many ways, Nigeria is already experiencing most of these symptoms, but this is a topic for the second report that will explore benefits capture in light of some of the impacts of the above on various stakeholders along the value chain.
APPENDIX

REFERENCE

1 Estimated from RMAFC derivation figures to states as at March 2012, http://www.rmafc.gov.ng/Summary%20of%20Oil%20Derivation%20to%20States_February-March%202012.pdf


3 Department of Petroleum Resources (DPR) http://www.dprnigeria.com/dpr_roles.html

4 According to Director DPR, Osten Olorunsola in a news article on The Nation Newspaper http://thenationonlineng.net/new/news/licensees-to-lose-idle-oil-fields/

5 Deep Prospect, Nigeria Oil and Gas Concession Map – November 2011

6 Summit Oil website http://www.summitoilinternational.com/about_us.html
    a pioneer oil company founded in 1990 by Chief Moshood Abiola to embrace the independent indigenous upstream oil company concept, discovered the Otien Field on OPL 205 - arguably the first oil discovery ever by a private indigenous company in the Federal Republic of Nigeria.


9 Famfa Oil Website http://www.famfa.com


11 Revenue that is not linked to economic activity as it uses very little domestic factors of production such as labor, capital and enterprise.

12 The increase in oil prices attributed to the Oil Embargo in 1971, allowed OPEC countries like Nigeria to increase their production and cash in on the first oil windfall.

13 Rent seeking is when a company, organization, individual or country uses their resources to obtain an economic gain from others without reciprocating any benefits back to society through wealth creation. http://www.investopedia.com/terms/r/rentseeking.asp
14 A situation where government spends more than it can raise in the same period through taxes or by selling assets. This leads to borrowing against future oil incomes for example in addition to interest payments on the loans.

15 Government’s accountability to the people breaks off since the oil money reduces it’s reliance on earned income like taxes from the people.

16 NEITI Annual Audit Reports on http://www.neiti.org.ng/pages/about-neiti

17 Nigerian National Petroleum Corporation (NNPC) http://www.nnpcgroup.com

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31 Picture on first page - George Esiri/EPA, Source: guardian.co.uk