

AN APPRAISAL OF THE INSTITUTIONAL STRUCTURES IN THE 2008 NIGERIAN PETROLEUM BILL:

OMOWUMI O. ILEDARE, PH.D.

*PROFESSOR OF PETROLEUM ECONOMICS &
DIRECTOR ENERGY INFORMATION DIVISION*

LSU CENTER FOR ENERGY STUDIES

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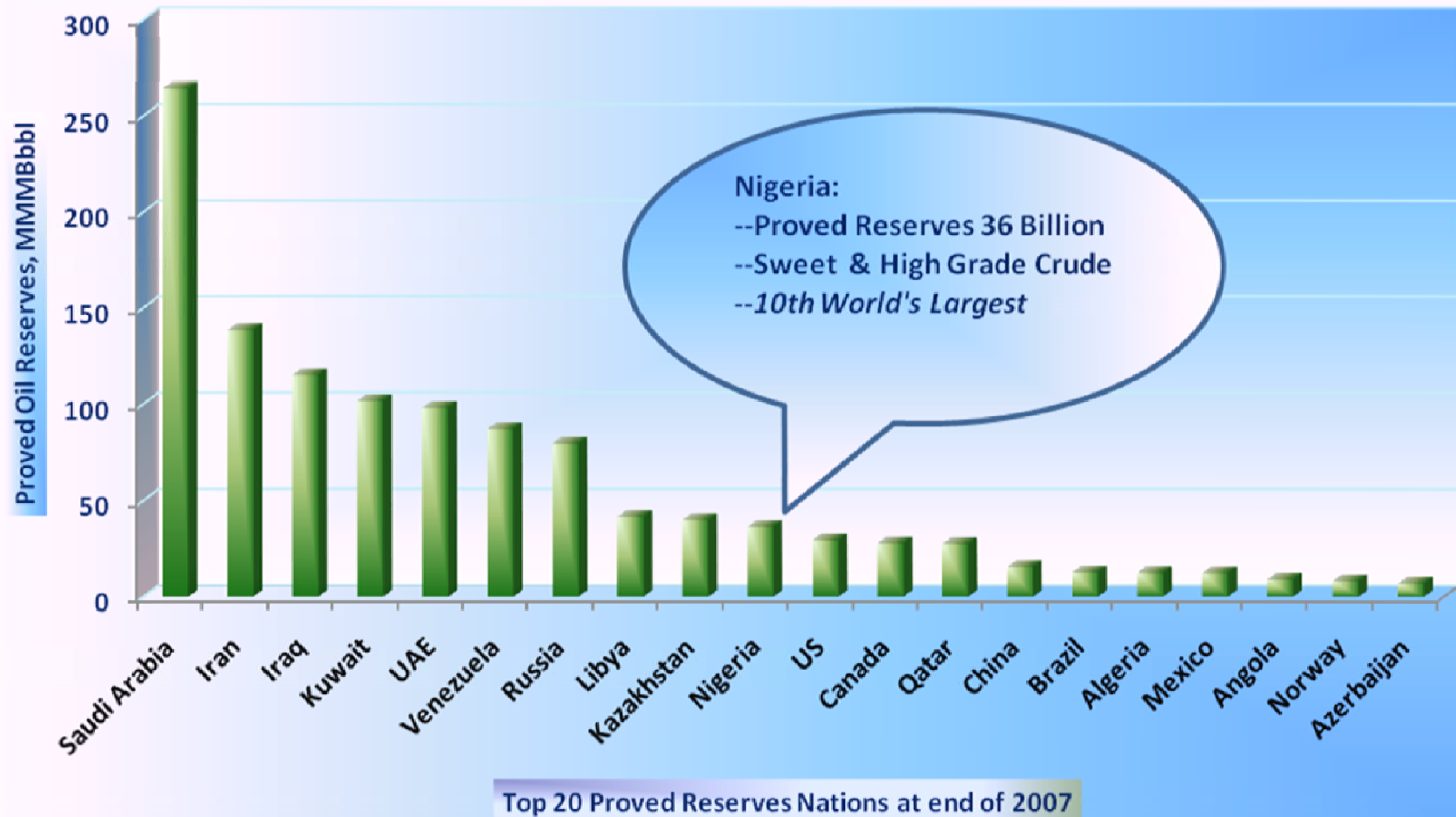
Presentation Outline

- Nigeria's Petroleum Economy: An Update
- Petroleum & the State of Nigeria's Economy
- Synopsis of the 2008 OGIC Report
- Perspectives on Institutional Structures
- Concluding Remarks and Questions

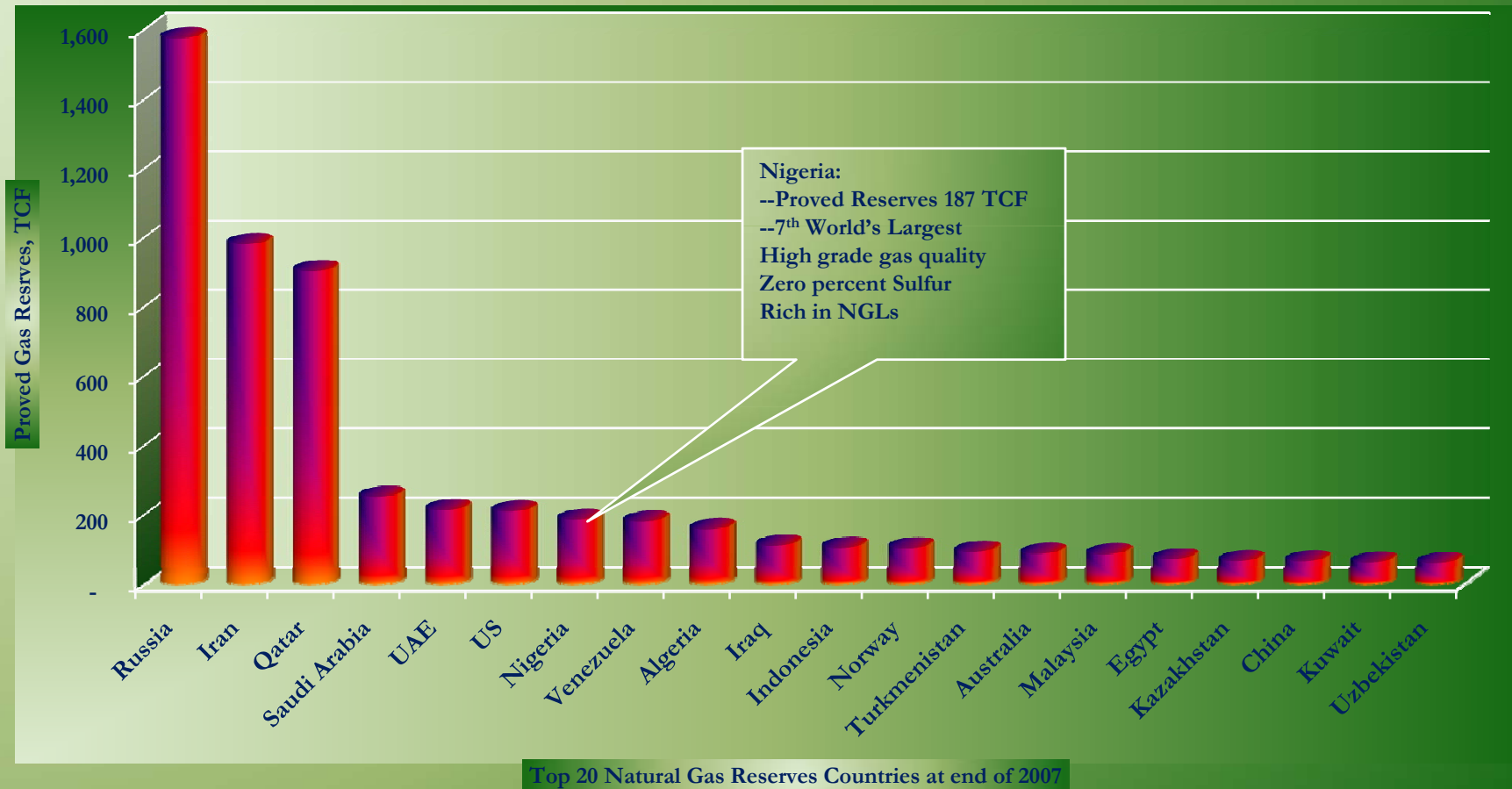
The Petroleum Industry in Nigeria

- Nigeria ranks among the top 10 nations in proved oil and natural gas reserves, worldwide.
- The largest oil producer in Africa, 6th in OPEC, previously the fifth oil supplier to the US but now the 2nd or 3rd.
- As of January 1, 2008, the estimated crude oil and natural gas reserves are 36 billion barrels and 184 trillion cubic feet (TCF).
- Nigeria wants to expand its proven oil reserves to 40.0 billion barrels and increase its production capacity to 4 million barrels per day by 2010.

Nigeria is World 10th Largest in Proved Crude Oil Reserves (www.bp.com)



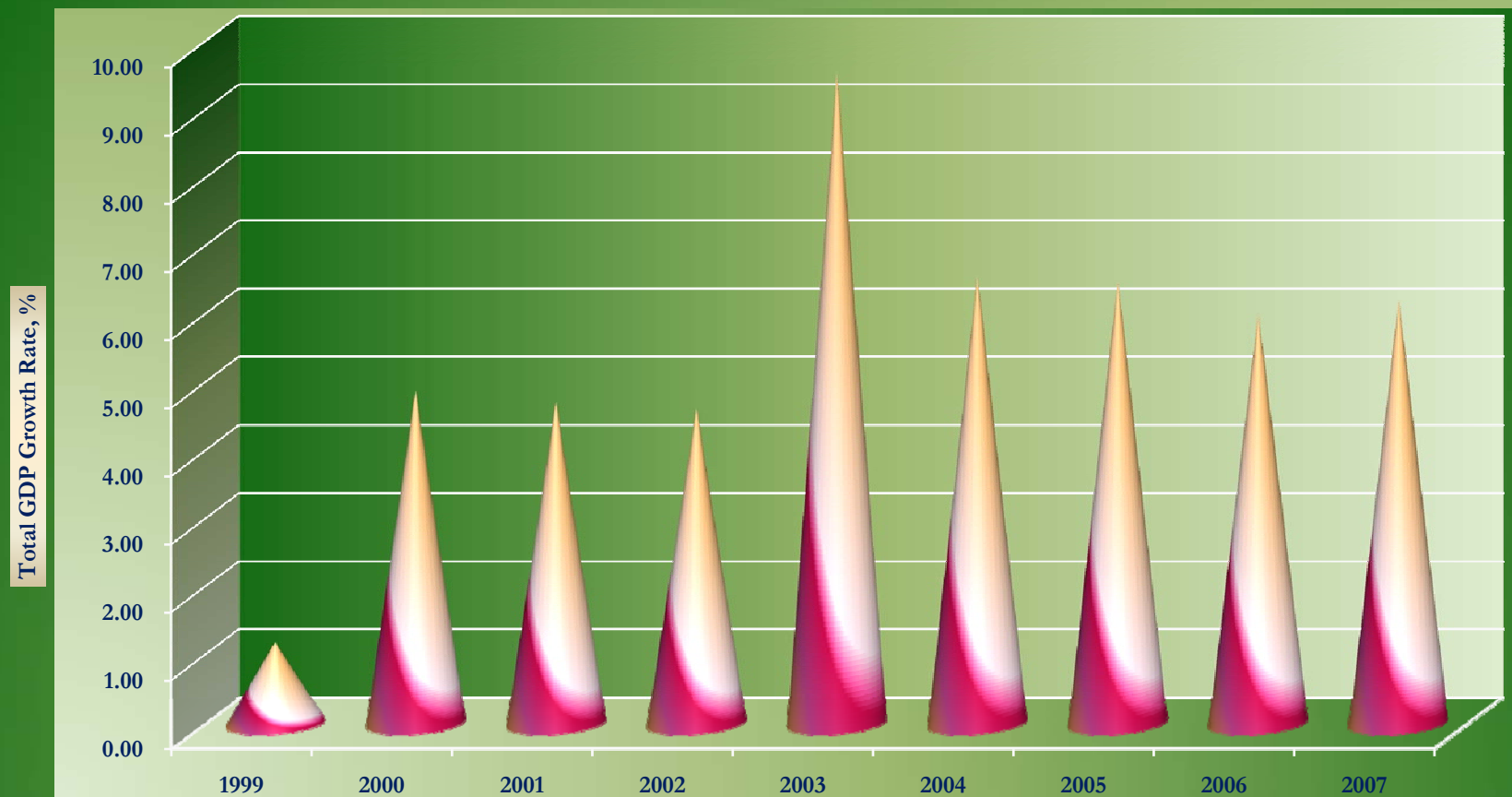
Nigeria is World 7th Largest in Proved Natural Gas Reserves (www.bp.com)



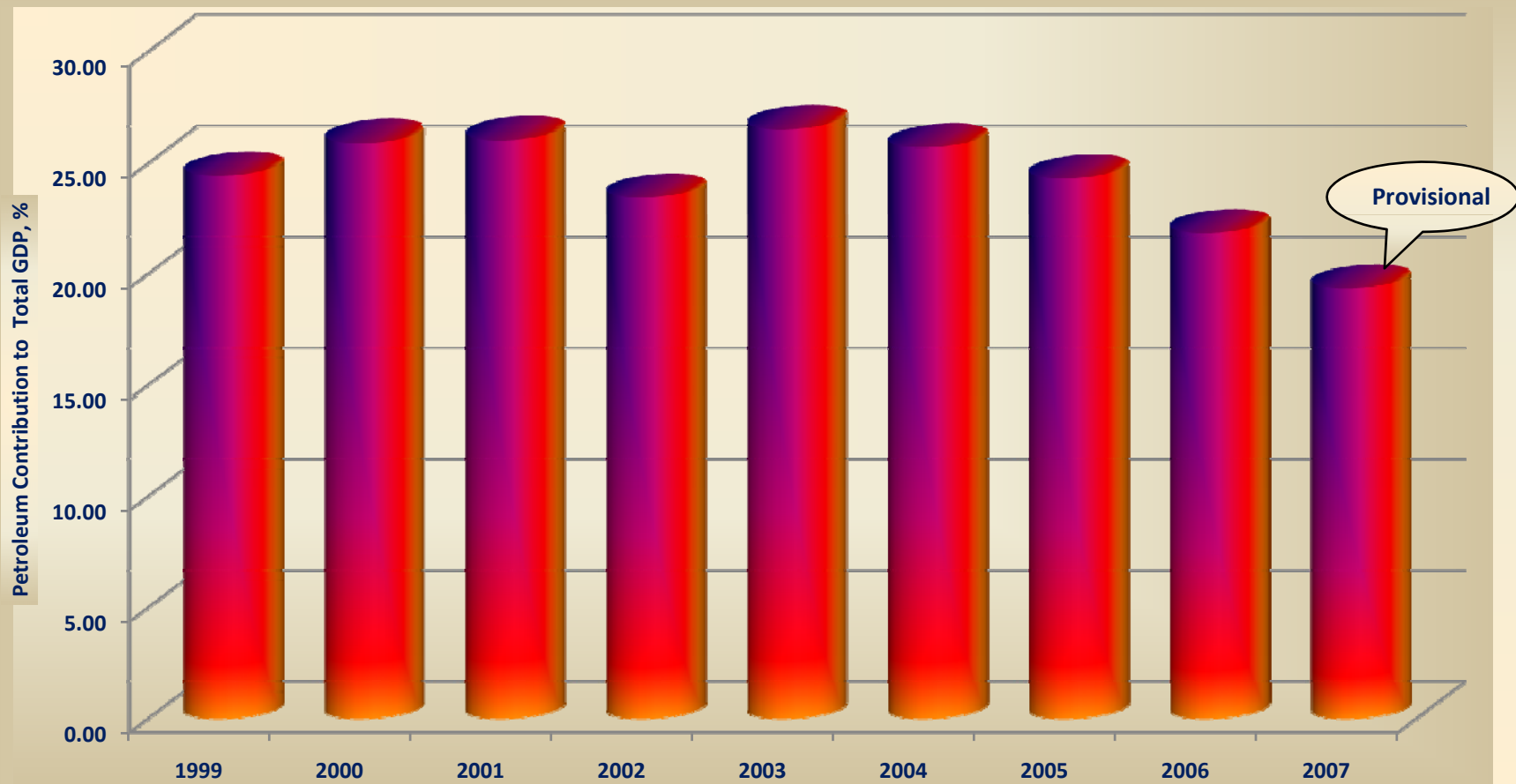
Petroleum & Nigerian Economy

- The aspiration of the Central Government in Nigeria is to be among the top 20 economies of the world by 2020.
- There is a mandate to expand the economy at about 10 - 12% growth rate in GDP .
- The dreamed expectations among stakeholders of the 2020 vision comes with significant energy demand expectations.
- Further, the engine to propel the economy to the expected end in 2020 is the oil and gas sector.

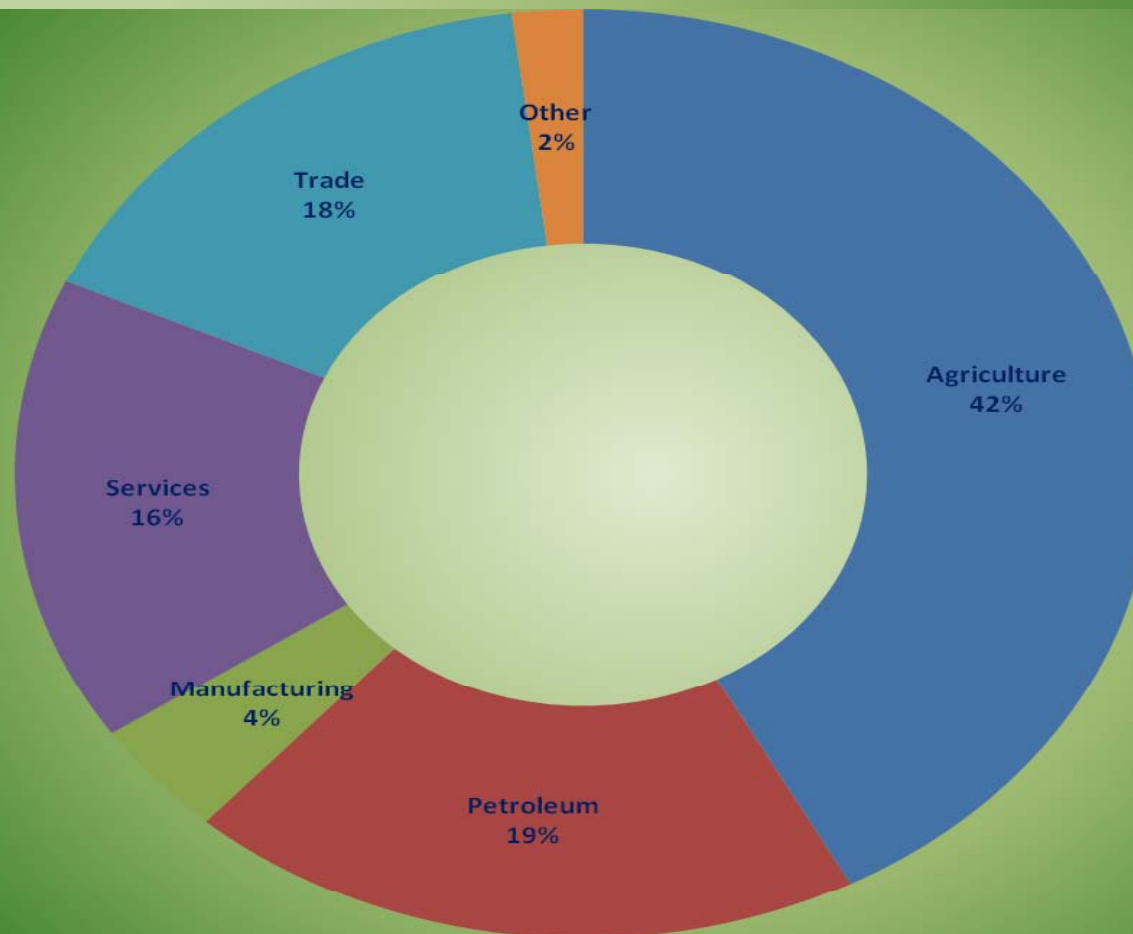
Total GDP Annual Growth Rate in Nigeria



Petroleum Sectors Contributions to Total GDP in Nigeria, 1999-2007



Sector Activity Contributions to Total GDP in Nigeria, 2007 (Provisional)



Seminal Question for Oil and Gas Reforms Implementation Committee

- How to maximize society's wellbeing using wealth derived from petroleum production from generation to generation.
- The answer depends on developing a pragmatic policy framework with serious emphasis on:
 - Managing revenue flows and expectations
 - Creating linkages with non-petroleum sectors
 - Expanding local capacity and infrastructure
 - Advancing human capacity and development
 - Advancing technology, managerial skills and entrepreneurship

Apparent ineptness in the oil and gas sector in Nigeria since first oil motivated...

- President Obasanjo inaugurated the first OGIC in 2000
- He received the first OGIC report in 2003
- Developed from the Report a comprehensive National Oil and Gas Policy (NOGP) in 2004.
- Posterity will judge whether the former president really wanted to do anything.
- President Yar'Adua inaugurated a new OGIC in 2007 with a mandate for it to transform the broad provisions in the NOGP into legal and practical institutional framework to fuel government aspiration for Nigeria to be among the top 20 largest global economies by 2020.

Synopsis of the OGIC Report

- The aspect of the OGIC report that has inundated public attention is the proposed institutional structures designed to oversee the oil and gas sector in Nigeria.
- This institutional restructuring is designed to separate the commercial/operation aspects of the oil and gas sector in Nigeria from the policy-making and regulatory aspects.
- Rightly so, the OGIC reports that some of these institutions are revenue generating and others are revenue “enhancing” or “non-revenue generating” institutions.
- For many oil industry observers in Nigeria, the success of the whole exercise depends on the extent to which the institutional structures are apolitical.

Proposed Institutional Structures for Managing OGS in Nigeria

- The OGIC designates NPD as the petroleum policy-making institution
- The Nigerian Petroleum Inspectorate (NPI) and the Petroleum Products Regulatory Authority (PPRA) are proposed by the OGIC as the regulatory institutions.
- The focal point of the ongoing oil and gas sector reforms in Nigeria is to reposition the Nigerian National Petroleum Company, NNPC Ltd., on a level comparable to the status of successful National Oil Corporations (NOCs) worldwide.
- The National Petroleum Assets Management Agency (NAPAMA), like NNPC Ltd., is a commercial and operational institution empowered to undertake cost/commercial regulation of the oil and gas industry.
- The NPRC shall be responsible for research and development in the petroleum industry in Nigeria.

The National Petroleum Directorate (NPD)

- The OGIC designates NPD as the petroleum policy-making institution, because the former Ministry of Petroleum Resources (MPR) was ineffective with respect to oil and gas policy initiation, formulation, and implementation.
- The ineffectiveness of MPR in its function as a policy making institution is not because of its location in a government ministry setting or lack of competent manpower, but because of a lack of institutional empowerment and the “square-peg-round-hole” bureaucracy in the central government.
- It is therefore, not surprising that over time the oil and gas industry policy initiation and implementation functions were transferred to or hijacked by the national oil company (NNPC) to the detriment of its commercial and operational responsibilities.

The National Petroleum Directorate (NPD)

- NPD's success will depend significantly on institutional empowerment, funding, and finding and putting highly skilled personnel in the key management positions.
- The terms of employment for the Director General (DG) of NPD must be legally stipulated.
- NPD management positions need not be political appointees and may be hired through open resource recruitment.
- As NPD will be tied to the Minister of Petroleum's portfolio, it would be interesting to see how the DG of NPD would react to the supervisory responsibilities of the Minister.

The National Petroleum Directorate (NPD)

- The functional relationship between the DG and the Minister of Petroleum may not necessarily be a bad thing.
 - The credibility the NPD could possibly lose in terms of political independence as a regulator, it could possibly gain as a tool of the national government to promote local content and the domestication of the oil and gas sector in Nigeria.
- The major disadvantage in this relationship may be the introduction of the old “square-peg-round-hole” bureaucracy into the arrangement.
 - Moreover, if the Minister would direct the policies and hold the purse strings, then NPD is nothing more than an extended arm of the Ministry.
- Regarding funding NPD, it is hard to reconcile the issue of taxation or surcharge without the assent of the national assembly in this era of a constitutional democracy and adherence to the rule of law.
 - This is a constitutional issue!

The Regulatory Institutional Structures

- Ambiguities in regulatory responsibilities have beclouded oil and gas operations in Nigeria over the years.
- The mandate to separate regulatory functions from commercial operations is forward looking and this should help to reduce these ambiguities.
- Thus, the Nigerian Petroleum Inspectorate (NPI) and the Petroleum Products Regulatory Authority (PPRA) are institutions proposed by the OGIC as the regulatory institutions for the upstream and the downstream sectors of the oil and gas industry in Nigeria, respectively.
- But is it necessary to have two separate institutions for the task of regulating the oil and gas industry in Nigeria? I venture to say no need!
 - The OGIC proposed regulatory institutional structures need a review to avoid a spurious employment structure and excessive strain in the labor market for technically skilled workforce.

The Regulatory Institutional Structures

- The extent of NPI's strategic autonomy from the NPD, which serves as the secretariat of the Minister of Petroleum Resources, is unclear.
- The report is also silent on the relationship between the Minister and the Director General (DG) of the NPI.
- Yet, NPI's budget is approved by the MPR. He who pays the piper dictates the
- This arrangement does not portray an institutional autonomy or financial independence from the Minister of Petroleum.
 - What would it have been like if CBN were to depend on budgetary allocation from the MoF?
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Nigerian National Petroleum Company (NNPC Ltd.)

- There is no doubt that restructuring the old NNPC is the focal point of the ongoing oil and gas sector reforms in Nigeria.
- The goal is to reposition the Nigerian National Petroleum Company, NNPC Ltd., on a level comparable to the status of successful National Oil Corporations (NOCs) worldwide.
- The degree of operational and strategic autonomy of the old NNPC Ltd. from the national government in comparison to successful global NOCs is appalling.
- The OGIC report gives hope that the perpetual lack of focus of NNPC will improve as a result of the separating commercial operations from regulatory and policy-making functions.

Nigerian National Petroleum Company (NNPC Ltd.)

- On the subject of operational identity and culture of the NNPC Ltd, the recommendation by OGIC for the company to operate along the entire petroleum supply chain is appropriate.
- Further, the envisioned ownership structure would enhance its ability to function as a purely commercial and capitalized business.
- The singular action of stripping NNPC of its perceived assets would make the company unattractive to domestic and international investors.
- The prescribed governance structure remains foggy in terms of the functionality of the Board of Directors with respect to professional integrity and recruitment of competent technical personnel.

Nigerian National Petroleum Company (NNPC Ltd.)

- There is also uncertainty as to the extent of the degree of operational and strategic autonomy of the NNPC Ltd. from the Minister of Petroleum Resources.
- The OGIC report is also silent on how revenue generated by NNPC Ltd. should be disbursed. This is a division of profit issue that needs some attention and it is by and large a constitutional question that needs to be addressed.
- It is foolhardy to consider gross revenue from a business entity as the basis for annual government budgeting. But, is the government willing to wait on a declared dividend from NNPC Ltd. for its annual budget?
- There is no gain without pain!

National Petroleum Assets Management Agency (NAPAMA)

- The National Petroleum Assets Management Agency (NAPAMA), like NNPC Ltd., is a commercial and operational institution empowered to undertake cost/commercial regulation of the oil and gas industry.
- It is conceived to manage all national assets and investments in exploration and production ventures to ensure maximum government returns and take statistics.
- It is paradoxical, however, for NAPAMA to monitor and control costs within the Incorporated Joint Venture (IJV) framework
- An international perception that Nigeria is nationalizing foreign assets would nip the IJV idea in the bud.

NAPAMA & IJV Questions

- The IJV concepts seek to convert all of the existing JV arrangements into autonomous commercial entities.
- Thus, how can NAPAMA monitor and control costs for the IJV companies who have autonomous boards of directors?
- If my interpretation of the OGIC report is correct, there are still some conflicting issues to elucidate in order for the proposed IJVs to be operational.
- The IJV idea is probably dead on arrival at the front steps of the International Oil Companies operating in Nigeria, not because of its illegality, but the expediency of the concept.

National Petroleum Research Center (NPRC)

- The NPRC shall be responsible for research and development in the petroleum industry in Nigeria with emphasis on upstream exploration and development.
- As with NAPAMA, NPI, and PPRA, the nucleus of NPRC shall be formed by NNPC R&D assets, yet another drain on the NNPC Ltd.
- The idea of a separate national oil and gas research center is preposterous because all the NPRC policy functions can easily be handled by several existing federal institutions.
- The Petroleum Technology Development Fund (PTDF) can easily be a conduit to promote research and capacity building in these universities.
- It is logical to speculate that NPRC as an institution like NAPAMA is an old sheep in new sheep-skin.

Concluding Remarks

- The institutional framework recommended by the OGIC, which is premised on the need to separate the commercial/operations (private sector identity) of the oil and gas sector from the policy-making and regulatory aspects (public sector administration) and to clearly assign distinct functional responsibilities in the oil and gas sector to separate institutional structures is a forward looking recommendation.
- If well discussed and implemented there could be significant benefits to the oil and gas sector in particular and value added to the national economy in general. The sturdiness of the restructuring, however, will depend on institutional empowerment in order to avert political interference in the implementation of each of the policy functions using appropriate and skilled manpower.
- The sustainability of the reform will depend on technical advancement, progress in managerial capacity development, and growth in local entrepreneurship.