

DEVELOPMENTS IN THE NIGERIAN OIL INDUSTRY

Distribution of Petroleum Products.

The beginning of the year witnessed a recurring incidence of fuel scarcity of petroleum products, particularly premium motor spirit, as had been the case in previous years. The Military regime then in power claimed that it had negotiated and awarded some major contracts to re-habilitate the nation's ailing government owned refineries, and that when completed, these would, in time, offer a long term solution to the problem of product scarcity, since this would lessen Nigeria's dependence on the importation of petroleum products.

Upon the handing over of power to a democratically elected Government in May 1999, the supply of petroleum products drastically improved, primarily as a result of the personal intervention of the new President, Olusegun Obasanjo in the management of Government parastatals involved in the product refining and distribution process. Aside from new appointments in the top management echelon of the Nigerian National Petroleum Corporation (NNPC), the President insisted upon weeding out corrupt state officials involved in the product distribution chain, e.g. at the depot level. The results were almost immediate and have remained in plentiful supply since then.

Major Petroleum Marketers have not been left out in efforts to improve local product distribution. Although their consistent requests for further upward adjustment of product pump prices have been rebuffed by Government thus far, the marketers have set up committees to combat the perennial problem of product scarcity, including the making of

recommendations to Government on how best to eliminate bottlenecks in the distribution system. Government has also authorized certain marketers to engage in direct importation, though apparently, the NNPC still plays a major part in the receipt and bulk storage of products.

Upstream sector re-organisation.

The re-organisation of the Nigerian upstream sector continues. Primary issues to be urgently addressed by Government include the funding of its interest in the existing joint ventures, primarily through prompt and regular settlement of cash-calls upon Government by its partners therein and allocation of fresh acreages (i.e. blocks) for oil exploration and development activities.

Upon resumption of office in June 1999, the new Government promptly suspended and/or revoked a series of block allocations made by the previous Government in suspicious circumstances. Licenses revoked include those granted by the outgoing administration between March and May 1999. License suspended include 11 deep water blocks allegedly awarded to top military brass in the last military administration. Also revoked or cancelled were a series of contracts and appointments made by the outgoing Military administration. A panel was thereafter set up by Government to look into the circumstances of the earlier awards and make appropriate recommendations towards streamlining the procedure for bidding and award of blocks. Per its mandate, the panel invited members of the public and specifically persons who had various grievances relating to the conduct of earlier award processes to submit comprehensive memoranda to the panel for assessment. The final recommendations of the panel are yet to be made public by Government.

With regard to foreign investment, Government's actions has forced most intending investors to defer cooperation with local block holders/licensees, for fear of ultimate evocation of their allocations by the new Government.

Gas.

The Nigeria Liquefied Natural Gas (NLNG) outfit began its test run in March 1999, and exported its first consignment of liquefied natural gas in October 1999.

E & P companies, such as Mobil and Shell are moving swiftly to take advantage of tax concessions introduced by Government over the last few years in an effort to curtail or reduce the widespread indiscriminate flaring of associated gas at the wellhead. Some gas gathering and utilization/liquefaction projects have been awarded by the E & P companies and are currently underway. Steep increases in the official penalty for flaring over the last few years have failed to appreciably reduce the incidence of flaring, as most operators still find it much cheaper to flare gas.

New legislation.

Two new Decrees affecting the upstream sector were promulgated by the outgoing Military regime in the first half of the year, i.e. the **Deep Offshore And Inland Basin Production Sharing Contract Decree no. 9 of 1999** and its amendment Decree (**Decree No. 26** of 1999). The new Decrees effectively amend existing statutes and regulations relating to deep offshore and inland basin acreages and introduce changes to fiscal regulations (e.g. taxation, royalty payments, etc.) aimed at implementing the results of extensive negotiation and discussions over time between the Nigerian Government and major players in the upstream sector.

The new Decree No. 9 stipulated autonomy for the National Petroleum Investment Management Services (NAPIMS), a division of the NNPC. Due to its strategic positioning the Nigerian economy, the NNPC resisted autonomy for NAPIMS on the ground that once NAPIMS was incorporated as a separate entity, it would lose its immunity and most likely become embroiled in commercial litigation, thereby severely disrupting the nation's upstream sector.

Government has clearly accepted the NNPC's viewpoint and reversed its position via the Amendment Decree No. 26.

New Guidelines For Crude Oil Lifting and Surplus Products Sales.

Government issued new guidelines relating to product lifting and surplus product lifting and surplus product sales. The new guidelines (essentially a re-hash of existing guidelines) are aimed at shutting out middlemen, by virtually eliminating any margins on Government production prices and ultimate commercial sales prices.

Aside from signing a formal lifting contract with Government, each applicant for lifting must be a globally recognized large bonafide trader with the global network or must have built an export oil refinery in Nigeria. A minimum yearly turnover of at least \$100 million is mandatory, as is the posting of a One Million Dollar (\$1,000,000) performance bond through a first class Nigerian bank under the lifting contract.

Nigerian Oil now has a new customer – Reliance Petroleum of India.

Privatization of Refineries

The Kaduna Refinery is one of the three major Government-owned parastatals scheduled for privatization by the federal

Government. Government has also given notice of its intention to partially privatize its three other wholly Government-owned refineries (Warri, Port-Harcourt and new Port-Harcourt) later on in the year.

Oil and Gas Conferences

Two major oil & gas conferences and seminars are scheduled to hold in the Federal Capital, Abuja and Lagos during the last few months of the year. Both conferences are to be attended by both local and international audiences. The promoters of these events have given notice of their intention to make both conferences yearly events of significance to the international oil and gas industry.

NNPC, Others Seek Capital Marketing Funding

The NNPC and other E & P companies are turning to the Nigerian capital market in their efforts to source funds for upstream development activities. This is taking place against a background of implementation of budgetary austerity measures by joint venture operating companies, in an effort to moderate the financial difficulties they are currently experiencing, due to Government's inability to honour its cash calls obligations towards the joint ventures.

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