

Petroleum Sector Reform

The Problem

The petroleum sector has been a major driver of the Nigerian economy for several decades now. Its dominance is overwhelming as more than 95% of export earnings and about 85% of government revenue came from oil and gas. Since the introduction of the Structural Adjustment Programme (SAP) in 1986, this sector has remained a controversial focus of one reform or the other. It has faced daunting challenges, which attracted the attention of successive regimes with one reform initiative or the other.

Over the years the sector has witnessed some notable recurring phenomena. First, there is a serious distortion in the marketing of major petroleum products. Secondly, gas flaring, a major challenge, stood at 24.3% in 2010 and 25.8% in 2011. Thirdly, the increasing spate of oil spillages, pipeline vandalism, and the concomitant environmental pollution, have remained major issues in the sector. Fourthly, in spite of the capital-intensive nature of the sector that makes the active involvement of the private sector inevitable, the government has remained a major player. This dominant role of the government has increased the inefficiency in the sector. More worrying was the fact that the sector witnessed significant decrease in the real GDP growth rate from 5.25% to 0.57% in 2011.

Over the years, several federal government administrations have focused their attention on the issues of the petroleum sector. Under former President Olusegun Obasanjo's administration, the first Oil and Gas Sector Reform Implementation Committee (OGIC) was inaugurated in the year 2000. This committee produced a National Oil and Gas Policy (NOGP), whose major policy thrust, was premised on the need to separate the commercial institutions in the oil and gas sector from the regulatory and policy-making institutions. Although the report was commendable, the administration did not fully implement the recommended OGIC policies to ensure the needed institutional restructuring.

In September 2007, the President Umaru Musa Yar'Adua administration reconstituted the OGIC under the chairmanship of Dr Rilwanu Lukman. This new OGIC was saddled with the responsibility to transform the broad provisions of the national oil and gas policy (NOGP) into functional institutional structures that are legal and practical for the effective management of the oil and gas sector in Nigeria. Basically, the duty of the new commission was to help restructure the petroleum industry that will help propel the economy.

It is against this background that the renewed effort to reform the petroleum sector under the Transformation Agenda can be appreciated. This effort focuses on both the upstream and downstream sectors of the industry.

Reform Actions

The President Olusegun Obasanjo administration inherited a petroleum sector that depended on imported refined products to meet the local demand. The majority of the nation's refineries were operating very well below the operational capacity. In addition, distribution of the petroleum products was characterised by huge wastages arising from multiple ruptures in pipeline systems. As a result, many of the depots lacked products to deliver to the markets. Indeed, prior to the Obasanjo administration, the petroleum sector was marked by dilapidated petrol-related infrastructure, which hampered further growth. That administration, however, succeeded in deregulating the sector by opening up the

space for private Nigerian companies to participate, especially in the importation, supply and distribution of petroleum products. This policy of deregulation led to the creation of thousands of jobs for citizens in the country. Unfortunately, since then and despite the deregulation of the sector intended to increase local participation and enhance competition in the sector, the prices of petroleum products have risen steadily, leading to an increase in the cost of living and a fall in the standard of living for the masses.

Under the Obasanjo administration, the government also divested its interests in the downstream marketing sector, giving more space for the indigenous companies to participate. Although the government spent over US\$700 million in the rehabilitation of refineries and other related infrastructure, the building of new refineries to cater for the increasing needs of the Nigerian petroleum market was not done. Supply gaps still had to be filled through the importation of refined products, which made up a whopping 60% of total supply to the domestic market.

Also, the Obasanjo administration embarked on the gas monetisation and commercialisation policy that sought to significantly reduce the amount of gas being flared in the country. This policy led to the reduction of associated gas flaring from about 75% in the year 2000 to less than 40% presently.

Nigeria's premier liquefied natural gas plant (NLNG) that commenced production in October 1999 with two trains has since increased the number of trains to eight with the fifth already producing, and the sixth, seventh, and eight scheduled to come on stream before the close of the decade. Under the Jonathan administration, several other LNG plants have also left the drawing board and are at various stages of implementation.

Another major policy thrust of the civilian administrations was the local content policy that sought to increase the participation of citizens and indigenous firms in the production process in order for them to benefit from of the proceeds of the petroleum sector.

The key reform documents in the petroleum sector are the:

1. Petroleum Industry Bill (PIB)
2. Gas Master Plan (GMP)

Unfortunately, the PIB has been with the National Assembly for years and has been revised many times. The PIB is a reform legislation that aims to replace the existing myriad of legislative and administrative instruments governing the petroleum industry with a single omnibus legislation that establishes clear rules, procedures, and institutions for the administration of the petroleum industry in Nigeria. The PIB therefore seeks to establish a new regime of legal and regulatory framework, to create institutions and regulatory authorities for the Nigerian petroleum industry, and to establish guidelines for the operation of the upstream and downstream sectors and purposes connected with the same.

The Nigerian Gas Master Plan was developed in 2008 with the aim of making Nigeria a major player in the international gas market as well as laying a solid framework of gas infrastructure and expansion within the domestic market. The Master Plan is a guide for the commercial exploitation and management of Nigeria's gas sector. It aims at growing the Nigerian economy with gas by pursuing three key strategies: (a) stimulating the multiplier effect of gas in the domestic economy, (b) position Nigeria competitively in high value export markets, and (c) guarantee the long term energy security of Nigeria.

At present a broad consensus is lacking among major stakeholders on the major contents of the bill. This has denied the industry this important reform instrument. In recent times, the reforms in this sector have been driven by key policies that were articulated under the Transformation Agenda as presented below.

The strategic goals for the sector are:

1. Promotion of private sector investment in both upstream and downstream activities of the oil and gas industry
2. Deregulation of the industry and promotion of environmentally-friendly oil and gas exploration and exploitation methods
3. Strengthening capacity building programmes, especially in core technical areas
4. Provision of funding mechanisms for pre-bidding geosciences and surveys of deep water offshore
5. Reduction of gas flared to reduce pollution and increase revenue
6. Promotion of adequate gas supply for domestic use and power generation
7. Diversification of the mode of transportation of petroleum products – pipeline, railway, and road haulage

Key Policy Interventions

Some of the key policy interventions or reform initiatives in the petroleum sector reform are:

1. Adoption of the public private partnership (PPP) through the joint venture operations between the Nigerian National Petroleum Corporation (NNPC) and oil majors
2. Promotion of private sector investment in both the upstream and downstream activities
3. Deregulation of the industry
4. Removal of oil subsidy in the marketing of petroleum products
5. Diversification of the transportation of petroleum products
6. Increasing local content in the industry
7. The Gas monetisation and commercialisation policy

Main Achievements

Disappearance of long queues at petrol stations is a major achievement. The on-going rehabilitation of refineries is also noteworthy.

The non-passage of the PIB has reduced the efficacy of the various reform initiatives in this sector. However many programmes and projects have been delivered in line with the strategic objectives and targets articulated in the Transformation Agenda.



PTDF Sponsored Amnesty Training Programme Beneficiaries in South Africa (A focused implementation of the Amnesty Programme in the Transformation Agenda remains a bold intervention).

The investment of ₦53 billion in the downstream sector resulted in the emergence of 71 depots in 2013; and US\$450 raised via a successful Eurobond offer for the Trans-Nigerian Gas Pipeline Project.

The gas sector also benefitted from the delivery of 65 million standard cubic feet of gas per day (mmscf/d) from the Oredo Field in Oil Mining Lease (OML).

Key Challenges

1. There are still issues around transparency in the administration of the subsidy regime and accounting of revenue from oil and gas sector. Public perception is that things have not improved in the sector, as corruption is adjudged to be rife. There is no significant reduction in red tape, especially with regard to the administration of the subsidy regime, issuing of licences to importers, and the sale of oil blocks. Perhaps until the PIB is passed into law, it may be difficult to expect significant improvements in this sector. This is because several projects in the sub-sector such as the setting up of private refineries through public private partnerships have been stalled or are awaiting the passage of the Petroleum Industry Bill (PIB). The PIB would have facilitated the funding and investments in projects such as the Ajaokuta–Abuja–Kano Gas Project, Gas supply pipeline to PHCN Delta and the Obiafor-Obirkum–Oben Gas Pipeline.
2. There has been major fraud in the petrol subsidy regime and corruption in kerosene and diesel supply. Kerosene is not sold at the subsidised rate to citizens despite huge subsidy claims. Diesel is difficult to obtain at the official rate.
3. Refineries have not been functioning optimally. There are gaps in the maintenance and efficient management of the four refineries in the country, which account for the poor performance of in-country refining as well as the enforcement of the gas flaring legislation of 2004, inadequate distribution channels for LPG, and high cost of cylinders. Furthermore, vandalism of oil pipelines has adversely affected oil production.
4. Environmental pollution from gas flaring and oil spillage has continued.
5. High cost of capital, insecurity, inadequate local capacity, and non-passage of the PIB, coupled with the slow pace of compliance with environmental regulations and initiatives by the oil majors to stop gas flaring are major challenges.
6. The springing up of illegal small-scale petroleum refineries across the region is yet another major challenge facing the sector. Also there are increasing incidents of crude oil theft, which is badly affecting the nation's export earnings from this sector. The negative impact of this is unimaginably high given the nation's heavy reliance on revenue from this sector.
7. The petroleum subsidy payments have grown sharply in recent years. A loose verification system resulted in widespread fraud and facilitated smuggling to neighbouring countries.
8. Other challenges include the shortcomings of the accounting and financial management, and the lack of clarity in reporting by the NNPC.

Assessment of Reform Initiative

Judged against the 10 criteria for assessing the success of government reform initiatives, the reform in this sector has generated mixed reactions in respect of transparency and accountability. Despite some successes recorded in the supply of petroleum product for

example, public perception is that things have not improved as corruption is adjudged to be rife.

| S/No | Assessment Criteria | Result of Assessment |
|------|----------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 1 | Have the reforms improved the quality and quantity of the public services delivered? | With the construction of gas pipelines, ongoing rehabilitation of refineries and upgrades of facilities, implementation of programmes and projects, the reforms have brought about improved service delivery. |
| 2 | Do more people now have access to services, including disadvantaged groups such as women, young persons, and people with disabilities? | Even though most Nigerians have access to petrol at the official pump price of ₦97/litre, the same cannot be said of kerosene, which sells well above the official price of ₦50/litre. |
| 3 | Have the reforms reduced the cost of governance? | The reforms have not led to any appreciable reduction in the cost of governance. The cost of petroleum products subsidy and turn-around maintenance of refineries, among others, continues to constitute a drain on government's finances. |
| 4 | Have the reforms made the service more affordable for citizens? | While petrol continues to get to Nigerians at the official price, kerosene and diesel are obtainable at above the official price. The market value of kerosene and diesel is usually above the price that many people can afford. |
| 5 | Have the reforms reduced corruption? | The reforms have not led to any significant reduction in corruption. There are still issues around transparency in the administration of the subsidy regime and accounting of revenue from oil and gas sector. |
| 6 | Have the reforms reduced unnecessary bureaucracy and red tape? | There is no significant reduction in red tape especially with regard to the administration of the subsidy regime, issuing of licences to importers and sale of oil blocks. |
| 7 | Is the reform initiative likely to lead to improved development outcomes? | Until the PIB is passed into law, it may be difficult to expect significant improvements in development outcomes. |
| 8 | Are things improving, staying the same or getting worse? | The disappearance of fuel queues is a major improvement. However, there are many other areas requiring improvement. |
| 9 | Where things are improving, will those improvements endure? | Improvements in availability of fuel have endured for a few years. They are likely to be sustained if the efforts to eliminate fraud in the subsidy system are sustained. |
| 10 | Where things are not improving, what should be done? | There is a need to tackle the key challenges of the financial needs of the sector, as well as the sabotage and constant vandalisation of gas pipelines. |

Proposed Next Steps

1. The Petroleum Industry Bill (PIB) should be passed into law with no further delay. This will facilitate investments in several projects in the sector that have been stalled as a result of the non-passage of the PIB.
2. The nation's four refineries should be rehabilitated so that they can begin to function at 100% capacity. This is in preparation for their eventual privatisation to inject the requisite expertise from the private sector.
3. The problems of oil theft, pipeline vandalisation, and illegal oil bunkering should be tackled decisively in order to arrest the significant drain on the nation's resources as a result of these activities.
4. The petroleum reform and the Petroleum Technology Development Fund (PTDF) should take immediate steps to accelerate the process of acquisition and diffusion of technology and managerial expertise in the energy sector, for stability and self-reliance.
5. The Nigerian Gas Company (NGC) should implement the use of the nation's abundant energy resource to promote international cooperation.
6. There should be promotion of increased investments and developments of the energy sector industries with substantial private sector participation.
7. With the Nigerian Liquefied Natural Gas (NLNG) increasing the number of trains in producing gas, it should take positive steps in enhancing a reliable and sustainable supply of energy at appropriate costs and in an environmentally friendly manner to the various sectors of the economy for national development.