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THE NIGERIAN NATIONAL PETROLEUM CORPORATION AND THE DEVELOPMENT OF THE NIGERIAN OIL AND GAS INDUSTRY: HISTORY, STRATEGIES AND CURRENT DIRECTIONS

BY

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About the Policy Report

The Changing Role of National Oil Companies in International Energy Markets

Of world proven oil reserves of 1,148 billion barrels, approximately 77% of these resources are under the control of national oil companies (NOCs) with no equity participation by foreign, international oil companies. The Western international oil companies now control less than 10% of the world's oil and gas resource base. In terms of current world oil production, NOCs also dominate. Of the top 20 oil producing companies in the world, 14 are NOCs or newly privatized NOCs. However, many of the Western major oil companies continue to achieve a dramatically higher return on capital than NOCs of similar size and operations.

Many NOCs are in the process of reevaluating and adjusting business strategies, with substantial consequences for international oil and gas markets. Several NOCs have increasingly been jockeying for strategic resources in the Middle East, Eurasia, and Africa, in some cases knocking the Western majors out of important resource development plays. Often these emerging NOCs have close and interlocking relationships with their national governments, with geopolitical and strategic aims factored into foreign investments rather than purely commercial considerations. At home, these emerging NOCs fulfill important social and economic functions that compete for capital budgets that might otherwise be spent on more commercial reserve replacement and production activities.

The Baker Institute Policy Report on NOCs focuses on the changing strategies and behavior of NOCs and the impact NOC activities will have on the future supply, security, and pricing of oil. The goals, strategies, and behaviors of NOCs have changed over time. Understanding this transformation is important to understanding the future organization and operation of the international energy industry.

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The Nigerian National Petroleum Corporation and the Development of the Nigerian Oil and Gas Industry: History, Strategies, and Current Directions

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Introduction[1]

This study examines the history, current strategies and future prospects of the Nigerian National Petroleum Corporation (NNPC). The role assigned to the corporation has at one time or another included managing the interests of the Federal Republic of Nigeria (henceforth referred to as "the Federation") in the oil and gas industry, making input into industry policy, performing regulatory functions, and driving Nigeria's economic, industrial, and technological development, primarily through the achievement of endogenous capacities and self-reliance in all spheres of upstream and downstream operations. The corporation's overall mission is to drive Nigeria's economic and technical advancement, leveraging the country's valuable petroleum endowment.

[1] I am grateful to all those that assisted me during the research for this report, especially my NNPC and other industry respondents who took time to share their perspectives with me.

While the corporation's mission has been laudable, however, its terms of reference have been incoherent for much of its existence, and its performance uneven. Aside from its role as the bedrock of the Nigerian economy, the petroleum industry has been one of the key defining phenomena of the country's post-independence history. This fact centralizes NNPC in the Nigerian political economy, given the corporation's assigned role in the industry. Not surprisingly, therefore, the corporation's experience has been marked by struggles over what the corporation controls and over who controls it. The Nigerian political class and senior civil service have historically viewed the oil industry as too important a source of patronage—sometimes conceived as and confused with national interest–to be left in the hands of independent managers. This tendency has always had to contend with NNPC's natural desire for autonomy and with the interest of the presidency of the day in closely controlling the industry.

Yet, NNPC now has to assume additional roles dictated by a context much more complex than the one that prevailed when it came to being in the 1970s. On the domestic scene, the corporation has to deal with geopolitical realities of increasing volatility. Agitation for resource control in the oil-saturated Niger Delta region has implications for NNPC and the Nigerian oil and gas industry. It has also contributed to the volatility of the international energy market as well as shaped and new globalized notions of corporate responsibility among international oil companies (IOCs). Increased environmental critique and activism, increasing energy demands by the traditional high consumers in the West and Japan, rapidly growing consumption in the huge emerging economies of China and India, the rise of gas as the preeminent energy resource of the 21st century, and emergence of alternative fuels have been other major markers of the global scene. NNPC is currently undergoing an ambitious program of restructuring and repositioning, in recognition of past weaknesses, missteps, and failures, and to confront present and future challenges. This study reviews the trajectories of the corporation and its plans for the future in the context of the economic, geopolitical, cultural, and international environments.

Although NNPC has performed poorly and has enormous challenges ahead of it, the corporation has a potential role to play as a catalyst of Nigeria's economic and technological progress, and as a constructive and reliable player in the global energy market. The corporation has embarked on a reform program since 2004 in an effort to meet these challenges. But this program confronts deep-seated problems both within the corporation and in the wider Nigerian milieu. The future success of NNPC will partly depend on its ability to deal with these obstacles, but some are beyond the control of the corporation. Nevertheless, the terrain of the Nigerian industry is changing rapidly.

Scholars interested in oil companies operating in Nigeria have focused on IOCs, virtually exclusively on Shell.[2] The present study is perhaps the first scholarly study focused exclusively on NNPC. The study is based on primary sources and fieldwork, as well as on news reports and industry reports, scholarly publications, and interviews with corporation and other industry sources. In the absence of scholarly literature focusing on the corporation, there is a dearth of knowledge of the political behavior of the corporation, in spite of telling probe panel reports over the years and sometimes insightful media commentaries. With several probe panel reports over the years almost never made public, evidence of corruption and mismanagement seemingly everywhere, and the sporadic polemical discourse, the dominant picture of the corporation in the

[2] See for example, Okonta and Douglas (2001); Zalik (2004); Omoweh (2005).

media and popular imagination is an arena where personalities and interest groups simply collaborate and clash over bread and butter. Consequently, struggles for autonomy and increased political influence, as seen in the case of Venezuela's PDVSA,[3] seem at first sight incongruent with NNPC.

A closer look at the evolution of the corporation and reading between the lines, however, reveal struggles for the control of the NOC.[4] The corporation's personnel were extremely meticulous in supplying carefully distilled official answers. Rarely did these officials give information that is not already in the news or illuminate the more controversial issues or anything that casts the corporation in unfavorable light. I was, however, able to garner three forms of useful information from the encounters–first, the eloquent operational details, otherwise impossible to glean from the Nigerian energy press, second, inferences from the personal career trajectories of the respective respondents (particularly those who have served in the corporation for long times), and third, ethnographic observations of the corporation's corporate culture and its day-to-day operations.

The first ethnographic observation that confronts the visitor is NNPC's extraordinary security arrangements. NNPC's offices around the country are extremely well-guarded; its group headquarters in Abuja is one of the best secured complexes in Nigeria. Maximum security is a carryover from military rule. "Oil was the mainstay of the economy and [military regimes] saw any inhibition to its flow as a breach of security," noted the 2002 commission that evaluated human rights abuses in Nigeria since

[3] See Mares and Altamirano in this case study series.
[4] Terisa Turner excellently captures the struggles between NOC and ministry officials between 1973 and 1975. See Turner (1978).

independence.[5] Extreme security has remained firmly in place after nearly eight years of democratic rule, signifying that the Obasanjo administration privileges the secrecy of NNPC no less than the military juntas. With the increased militancy of Niger Delta resource agitators in recent years, a measure of security in NNPC's offices is understandable, but the elaborate security appears to be designed more for guarding secrets than against physical attack.[6] This secretiveness is a measure of NNPC's continuing importance to the calculus of the political leadership.

Below, I start with an outline of NNPC's and industry profile. This is followed by the evolution of the public sector administration of the industry in Nigeria with particular focus on the development of the NOC. This is followed by a review of the evolution of major long-term problems confronting the NOC. The vast field of oil politics is then explored with considerable attention given to the Niger Delta crisis and its ramifications for NNPC, Nigeria, and the global industry. This is followed by a description of the ongoing repositioning exercise, highlights of its key features and preliminary assessments of some of them. Associated with repositioning has been the increasing influence of non-traditional international oil companies from China, Korea, Brazil, Indonesia, India, and Brazil, among others. The obstacles that threaten the reforms are then discussed, followed by the conclusion.

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[5] Chukwudifu Oputa, *HRVIC Report: Conclusions and Recommendations* (2002), 36.

[6] I once lost my way and strayed into the Nigerian Army strategic 2nd Mechanized Infantry Division headquarters in the southwestern city of Ibadan in 2006 which is situated at the end of what deceptively looked like a thoroughfare. The soldiers on guard at the gate good-naturedly accepted my protestations of innocence and allowed me to drive into the base and make a U-turn. It is not possible to get into the premises of any major NNPC office in this manner.

INDUSTRY AND NNPC PROFILE

Nigeria ranks as the tenth largest producer of petroleum and, as at November 2006, the sixth largest oil exporter among OPEC members.[7] The country's seven hydrocarbon bearing basins hold 35 billion barrels proven reserves of mostly sweet crude oil.[8] However, the greater share of Nigeria's hydrocarbon deposits is gas. With 184 trillion cubic feet (tcf) of sweet gas, Nigeria has the 7th largest gas reserves in the world. Gas is a relatively new dimension in the Nigerian oil and gas industry. Although associated gas was found with the first oil finds, gas was for long not found to be profitable to exploit.[9] The gas subsector was projected in 2006 shortly to form a central plank of Nigeria's economic and industrialization strategy, as well as the principal growth area for NNPC, and one of the bases for the internationalization of its operations. The country also runs a joint development zone (JDZ) with the island country of Sao Tome and Principe, bearing about 4b barrels of crude in the Bight of Biafra, but the Obasanjo government gives NNPC no role in this venture except for providing office space in the corporation's Abuja group headquarters.

Nigerian crude comes in 21 classes, including condensates, as at the second quarter of 2006 [10] but is marked internationally for its sweet crude—the Bonny Light and the Forcados. In the first quarter of 2006, Nigeria exported 198 million barrels of crude oil and received about $11.9b from an average price of $60 a barrel. Oil exports

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7 www.opec.org/home/Monthly percent20Oil percent20Market percent20Reports/2006/pdf/MR122006.pdf

8 NOGIO, (2006): 4. According to a figure attributed to the Energy Commission of Nigeria (ECN) in January 2007, Nigeria's crude oil reserves stand at over 66 billion barrels. See *Nigerian Tribune*, January 15, 2007, www.tribune.com.ng/15012007/news/news3.html. If accurate, this figure would likely change Nigeria's global ranking.

9 Funsho M. Kupolokun, *Nigeria and the Future Global Gas Market* (Houston: The James A. Baker III Institute for Public Policy, Rice University, May 2, 2006), 8. The ECN released the more conservative estimate of 159 tcf in January 2007. See *Nigerian Tribune*, January 15, 2007, www.tribune.com.ng/15012007/news/news3.html.

10 NNPC, "Table B," 2006 Second Quarter Petroleum Information, Corporate Planning Development Division, (2006b), www.nnpcgroup.com/mpi/index.php?&direction=0&order=&directory=Quarterly

accounted for about 95 percent of Nigeria's export revenues, 76 percent of all government revenues and about one-third of the country's GDP as at April 2006.[11]

In spite of massive revenues from oil, however, Nigeria (along with other Sub-Saharan African oil exporters) has not risen above the poor mass of countries in the region, and 37 percent of the population is in extreme poverty, according to IMF and World Bank sources.[12] As the overseer of the Federation's interest in the oil and gas industry, NNPC is central to Nigerian economy. The responsibilities of the corporation range from exploration and production, petroleum product marketing, engineering and data support services, training, and crude oil refining to construction and maintenance of a network of pipelines.

NNPC is an integrated oil and gas company, wholly owned by the Federation. It is a holding company with 11 wholly-owned and two partially-owned subsidiaries or corporate business units (CBUs). It also has a growing number of corporate divisions or corporate strategy units (CSUs).[13] Staff strength has shrunk drastically since 2003, when it was about 17,000, to about 9,000 in the first quarter of 2007. The corporation's revenue base derives primarily from the proceeds of a daily allotment of crude, the size of which is reviewed periodically. It stood at 44,000 b/d as at March 2006. This includes perhaps

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[11] These are World Bank figures updated in April 2006. See: http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/NIGERIAEXTN/0,,menuPK:368906~pagePK:141132~piPK:141107~theSitePK:368896,00.html

[12] For the IMF see Katz, et al. (2004): 3, and for the World Bank, see http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/AFRICAEXT/NIGERIAEXTN/0,,menuPK:368906~pagePK:141132~piPK:141107~theSitePK:368896,00.html

[13] The wholly-owned subsidiaries are Port Harcourt Refinery, Eleme Refinery, Kaduna Refinery and Petrochemical, Warri Refinery and Petrochemical, Eleme Petrochemical, the Nigerian Gas Company, PPMC, Integrated Data Services, NETCO, NPDC, Duke Oil. NNPC owns 49 percent stake in NLNG and has HYSON as a JV with Swedish trading company Vitol. The corporate divisions have swelled enormously from five in 2003 to 17 at the end of 2006, from upgrading of existing units and creation of brand new ones. The 17 divisions are Accounts, Corporate Audit, Corporate Planning & Development, Corporate Secretariat & Legal, Crude Oil Marketing, Engineering and Technology, Finance, GMD's Office, Group Medical Services, Human Resources, Information Technology, Investment, Liquefied Natural Gas, National Petroleum Investment Management Services Division (NAPIMS), Nigerian Content, Renewable Energy, and Research & Development.

the unspecified quantity of NNPC liftings, the proceeds of which NNPC uses to pay petroleum profits tax on behalf of PSC contractors and to repay loans.[14] In addition, 445,000 b/d of crude are allotted for refining in the corporation's subsidiary refineries for sale in the domestic market. The corporation pays a fixed sum for this crude, irrespective of the prevailing market price. Revenues from refined products and from crude sales represent about 90 percent of NNPC's revenues.

The corporation's major partners have been Shell, Chevron, Texaco, Mobil, Agip, Elf, and Total or their predecessor companies. At the end of 2004, these companies together produced more than 90 percent of Nigerian crude. A number of smaller indigenous companies do exploration and production operations on a sole risk basis. Since the onset of the Obasanjo administration in 1999, an increasing number of concessions have come into the hands non-Western IOCs—Chinese, Korean, Indian, Indonesian—in both upstream and downstream sectors, with NNPC rapidly contracting partnerships with the new players.

The corporation has historically been in production partnerships with major IOCs through JV agreements. The Federation (through NNPC) and the JVs contribute investment capital, proportionate to the equity distributions in specific partnerships. The funds raised by the partners are placed in escrow for financing programmed projects. In the first quarter of 2006, the Federation through NNPC held an average of 57 percent stake in upstream joint venture (JV) operations. The structure of partnership with IOCs is, however, changing, with production sharing contracts (PSCs) increasingly becoming the

[14] NEITI, "Nigerian Extractive Industry Transparency Initiative Financial Audit: Financial Flows 1999-2004 (Revision 1)," (presentation, Hart Nurse Ltd in association with S. S. Afemikhe & Co., National Stakeholder Working Group, April 10, 2006c), www.neiti.org/FARFinFlowsUpload.pdf, 41.

trend in very recent years, numbering 25 in early 2006.[15] This is in part because of NNPC's inability often to contribute its own share of investment funding, recently accentuated by shifting emphasis from onshore and shallow water to capital-intensive offshore, deepwater exploration and production. Increasing migration offshore is also a function of the vulnerability of onshore and shallow water facilities to attack by Niger Delta militants, although recent experience shows that offshore facilities are not immune to attacks. PSC output is projected to contribute 644,000 or 20 percent of expected total daily production of 3.218 mbd by 2010.[16] It accounted for about 110,000 barrels or less than 5 percent of Nigeria's daily production of 2.485 mbd in 2005, and 17,248,593 barrels or 8.8 percent of Nigeria's total production of 194,590,903 during the second quarter of 2006.[17] A new partnership arrangement, the service contract, introduced in 2000 is also expected to contribute significantly more than the 1.7 percent it contributed in 2005.[18]

One such contract, with Italian IOC Agip, was in existence as at August 2006. Unlike JVs where a single company is the operator, this service contract involves NNPC (through its E&P subsidiary) as a joint operator. The service contract differs from the PSC because investment is distributable according specific agreements, unlike the PSC where the operator assumes all of the risk. Although the service contract with Agip

[15] NOGIO, (2006): 9, 41-43.
[16] NOGIO, (2006): 33
[17] The 2005 figures are from NOGIO (2006): 33 and the percentage of 2006 figures is calculated from NNPC, (2006): 4-5. Although PSCs are often thought to be a development of recent years, the first PSC came on stream in 1973 between NNOC and Ashland (see Jedrzej, (2000):81 and Omorogbe (2001):23). Under this arrangement, NNPC engages an oil company as a contractor, to carry out exploration and, if petroleum is found, production operations in an NNPC wholly-owned acreage. The contractor undertakes the exploration risks. In the event of crude not being found, the contractor receives no compensation; if, on the other hand, crude is found, he first recoups his expenses. In addition, the contractor receives "equity oil" to guarantee return on investment, and disposes of tax oil to meet NNPC's tax and royalties obligations. The balance of the oil, if any, is shared between NNPC and the contractor. The first publicized agreement came in late 1999 between NNPC and three IOCs in regard to EA offshore field. The operator Shell agreed to foot 77.14 percent of the estimated $1b development cost, while the other partners Agip and Elf were to pay $12.86 percent and 10 percent respectively.
[18] NOGIO, (2006): 33

involves no direct fund investment on the part of NNPC, NNPC contributes technical and support personnel to the arrangement. The corporation's role as a joint operator also marks this particular arrangement from the PSC.

These changes are associated with ongoing repositioning of the corporation, a part of the Olusegun Obasanjo government's economic and energy reforms program, in which an integrated oil and gas sector is to play a key role, not simply as a foreign exchange earner as is currently the case, but as the driver of economic development through capacity building and achievement of linkages. The reforms also involve improved transparency and corporate culture, better and systematic documentation, and more openness with information, including deliberate publication of production and sales data, as well as improved communication and professionalism. The evolving multifaceted changes are bound to change the outlook of the Nigerian oil and gas industry in coming years. At the apex of the NNPC structure is the Board of Directors. Other members of the board are NNPC's CEO– the Group Managing Director (GMD); its four Group Executive Directors (GEDs,) E&P, Refineries & Petrochemicals, Finance & Accounts, and Corporate Services; and its Group General Manager (GGM) Legal Services/ Company Secretary, as well as six government appointees from outside the corporation. The board is chaired by the Minister of Petroleum Resources, and effective January 2007 by the minister of the newly created Ministry of Energy, which incorporates petroleum and all other forms of energy into a single bureaucracy.

NNPC's everyday operations centers on the GMD. The powers of the senior executives under the GMD are often limited and the extent of their powers often reflects their respective ties to political leaders higher up. Although the GMD has four GEDs as his immediate subordinates, several of the officers immediately below the GEDs—the Group General Managers (GGMs)—including those responsible for Corporate Planning and Development and of divisions created in the current restructuring process—Renewable Energy and Nigerian Content—as well as the head of the Group Public Affairs Department (GPAD) report directly to the GMD. So do the Managing Directors (MDs) of some of the subsidiaries, the Nigerian Liquefied Natural Gas Company (NLNGC), NETCO, and the Pipelines and Products Marketing Company (PPMC).

Although the heads of corporate divisions and of subsidiaries are equal in rank, one gets the impression that officials prefer to head the subsidiaries and other outstations, including the London Office, which have bigger budgets and generally far larger staff strengths, as well as offer far more autonomy than the headquarters-based corporate divisions. Among headquarters-based divisions, there is a noticeable preference for those whose heads report directly to the GMD as opposed to those that report to a GED. The 420-staff strength National Petroleum Investment Management Services Division (NAPIMS) is the only corporate division located outside the Abuja headquarters and is the biggest corporate division, with an annual budget of $15m in recent years.[19] Located in Lagos, NAPIMS manages the Federation's interest in the upstream, involving the corporation's partnerships with all operators, including NNPC's dedicated E&P subsidiary Nigeria Petroleum Development Company (NPDC). It also does frontier exploration work in regions that do not usually interest the IOCs, such as the Lake Chad basin, for the same reason that exploration in these sites constitutes too much risk for NPDC, according to NNPC sources.

[19] This figure represents the staff strength for the first half of 2006.

EVOLUTION OF NNPC AND STATE INVOLVEMENT IN OIL ADMINISTRATION

NNPC came into being in April 1977 to manage the Federation's interest in the oil industry. The Federation or any of its agencies did not have participatory interest in the industry for the 15 years after the beginning of production of commercial--quantity crude oil in Nigeria in 1956. Through the whole of the 1960s, the industry remained entirely in the hands of IOCs, with state involvement restricted to regulation (including price control on refined petroleum products in the domestic market), and to collection of fees from explorations licenses and production leases, as well as taxes and royalties on crude.

Oil companies were to finance the building and operation of refineries. Shell, the crown prince of IOCs in Nigeria, first discovered oil in 1956 and built one in Port Harcourt in 1965. The Federation's interest was the responsibility of the Ministry of Lagos Affairs from 1959 and then of the Ministry of Mines and Power effective 1963. The basis for tax assessment was the same, whether the crude was earmarked for local refining of for export. A non-discrimination clause provided that the local refinery and oil companies "not be subject to less favorable treatment than other commercial and industrial enterprises" in regard to "taxation other fiscal regulations," and to the provision of security, electricity, transportation, port and communications facilities and other essential services. The government and Shell-BP, the consortium that built and operated the first refinery, agreed to "give earnest consideration to the possibility of enabling" the government or the Nigerian public to invest in the refinery "provided a minimum response [was] anticipated."[20] The refinery thus became in principle the first investment opportunity open to the Nigerian public in the operations of oil companies, beside small-scale, independent distributors of refined products that had been around since the 1930s and the crude oil middlemen that emerged in the early 1970s. Compared to other resource owning countries, Nigerian arrangements with IOCs were relatively favorable because existing "covenants" between the Federation and the IOCs guaranteed the latter "equal to the most favorable terms accorded to any other government [in] Africa and…the Middle East."[21]

The Petroleum Act 1969 introduced two important discontinuities in participatory rights. First, it provided that only Nigerian citizens or companies incorporated in Nigeria may be granted exploration, prospecting and mining licenses.[22] Second, it reserved to the Federation a discretionary option of part ownership in all new concessions. Up to 1970, however, the only occasion where the government came close to exercising this option was a 1962 agreement whereby it reserved the right to take 33.3 percent stake in Agip at a time of the government's choosing.[23] The government did not, however, exercise this option and it did not acquire any stake in any oil company until the early 1970s.

Indeed, an indigenous petroleum industry appeared promising in the early 1970s. Although a foreign-owned industry in the hands of IOCs yielded handsome economic rents, production depended on the calculations of overseas-based corporate headquarters. The industry had limited impact on the economy, in terms of domestic factor input, reinvestment, and other linkages. Successful government participation was deemed

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[20] Federation of Nigeria. *Establishment of Oil Refinery in Nigeria. Sessional Paper, No. 5 of 1960* (Lagos: Federal Government Printer, 1960), 2,3,4,6.
[21] Atsegbua, (1999): 62
[22] Yinka Omorogbe, *Oil and Gas Law in Nigeria* (Lagos: Malthouse Press Limited, 2001), 20.
[23] Scott R. Pearson, *Petroleum and the Nigerian Economy* (Stanford, California: Stanford University Press, 1970), 162; Jedrzej, (2000):30.

necessary to "play a large role in determining the extent of future economic gains from petroleum." It was likely that anticipated increased dependence of the Federation on payments by IOCs would give the latter "an opportunity for great political leverage" in the future.[24] Shell showed an early sign of IOC muscle when it supplied gasoline to secessionist Biafra during the civil war, despite Nigerian government's disapproval.[25] Besides, it seems to have been widely suspected that the royalty and sales tax payments the IOCs made to the government were based on "posted" prices were "below realized market value."[26] There was also a feeling that renegotiation of terms with IOCs was integral to decolonization.[27] From the Nigerian perspective, therefore, the argument for changing the status quo appeared unassailable in the early 1970s.

The expansion of oil production and an improving world market for crude that accompanied the end of the civil war (1967-70) not only ameliorated Nigeria's balance of payment problems but also weighed in favor of enhanced government oversight. Twelve concessionaires appeared in the *Oil Concession Map of Nigeria* of March 1970,[28] although there were likely more,[29] indicating how fast the system was expanding. The hydrocarbon section of the Ministry of Mines and Power was upgraded as the Department of Petroleum Resources (DPR) in 1970, in response to the need for a specialized regulatory agency to tackle these changes.

The government went beyond sheer oversight functions to direct participation in the industry with the Federation's first acquiring equity interest in the industry in 1971.

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[24] Pearson, *Petroleum and the Nigerian Economy*, 153-56, 158, 161.
[25] See Zalik, (2004):407-08
[26] Augustine A. Ikein, *The Impact of Oil on a Developing Country: The Case of Nigeria* (New York: Praeger, 1990), 5,6.
[27] Lawrence Atsegbua, "The Development and Acquisition of Oil Licenses and Leases in Nigeria." *OPEC Review* 23, no. 1 (1999): 62.
[28] Department of Petroleum Resources. *Oil Concession Map of Nigeria, Nigeria* (Federal Surveys, 1971).
[29] Another source puts the number of concessionaires about the same period as seventeen. See Nigeriabusinessinfo (2001).

The immediate reason for this development was Nigeria's entry into OPEC that year; OPEC required member states to nationalize the oil industry. More far-reaching than that, Nigeria, in fact, came up with a sweeping, economy-wide nationalization program, requiring all investment in the economy to have a minimum of 60 percent Nigerian equity participation. The Federation began to acquire participatory interest in the operation of and assets in the IOCs. That same year, the first NOC and NNPC's precursor, the Nigerian National Oil Company (NNOC), was established to manage the Federation's majority stake in the oil industry, to exploration, facilities construction and the marketing of the Federation's programmed equity crude. The dearth of the requisite technology and capital compelled NNOC to enter into mostly JV agreements with the operating IOCs.

In theory, the creation of NNOC as a separate entity from DPR was a logical arrangement, with a clear separation between the regulator and the NOC. The subordination within the civil service structure of both institutions to the Ministry of Mines and power, however, undermined this prospect. The ministry's powerful permanent secretary, Philip Asiodu, who had no background in oil or energy, was designated chairman of NNOC, from which position he lorded it over, routinely overruling, the professionals in the NOC and DPR. He ostensibly reported, often to the last detail, to the minister of Mines and Power, who himself reported in detail to the military ruler Yakubu Gowan (1966-75), who ultimately set Nigeria's crude prices, but in actual fact Asiodu ran the oil industry single-handedly. This arrangement was inefficient, so much so that Nigeria not only failed to take advantage of the crude oil market crisis of 1973-74, but also was losing customers fast. Professionals in NNOC set prices for Nigerian crude using OPEC formula, but these prices were routinely revised downward by senior civil servants in the ministry. The same ministry officials did not allow NOC professionals "to develop oil related activities within the corporation which was becoming a shell without function."[30]

The new military regime of Murtala Muhammed (1975-76) in 1975 set up a panel to review the situation and to suggest efficient ways for marketing Nigeria's crude. That same year, the Ministry of Petroleum Resources was established and NNOC was accordingly transferred to it. The panel that probed the mismanagement of the oil industry in 1975-76 described Nigeria's oil resources as a "wasting asset," and among other things recommended the reorganization of NNOC and the exclusion of ministry's representatives from the board from the reorganized NOC.[31] Clearly, NNOC had failed the nation.

Based on the revelations and recommendations of the panel, the Olusegun Obasanjo military regime (1976-79) in 1977 replaced NNOC and the Ministry of Petroleum Resources and Energy with NNPC. With this measure, the newly formed NNPC assumed the powers and responsibilities of the NOC, the regulator (DPR) and the ministry and policy formulator and coordinator, in addition to the new responsibility for refining crude. Even though erstwhile minister Muhammadu Buhari became the first NNPC chairman, the folding of the ministry would have signaled to the NNPC management that the corporation was on the same level with a ministry in the political hierarchy. The transfer of the Ministry (and, indeed, DPR) to NNPC would seem as a resolution, in favor of the NOC, of the frequent conflicts that raged between the Ministry

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[30] Terisa Turner, "Commercial Capitalism and the 1975 Coup" in *Soldiers and Oil: The Political Transformation of Nigeria* ed. Keith Panter-Brick (London: Frank Cass, 1978), 185-86.
[31] Federal Republic of Nigeria, *Report of the Panel on Nigerian Crude Oil Production and Marketing Policies* (Lagos, unpublished, March 1976).

and NOC. The perceived triumph of the NOC over the ministry in the power struggle still looms large in the institutional memory of NNPC and seems to explain why the NNPC leadership virtually ignored the government appointed board in the late 1970s, leading to serious friction between management and board that reached crisis proportions in 1980.

Despite its relative autonomy in those early years, NNPC was hopelessly inept. In the wake of allegations of massive fraud, including an improper withdrawal of more than $4b from the corporation's accounts in the late 1970s, the newly elected President Shehu Shagari (1979-83) in March 1980 instituted a tribunal to probe allegations. Although the panel found the $4b scam to be baseless, the president found enough reasons in the tribunal's report to sack the corporation board and senior management. NNPC's oversight and regulatory role over the industry was virtually non-existent, due to a combination of low capacity, sheer inaction, and simply a proclivity of the corporation to break the law. Agreements with IOCs lay around for years without ratification, and the IOCs often acted as if the corporation never existed. NNPC's accounting system was an unmitigated shambles; the corporation had never prepared and submitted audited accounts. The industry under NNPC up to 1980 was so dismal that the tribunal—even with its full judicial powers to subpoena witnesses and information—could not reconcile crude oil production and sales figures from the various arms of government. The panel recommended the pruning of the power of NNPC and the streamlining of its operation for increased efficiency.[32] The limitation of the panel is underlined by the tribunal's failure to summon Generals Obasanjo and Muhammadu Buhari, who as national ruler, and oil minister NNPC chairman respectively "supervised the NNPC and controlled oil sales

[32] See Federal Republic of Nigeria, *Views of the Government of the Federation on the Report of the Crude Oil Sales Tribunal* (Apapa, Lagos: Federal Government Press, 1980).

during the period in question."[33] The findings of the inquiry nevertheless refocused attention to what degree of autonomy was desirable for the NOC.

Change did not happen quickly. Shagari's cautious approach ensured nothing far-reaching happened before the military returned to power December 31, 1983 under Buhari's leadership; however, the panel's recommendations probably informed the new regime's move to re-impose oversight with the restoration of the Ministry of Petroleum Resources and Energy during the mid-1980s. Despite restoring the Ministry of Petroleum Resources and Energy, the Buhari junta (1983-85) was more interested in instilling discipline and probity, a program it pursued with vigor and significant success, than in restructuring. Despite increased oversight, the corporation retained its formal regulatory unit, the Petroleum Inspectorate, and it remained unwieldy, amorphous, and over-centralized to the office of the managing director.

Unprecedented change in, and internal restructuring of, NNPC marked the Babangida presidency (1985-93). First, the regime restructured the corporation into five "semi-autonomous" sectors: Oil and Gas, Refineries and Petrochemicals, Pipelines and Products Marketing, and the Petroleum Inspectorate, each headed by a coordinator who reported to the corporation's managing director. This measure made for organizational clarity and closer supervision not possible under previous arrangements. Also, the regime decided to commercialize NNPC in 1988, in recognition of the corporation's wasteful orientation, insisting on NNPC having majority stake and management control of the NLNG JV which materialized in this era.[34] Perhaps, the most salient element of the commercialization exercise were the transformation of NNPC into a holding company

[33] Jedrzej, (2000): 41.
[34] Apparently, the LNG project was conceived originally in the 1960s. *(Petroleum Intelligence Unit*, July 1-15, 1997, 5). Construction however began during the Obasanjo junta of the second half of the 1970s. See Turner, (1978): 192.

with twelve subsidiary limited liability companies, the creation of NAPIMS as an NNPC division to manage the Federation's investment interest in the industry, and the transfer of the regulatory Petroleum Inspectorate to the Ministry of Petroleum Resources.

These measures, especially the separation of the regulator from the NOC, underlined the regime's commitment to bringing clarity to the industry. In an unprecedented and as yet unmatched move, petroleum minister Jibril Aminu in late 1991 removed the minister (himself) as chair of NNPC group board and appointed a private citizen in an effort to minimize government intervention in the corporation.[35] In doing this, Aminu sacrificed part of his own authority over petroleum administration, no mean feat in Nigeria. Without a doubt, the regime introduced clarity into NNPC's functions and in the industry at large, as well as went far in granting autonomy to the corporation.

Another landmark was the pursuit of privatization and the opening of the industry to the Nigerian public. Although statutory provisions had allowed for indigenous participation in all spheres of the industry in the context of private enterprise since the 1960s, private Nigerian participation had been limited to small-scale distribution of refined products. The Babangida regime opened up the upstream sector to private indigenous companies, starting with the first public bidding for oil blocks in October 1990.[36] This was also the first regime to consider privatizing the refineries as a way to resolve fuel scarcity.[37] Toward its end, the regime established Oil Mineral Producing Areas Development Commission (OMPADEC) to channel development resources to the Niger Delta in atonement for decades of neglect. While orchestrating structural reforms

[35] The first appointee was Gilbert Chikelu, who left his position as the director general of the petroleum ministry. *Platt's Oilgram News*, December 23, 1991.
[36] *Platt's Oilgram News*, June 9, 1992.
[37] *Platt's Oilgram News*, October, 1992.

and organizational improvements, however, the regime showed no discernible interest in checking corruption in the industry or any sector for that matter. Instead, NNPC and the highest echelon of the regime were fingered in messy petroleum deals.[38] The regime's attitude to corruption undermined the reforms, and NNPC continued to struggle.

Attempts by the succeeding Ernest Shonekan interim government in 1993 to extend the reforms were to be short-lived, but the government's anticorruption campaign uncovered one of the largest NNPC scams to enter the public domain. NNPC GMD Daukoru and five other senior officials of the corporation were charged for paying $41m for fraudulent strategic petroleum storage infrastructure.[39] The Babangida-era move to increase the independence of NNPC became a casualty of the interim government's anticorruption war when petroleum minister Don Etiebet sacked boards of NNPC group and its subsidiaries as a result of this scam, thus dispensing of independent boards carefully nurtured by Aminu. The interim government also pushed privatization further, putting the refineries at the first line of its implementation,[40] but the government was overthrown before it settled down.

The Abacha junta's (1993-98) disregard of recommendations for reorganization or otherwise privatization of the refineries submitted to it in September 1993 by some of its members signaled the regime's desire to maintain the status quo.[41] Petroleum minister Dan Etete (1995-98) firmly reasserted the ministry's authority on both the NOC and IOCs, and, in the context of the absence of a director's board for NNPC, put government interference virtually back to the level it was during the days of NNPC's precursor

[38] *Financial Times*, November 3, 1993.
[39] *Financial Times*, November 3, 1993.
[40] It also restructured the NLNG and gave the foreign JV partners management control and a combined equity of 51 percent, with NNPC retaining the remaining 49 percent.
[41] For the recommendations, see Alli, (2001):327.

NNOC.[42] The Abacha regime's creation of the Petroleum Trust Fund (PTF) for depositing and disbursing toward infrastructure rehabilitation monies realized from increases in refined petroleum products prices was the most notable reform measure of the era. The Abubakar interim regime (1998-99) scrapped DPR, but this did not result in NNPC regaining intact the formal role of regulator. The office of the Special Adviser on Petroleum Resources replaced the minister to lead both policy and regulation, abandoning any pretense at fostering an independent regulator that DPR had represented since 1988. The Obasanjo regime (1999-2007) restored both DPR and the ministry in 1999, and began a series of reforms that will be considered in some detail below.

Attempts to reign in NNPC under the ministry have usually met with lukewarm reception on the part of most Nigerian presidents. Far from being a function of a commitment to secure NNPC's autonomy, however, this has aimed at tying the corporation directly to the presidency, as a patronage resource and source of corruption that has marked public administration in the country. The Obasanjo military junta (1976-79), which created the corporation, ensured that there was no ministry to oversee it. The Shagari presidency (1979-83) in 1980 pointedly rejected the restoration of the ministry as specifically recommended by the tribunal it set up to probe NNPC. Whatever the intention, the administration's suspension of the board and management of the corporation ensured NNPC's even closer ties to the presidency. The regime of Buhari (1983-85), who had chaired the NNPC board in the late 1970s, restored the ministry but allowed the corporation to retain formal regulatory function, statutorily (albeit hardly

[42] In 1997, Etete sacked the entire board of NLNG, and instructed the management to report directly to his ministry, a move that dismayed NNPC's IOC partners, who together owned 51 percent equity in the company. One of his stated reasons was the failure of engineering partner Shell to implement local content agreements (*Petroleum Intelligence Unit*, July 1-15, 1997, 5).

ever in practice) the domain of the ministry or its organs. Although the Babangida regime seems to have made the greatest effort to enhance the autonomy of NNPC, it nevertheless went farthest in divesting the ministry's control over the corporation. By sheer force of personality and temperament, Abacha's minister Etete has, perhaps, exercised the most influence over NNPC, but his reign did not succeed in displacing the influence of the presidency. The tendency of empowering NNPC at the expense of the ministry remains perceptible under the Obasanjo administrations (1999-2007).

NNPC's eternal struggle for focus and autonomy has been only one of the several historical problems hindering the development of the corporation and the Nigerian oil and gas industry at large. As used in this study, historical problems refer to problems that have been ongoing on or have recurred frequently over the long run. These include murkiness in focus and the industry regime, the performance of the corporation's subsidiaries, oil theft, agitation for resource control, and corruption and patronage. It is precisely NNPC's failure in these mandates that necessitates current efforts to reposition the corporation, to elevate it to level of Malaysia's Petronas, Indonesia's Pertamina, and Brazil's Petrobas, successful companies that are as old as NNPC. In October 2003, about a decade after losing his job as NNPC's GMD and shortly to be appointed presidential adviser on petroleum, Daukoru provided invaluable insight into the fundamental problem facing the industry.

> […] We never seem to get it right. Something always seems to be missing between government policy, implementation and public expectation (or public perception of what constitutes the common good). On one hand, policy and its implementation may be either too far or short in scope, lopsided or mistimed. On the other hand, public perception and expectation may be unrealistic, utopian and

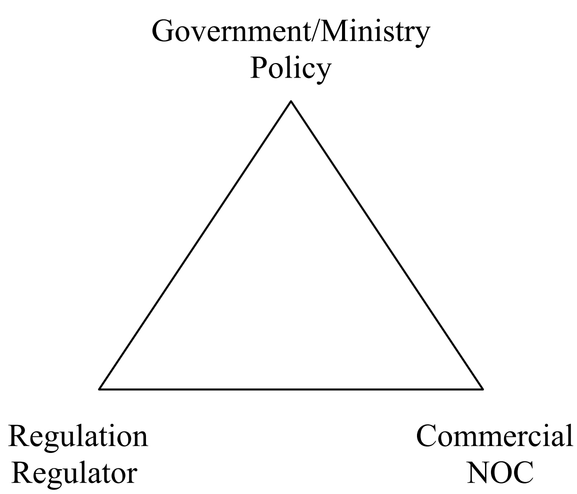
> misguided or misinformed. As a result, we stagger from one confrontation to the next between policy makers, regulators, actors and customers.[43]

It is possible to disaggregate this apparent mystery. Surrounding and in-between policy formulation and implementation are identifiable problems, manifesting in lack of focus, inefficiency, corruption, resource control agitation, and the politicization of access to oil resources, among others.

The Problem of Focus

The very focus of the NOC has been a challenge since the formation of NNOC in 1971, in particular, its relationship with regulation and policy. Public sector petroleum administration in countries having NOCs involves three principal functions – policy formulation, regulation, and commercial operation, as represented in Figure 1.

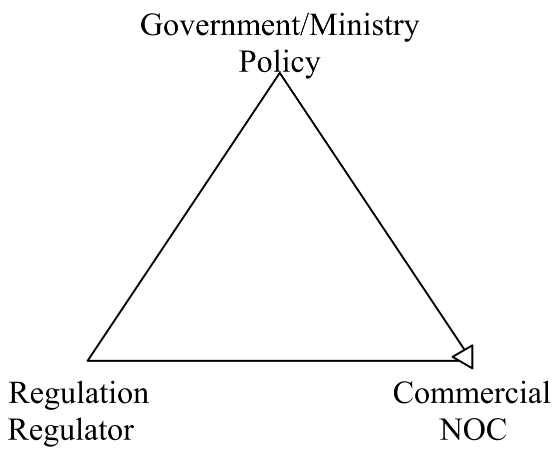
FIGURE 1



The most efficient system is generally regarded as one in which policy, regulatory, and commercial functions are performed by separate bodies, with the NOC occupying the commercial space thus:

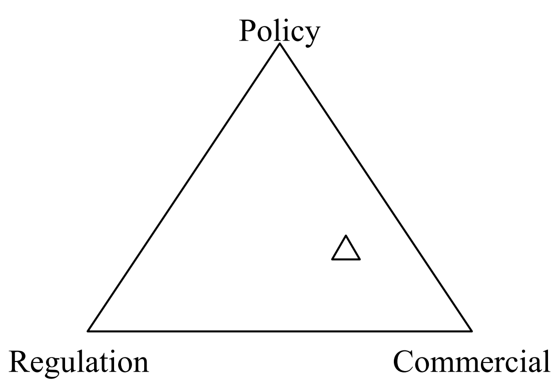
[43] *Vanguard*, October 26, 2003.

FIGURE 2



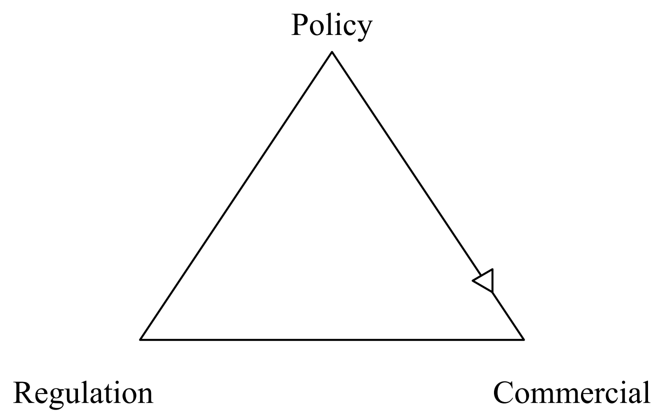
But the Nigerian NOC has historically performed all three separate functions as represented by the central position of the inner triangle in Figure 3.

FIGURE 3



With increased responsibility and assertiveness of DPR, the structure is currently roughly as follows:

FIGURE 4



Whatever regulatory clarity that existed in the oil industry during the colonial period evaporated after independence. DPR was created in 1970 to enhance Nigeria's regulatory functions, but NNOC competed for these functions after its formation one year later. Both institutions were under the supervision of the Ministry of Mines and Power, until 1975 when DPR was upgraded to the Ministry of Petroleum Resources (MPR). The Decree that established NNPC proscribed the ministry and effectively converted DPR into the Petroleum Inspectorate Division of the corporation, thereby merging the regulator and commercial operator. Although the Inspectorate was to report directly to the government appointed chairman of NNPC, rather than to the corporation's chief executive, the arrangement gave NNPC responsibility for the budget and finances, administration and personnel of the Inspectorate. The Crude Oil Sales Tribunal of 1980 found that this situation foreclosed any independent system for corroborating figures about crude production.[44] The far-reaching restructuring of 1985 restored the ministry of petroleum resources, kept the Inspectorate within NNPC, where it became one of the five "semi-autonomous sectors," the heads of which nevertheless reported to NNPC's chief

[44] Federal Republic of Nigeria, *Views of the Government*, 5.

executive.[45] Also, the exercise referred all applications for licenses and leases to the minister of petroleum resources, which did nothing to eliminate confusion. DPR was restored as a separate entity, but NNPC's Petroleum Inspectorate remained, thus duplicating each other's functions. Following further reorganization of public petroleum administration in 1988, the Petroleum Inspectorate was removed from the corporation and became the technical arm of the ministry under the name DPR. All this put DPR in an ambiguous position – regulatory agency under the minister, who could at least in theory regulate without reference to the department or the inspectorate.[46]

One reason why the regulator has been dependent on NNPC was to bridge the gap in human resources that the regulator has historically suffered, according to an authoritative DPR source. It seems DPR suffered even more skills drain with the formation of NNOC. Because the new NOC offered better, non-civil service based emoluments, qualified personnel sought employment in the NOC and left DPR. It was believed the regulator did not have the personnel effectively to carry out its regulatory functions. The arrangement allowed the regulator to tap into the human resources then available in the NOC and to allow for fluid movement of personnel and for ease of sharing experience. Moving the regulator to NNPC was also a way to remove its personnel from the relatively poor civil service compensation, to attract to it the right caliber of personnel. Nevertheless, there is no cogent rationale for the continuing dependency of the regulator on NNPC. The idea that the regulator lacked the resources to regulate, making it necessary for NNPC to assume regulatory functions, seems like an ex-post facto rationalization. The regulator, which antedated the NOC, could have been

[45] NOGIO, (2006): 9.
[46] For regulatory confusion in the industry, in particular, DPR's lack of autonomy and proper role, see Adaralegbe, (2006).

strengthened all along. There is a case to be made for the need to share personnel and experience, in light of the limited pool of technical manpower available in the 1970s, but, if the NOC has since developed some capacity to regulate, the regulator is relatively backward.

Indeed, DPR has struggled with regulation and is extremely backward compared to NNPC. As late as 2006, DPR still lacked "computer systems," still kept its records manually, and generally maintained inadequate accounting records. It used different criteria from the operating companies to calculated royalty payments. While DPR relied on monthly figures NNPC supplied to both DPR and oil companies, in most cases, the latter unilaterally determined the royalty payment they paid, based often on export than production figures.[47]

Rather than being simply the order of things it is made out to be, placing the regulator under the administrative control of the NOC results from a failure to strengthen the regulator. Except for the past few years, perhaps, separating the two bodies has received less serious attention from official calculations that it deserves. It would have been easier and more efficient to add whatever capacity the regulator lacked, than for it to remain dependent on the NOC, even long after it had become clear that the NOC has done a poor job of regulating. Taking the regulator out of the civil service compensation structure, as had been done with the NOC, would have also been relatively straightforward. The regulator had been in place long before the NOC, and it was upgraded to directorate/department, Department of Petroleum Resources (DPR) in 1971, while the NOC was formed in 1972 as a requirement for Nigeria joining OPEC. In effect,

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[47] NEITI, "Audit: Financial Flows."; NEITI, "Nigerian Extractive Industry Transparency Initiative Financial Audit: Issues in Government Financial Systems," (presentation, Hart Nurse Ltd in association with S. S. Afemikhe & Co., National Stakeholder Working Group, April 10, 2006d), www.neiti.org/FARFinIssues%20in%20 Govt.pdf.

the regulator was a Nigerian initiative, while the NOC came on stream, at least in part, as an externally instigated element.

Policy makers have generally been aware of the need to separate the regulator from both the policy making body and the commercial operator. The reestablishment of DPR in 1988 was done in recognition of the need for a separate regulator. The durability of the tradition of weakening the regulator is confounding. It is not the primary responsibility of NNPC to ensure that DPR assumes its responsibility; this is the responsibility of government. But, despite the fact that NNPC senior management habitually laments DPR's low capacity, the corporation has done little to shed its regulatory involvements. In fact, the corporation has depended on the influence and power of such roles to advance its interests over the years. The result of neglecting the regulator has rendered that body dependent on or subjected to the NOC, a later-arriving body.

Since the NOC has been involved in regulation and has remained so ostensibly on the basis of DPR's technical shortcomings, it is imperative to examine how effective the NOC has performed this role. Following the criteria used by Thomas Akabzaa in his recent study of mining in Ghana, NNPC's regulatory capacity can be measured by the quality of its legal framework, technical competence of its personnel, quality of baseline data, logistics and infrastructure available for field staff, and the professional integrity of the staff.[48] As can be inferred from the foregoing, one element of the problem of regulation is confusion about whether the corporation is a regulator and to what extent this function overlaps or conflicts with that of the putative regulator DPR. So, the

[48] Thomas Akabzaa, "An Appraisal of the Socio-Economic Impacts of Mining Activities in Ghana," (presentation, Canadian Association of African Studies Annual Conference, Marriott Chateau Champlain, Montreal, Canada, April 21-22, 2006).

criterion of a satisfactory legal framework is lacking. The technical competence or, at least, professional integrity of NNPC's regulatory personnel has often been in question. The 1980 probe tribunal found the corporation to be lacking supervisory capacity over its own staff, let alone to monitor the activities of the IOCs. The criterion of technical competence is, thus, not met for the period up to 1980 at least. The corporation has added quality technical personnel since the 1980s, and it seems management pursued this policy vigorously whenever it has had the leeway from the government to do so. As Akabzaa observed in the case of Ghana's national mines company,[49] a good number of NNPC technical personnel trained in the same institutions as, and often hold their own when compared to, their counterparts in Western partner companies. Why then did NNPC continue to struggle in key technical area, such as effectively monitoring the operations of the JVs?

In addition to the problem of the monumental muddle of a legal framework, there have been questions about the professional integrity of NNPC technical personnel.[50] The accounting and reporting system in the industry has remained a problem primarily because of issues of ethics. To date, there are conflicting figures with respect to royalties and taxes, and the corporation's partners' cost of production, underscoring IOC entanglement in corruption in the industry. The Nigerian Extractive Industries Transparency Initiative (NEITI) reported in December 2006 that obsolete metering equipment used by NNPC's IOC partners made it impossible to measure Nigeria's production accurately. While there are records of the quantities that are received at the terminals and those exported, the actual quantities flowing through the wellheads are

[49] Akabzaa, "Socio-Economic Impacts," 2006.
[50] Akabzaa (2006) underlines this as a major problem in the Ghana case.

unknown.[51] The non-availability of accurate equipment–a human made problem—makes room for graft at all levels.

For their part, the IOCs are known to report different sets of figures to DPR, NNPC, and the Federal Inland Revenue Services (FIRS), as are advantageous to them than consistently following internationally accepted standards. It came to light in 2004 that Shell withheld information about 1.5b barrels downward revaluation of its Nigerian oil reserves. Although the company claimed in the wake of the scandal that it did so to strengthen Nigeria's case for increased allocation of daily production quota from OPEC, in other words, to help Nigeria earn more oil revenues to pursue its development goals, it happened that the company had an incentive, and thus a motive of its own. Since 1985, Shell had received from the Federation a "reserves addition bonus" of 10-50 cents per barrel on top of its guaranteed profits in any year that it discovered reserves larger than the crude it extracts. But issues of integrity are not the only problem hampering the technical work of NNPC. The splitting of qualified personnel into the various agencies duplicating one another's regulatory functions, with none maintaining a critical mass, is likely a factor in NNPC's underperformance in regulation and other technical tasks. Technical competence was further undermined by the military government's embargo on recruitment during the 1990s.

Murkiness is not limited in the sphere of regulation. There has also been bewildering overlaps among NNPC's subsidiaries and units, partly a function of unrestrained covetousness and expansion of incongruent responsibilities on the part of NNPC and many of its component organs. The overlap in responsibilities is sometimes done in a manner that casts doubt on any devotion to synergy. The primary task of

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[51] *This Day*, December 22, 2006, www.thisdayonline.com/nview.php?id=66360.

NNPC's IDS is data services, but it duplicates the work of NETCO by also offering petroleum engineering services. NAPIMS's acquisition of concessions in the Chad Basin impinges on the core E&P function of NPDC and stretches that NAPIM's technical manpower too thin. As argued in the section dealing with obstacles to reform below, it was never necessary to encumber NAPIMS with E&P functions, notwithstanding NNPC's rationalization to the contrary.

The covetousness of NNPC's component units of incongruent functions parallels NNPC's covetousness of regulatory functions, despite widespread recognition the anomaly of combining commercial and regulatory functions, and despite the NOC's poor job at regulating. The incidence of corruption in the oil and gas sector in general and in the corporation in particular offers a clue to these paradoxes. The absence of a clear regime creates confusion and loopholes that foster corruption. In such a system, any additional turf claimed, coveted or involved in can result in personal benefits to the people involved. The ad hoc system breeds manipulation, allowing officials to pick and choose responsibilities based on anticipated personal pecuniary rewards. Possibly too, the persistent accounting oddities that stunt the growth of the subsidiaries seem to benefit certain personal interests.

The Subsidiaries

The subsidiaries are supposed to depend entirely on the revenues they generate. For example, the revenues of the subsidiary refineries are to be derived from refining fees paid by NNPC; PPMC is to charge tariffs for transportation of oil through its pipelines network; NETCO is to derive its revenues through consultation and engineering work done for NNPC, its JVs, and other clients; NPDC is to thrive as an upstream E&P outfit operating its own concessions, and the Integrated Data Services (IDS) is to depend on fees from data services it provides to oil companies on a commercial basis. Unfortunately, this vision of self-sufficiency has generally failed to materialize. The apparent financial dependency of NNPC's subsidiaries could sometimes reflect an inadequate accounting system. The corporation operates a unified accounting system, which does not require or allow the subsidiaries independently to raise and invest funds, and—except for the NGC—the revenues they generate go to the parent, even though they are limited liability companies with separate directors' boards. The result is that NNPC itself is hampered by having to subsidize most virtually all the subsidiaries through subventions and loan guarantees, which they are often unable to repay. There are other problems. For example, the Nigerian Gas Company (NGC), charged to gather, recover, and to market natural gas and its derivatives to both the domestic and export markets, and therefore well-endowed, was able to collect only 65 percent of tariffs from customers in the 2003 financial year. Most of its customers were government agencies and inefficient parastatals; its biggest customer, National Electric Power Authority (NEPA), alone owed the company about $30.7m.[52]

NNPC's four subsidiary refineries have perforce come to epitomize the inefficiency of the corporation. With a combined daily capacity of 445,000 b/d of gasoline, the refineries have perennially produced below capacity utilization, or otherwise suffered disrepair and paralysis since the mid-1980s. In 1997, Ministry of Finance officials cut NNPC's crude oil supplies, reasoning that it was cheaper by 20 percent to import Nigeria's refined products than have these come through the inefficient mill of the

[52] *African Business*, February 2004.

refineries.[53] The NEITI audit of 2006 on the performance of the refineries between 1999 and 2004 represents the most comprehensive data set publicly available to date.

TABLE 1: DOMESTIC REFINING DESIGN CAPACITY AND OVERALL PERFORMANCE, 1999-2004

	Installed Annual Design Capacity				% of Total Capacity
Refinery	Port Harcourt	Warri	Kaduna	Total	
Feed Crude Processed	9,335,000	5,234,645	4,476,400	19,046,045	
Product Output					
PMS	3,080,350	1,704,041	1,195,646	5,980,037	31.40%
DPK	1,416,550	550,950	507,176	2,474,677	13.00%
AGO	2,458,900	1,586,724	926,615	4,972,238	26.10%

(Source: NEITI (2006b):21.)

As Table 1 shows, combined production of the refineries represent only 31.4 percent, 13 percent, and 26.1 percent of installed capacity for PMS, DPK, and AGO respectively during the six-year period 1999-2004. The average daily refining capacity during the four-week period end of May to end of June 2006 was 141,790 barrels or 31.8 percent of installed capacity.[54] The Warri refinery remained inoperative in May-June 2006, at which time the Kaduna refinery did not refine any product whatsoever, according to a report credited to DPR.[55]

The inability of NNPC to refine its crude has encouraged market inefficiency. Consequently, the corporation has increasingly sold unrefined crude from this allocation in the international market since the 1980s, and it uses the proceeds to import refined petroleum products. With the free allocation, NNPC is able to subsidize the products, a

[53] *Business Africa*, May 1-15, 1997.
[54] NNPC's claim that the Port Harcourt refinery was processing 180,000 b/d or 90 percent of capacity in June 2006 differs from DPR figures, which put production at 67.5 percent of its 210,000 b/d capacity. (*This Day*, June 29, 2006, www.thisdayonline.com/nview.php?id=51721).
[55] *This Day*, June 29, 2006, www.thisdayonline.com/nview.php?id=51721.

practice that discourages international oil companies from involvement in the domestic downstream sector. Neither have the subsidies necessarily benefited ordinary Nigerians. Over and above astronomical black market prices, tariffs on NNPC products rose by a mean of 11,083 percentage points between 1985 and 1994, compared to 1294 percentage points in telecom and electricity public enterprises during the same period.[56] This is quite apart from the black market the shortage has fostered. Apart from fueling price increases, this black market promoted stealing of the valuable commodity. The Abacha government in 1997 dispatched soldiers to escort oil trucks from the depots to gas stations.[57]

In May 1997, *Business Africa* magazine queried: "How is it that a country which produces 2m barrels/day of oil finds itself in the grip of a fuel shortage so severe that the economy begins to grind to a halt?"[58] Refinery underperformance and resulting fuel scarcity reflect deeper problems in the political economy. Built-in inefficiencies, corruption, and more recently sabotage by militant resource agitators and oil pilferers have been major causes of the crisis in the sector. According to the Warri Refinery and Petrochemical Company (WRPC) chief executive Basil Idahosa in May 2006 when the refinery had been idle for five months following militant bombing and destruction of its crude oil supply pipeline, the staff situation was so bad that the refinery would not be able to go into operation even if the pipeline was fixed.[59] Following the December 26, 2006, pipeline fire in the Abule Egba area of Lagos in which about 300 persons died, labor, industry, local government, and media sources blamed the fire on negligence on the part of NNPC, arguing that the corporation did not have any effective system to

[56] Calculated from Table 8 of Asaolu, et al. (2004), 73.
[57] *Business Africa*, May 1-15, 1997.
[58] *Business Africa*, May 1-15, 1997.
[59] *This Day*, May 23, 2006, www.thisdayonline.com/nview.php?id=48826.

monitor pipelines and to detect leakages.[60] Three days after the December 2006 pipeline explosion, a local government chairman in the Lagos area alleged that NNPC was not responsive to information about damaged pipelines.[61] As if to lend credence to these allegations, the Senate blamed NNPC and security forces for "seemingly interminable line of preventable pipeline fire disasters."[62] These are only ingredients in the conundrum.

Efforts to revive the refineries have not yielded enduring results. The "unprecedented … shortages" in 1974 and 1975 were resolved by the laying of pipelines, which became operational in 1988, and establishment of refineries, until the problem returned in 1986.[63] The Abubakar government took several far-reaching measures to check fuel scarcity, including the abolition of state (NNPC) monopoly in the importation of fuel in October 1998.[64] It also allocated $39.7m for the rehabilitation of the four refineries in the 1999 budget.[65] With this money, it was possible to pay French IOC Total for turnaround maintenance (TAM) on Kaduna refinery, overdue since 1992.[66] Finally, the regime's privatization policy of the oil industry placed refineries at the frontline. The Obsanjo administration has continued to invest in the maintenance of the refineries, but results have thus far been unsatisfactory. With more than $1b having been committed to repairs between 1999 and January 2007, according to a recent report citing NNPC's GMD Funsho Kupolokun, the refineries have become a proverbial bottomless pit.[67] The

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[60] *Punch*, December 27, 2006, www.punchontheweb.com/Articl.aspx?theartic=Art200612275375773; *The Guardian*, December 29, 2006, www.guardiannewsngr.com/editorial_opinion/article02.

[61] *Daily Champion*, December 29, 2006, www.champion-newspapers.com/news/article_2.htm.

[62] *Punch*, December 29, 2006: "seemingly interminable line of preventable pipeline fire disasters."

[63] Osi S. Akpoghomeh and Dele Badejo, "Petroleum Product Scarcity: A Review of the Supply and Distribution of Petroleum Products in Nigeria," *OPEC Review* 30, no. 1 (2006): 29, 30, 35.

[64] *Journal of Commerce*, October 28, 1998.

[65] *Financial Times*, February 5, 1999.

[66] *Platt's Oilgram News*, July 22, 1998. Total blamed NNPC's tardy remission of payments for the delay of the project.

[67] *Punch*, January 24, 2007, www.punchontheweb.com/Articl.aspx?theartic=Art200701242555679.

2006 NEITI audit grimly concluded that domestic demand for PMS has risen so much that existing refineries cannot meet it even if they produced at full capacity.[68] "It is clear that, for a considerable period into the future, Nigeria will have to import a significant proportion of its PMS product needs."[69]

The most functional subsidiaries are the ones involved in upstream work, contrary to the prevailing perception of NNPC as an essentially downstream oriented NOC. It is true that the bulk of NNPC's upstream involvement is through operating companies, but this is only part of the story. NNPC units do in fact maintain upstream operations mostly in E&P and engineering services. The Nigerian NOC has never been intended to be limited to downstream operations, and thus maintained a small E&P outfit from the onset in 1971, then known as Exploration and Exploitation (E&E). Arguably, the NOC's E&P record constitutes the bulk of the few genuine successes of the corporation in its entire history. Production from NNPC's sole effort may have been minuscule, but the fact remains that E&P has some pedigree within the corporation; its two most recent GMDs, geophysicist Jackson Gaius-Obaseki and engineer Kupolokun, participated in NNPC's wholly Nigerian-operated E&P setup during its most productive years.

The E&E unit of NNOC, later inherited by NNPC, drilled its first well (OPL 96) offshore in 1976. At that time, Mobil was the only other outfit operating offshore, albeit in shallow water. NNPC sources claim that the NOC effort represented the first successful deepwater drilling by any operating company in Nigeria, at a water depth of 122 meters, deemed deepwater at the time.[70] NNPC also achieved E&P successes on dry

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[68] NEITI, "Nigerian Extractive Industry Transparency Initiative Process Audit: Refineries and Product Importation," (presentation, Hart Resources Ltd and S. S. Afemikhe Consulting Ltd, April 10, 2006b), www.neiti.org/FARProcessRef&ProdImp.pdf, 55
[69] Ibid., 56.
[70] Today's standard depth for deepwater is now a minimum of 300m.

land, making its first onshore discovery at Oredo near Benin (OML 111, formerly OPL 110). Significantly, this discovery was made in a field, Ogba 1, "where an older, more experienced company had explored, drilled, did not find oil, and abandoned," according to an NNPC source seasoned in the E&P work of the corporation who declined to name the IOC involved.[71] NNPC's E&E unit drilled another onshore field in 1981 at Adofi River (OPL 135) near Kwale in today's state of Delta. According to one source familiar with these matters, "We had proved we could do it offshore and onshore." The NOC's upstream operations of the 1970s and much of the 1980s, however, concentrated on exploration drilling, discovering and mapping, and classification. By 1979, NNPC had proved more than 1b barrels of crude oil in different blocs, based entirely on work of Nigerian engineers using contemporary technology.

Apart from NAPIMS's frontier region exploration activities, NNPC's E&P work is today carried out primarily through NPDC, headquartered in Edo State capital Benin in south-central Nigeria, with a staff of 322 in early August 2006. Created in 1988 as part of the subsidiarization exercise of that year, NPDC was charged to go beyond simple E&E to do E&P, i.e., to go into production, and it has discovered, operated, and produced oil over the years. The Babangida regime assigned 10 oil blocs to the new subsidiary, including Oredo (former OPL 110), Adofi River (OPL 135) and the only remaining offshore bloc (POL 91). In 1989, NNPC purchased three blocs from Mobil (OMLs 64, 65 & 66), and NPDC went into field development studies at Oredo (OML 111), which was put into production in January 1996, using a 5,000 b/d capacity flowstation. This field is still in production, albeit making an average of 3,713 b/d during the first quarter of

[71] According to Nigerian officials, Gaius-Obaseki led the team that interpreted the Oredo structure and identified the particular points to drill, and Kupolokun was in the production team that tested that well for producibility.

2006[72] and barely 3,000 b/d as at late July 2006. Oredo has been an NNPC operation through and through, up to the collection and interpretation of seismic data. Southwest of the Oredo field, NPDC discovered a second field, the Oziengbe South, in 1991. As at late July 2006, Oziengbe produced about 3,000 b/d of light, sweet crude, using a 15,000 b/d capacity flowstation. NPDC had concession in six blocks – OMLs 64, 65, 66, 111, and 119 as at May 2006, plus another block it won in the 2006 bid round. The company also won two others in conjunction with "some operators" in the same bid round – OPLs 332, 325 (onshore), and 251 (deepwater), as well as carrying out explorations in six other deepwater OPLs through various foreign partners (NPDC 2006:7, 15, 16, 17, 18).[73] Apparently, NPDC's work and potential have once permitted its parent to bluff in 2001 about assuming operatorship of OPLs 214 and 318 during protracted JV negotiations between NNPC and the IOCs—ExxonMobil and Phillips respectively.[74]

Unfortunately, rather than increase its E&P capability, NNPC seems to be losing it in recent years. The current capacity of its wholly operated production was a miserly 10,000 b/d from three onshore blocks as at early August 2006.[75] Its other operation, engaging Italian IOC Agip as service contractor, produced 56,739 b/d during the first quarter of 2006[76] and 65,000 b/d during the second quarter.[77] The engagement of a service contractor itself underscores the company's unsatisfactory progress, the consequence of neglect, undue interference by its NNPC parent, inadequate financial

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[72] NNPC, "Table A," *Monthly Petroleum Information First Quarter 2006*, Corporate Planning Development Division, (2006a), www.nnpcgroup.com/mpi/index.php?&direction=0&order= &directory=Quarterly.
[73] NPDC, "Nigerian Petroleum Development Company Ltd.," (presentation, COMDP Class 039 "Reformers," May 31, 2006).
[74] See *Offshore* 62, no. 9 (September 2002): 19.
[75] NPDC production apparently grew in the course of 2006. Sole NPDC production reported at 8,000 b/d at the end of May 2006 (see NPDC, "Nigerian Petroleum Development Company," 7, 17) seemed to have increased to 10,000 by early August. Also, production under the Agip service contract reported at 56,000 b/d at the end of May (see NPDC, "Nigerian Petroleum Development Company," 17) had grown to 65,000 after simulation.
[76] NNPC, "Table A."
[77] NPDC, "Nigerian Petroleum Development Company," 17.

structure, and inability independently to source project finances, among others problems. NPDC's crude production earns foreign exchange, but current arrangements hinder the return of this money back to NPDC, which undermines its status as a company.

It is particularly ironic that government seems to have played a large role in undermining NPDC. In 1985, the Babangida government sold off to IOCs all the offshore blocs where NNPC had discovered oil, except for OPL 91. By 1990, the junta had reassigned to other companies, including French IOC Elf and Nigerian privately owned Consolidated Oil, five of the 10 blocks earlier assigned to NNPC. Just as soon as NPDC improved production to 4,000 b/d in its Abura field from the 980 b/d it was producing when NNPC purchased it, the Obasanjo government withdrew the field from NPDC in May 2006 and awarded it to China's SINOPEC. There does not seem to be a shortage of enthusiasm among senior NNPC engineers, some of whom were recruited recently as part of the corporation's efforts to retool. Asked in late July 2006 if he would relish the task of being given responsibility to improve NPDC's performance if posted there, one senior manager at the group headquarters responded: "I would be glad to do that…I am trained to produce oil and gas. I enjoy producing. [Leading a production team has been] the most exciting time I have had in my career. I like my present position but production is my passion." Another senior source declared more recently: "Production is the name of the game, and we want to be among the best at what we do." This passion has come with a new vision and detailed planning in the reform program never before experienced in the corporation.

NNPC also maintains upstream presence through its National Engineering and Technical Company (NETCO) subsidiary. About 350 of NETCO's 360 staff were engineers of various disciplines as at early August 2006. Like NPDC, NETCO was a product of the subsidiarization exercise of 1988, an effort to transform NNPC into an integrated oil and gas company. Unlike NPDC, however, NETCO's operations extend to the downstream, and the company started off not as a wholly owned subsidiary but as a JV between NNPC (60 percent) and American engineering and construction company Bechtel (40 percent). Bechtel was to facilitate technology transfer through commercial provision of engineering services to the industry. The JV started commercial operation in 1990. Bechtel withdrew abruptly from the JV at the end of 1996, essentially leaving NETCO for dead, according to a company source.

NNPC took over Bechtel's 40 percent equity, making NETCO a wholly owned NNPC subsidiary in April 1997, a development that resulted in difficulties for the company. As an official related, clients became reluctant of giving work to NETCO because "they no longer saw White men in our setup." To its credit, NETCO repositioned itself in an effort to reclaim the confidence of its clientele, mainly by replacing old equipment with new ones, upgrading its IT infrastructure, and pursuing and securing in 2000 the International Standard Organization (ISO) certification. This represented a first within NNPC and among indigenous Nigerian engineering companies. According to a NETCO source, the company's customers were returning by August 1997. Evidently, NETCO has done much better under NNPC's sole ownership than it did as a JV with Bechtel.

NETCO's impact on the industry is significant from the perspective of endogenous factor input. The company's work in engineering certain FPSO components for Nigeria's most prolific deepwater fields—Shell's Bonga, Mobil's Erah, and more recently Chevron-Texaco's Agbami, among others—are landmark achievements in the world of Nigerian indigenous engineering. By the first quarter of 2006, the company had solely completed the As-Built survey for the front end engineering (FEED) of a network of facilities for the Italian ENI/NAOC (Agip). NETCO was also to collaborate with ENI/NAOC in the construction of the FEED proper.[78] In other projects, NETCO has integrated personnel from other Nigerian firms. In November 2006, Chevron announced that NETCO was performing through NETCO's joint venture with American service company Forster wheeler Energy a series of service contracts for engineering design and the economic evaluation in Chevron's two offshore oil fields, OMLs 52 (Tubu) and 85 (Madu).[79] NETCO secures its engineering services contracts in two main ways. First, NNPC leverages its position in the industry to influence the award of contracts to the subsidiary, especially NNPC's partners, according to multiple corporation sources. The sources balk at suggestions of a conflict of interest in this practice, pointing out that NETCO wins jobs in cases where it is either competitive or only marginally non-competitive, but never where it is grossly non-competitive. According to one particularly knowledgeable source, NETCO's fees are competitive because clients do not want to overpay for projects, and that quality issues are taken care of during the qualification phase. Second, since contracts brought in this way were inadequate, NETCO now goes out and wins contracts on its own, although any contract of more than $500,000 must be approved by NNPC.

Apart from its technical achievements, NETCO has also been the only subsidiary to achieve financial self-sufficiency. Its initial share capital was a mere 1m naira

[78] *NNPC Magazine* 3, no. 1 (2006): 4.
[79] *This Day*, November 2, 2006, www.thisdayonline.com/nview.php?id=62122.

($124,378). This was raised to 2m naira in 2000, which now converted to a mere $19,436, representing only 15.6 percent of the real value of the original share capital.[80] The astronomical decline in the naira's exchange rate provides a snippet of the highly volatile and unfavorable macroeconomic environment in which NNPC subsidiaries have operated since their creation in 1988. At any rate, the increase in share capital was a mere paper transaction, as no new funds were actually injected. NETCO generated revenues in the sum of 1.9b naira ($14.8m) in 2005. Although NETCO took a soft loan in 2005 from its shareholders (NNPC) to lease and refurbish a new headquarters building (after fire gutted its offices in March that year), NETCO appears to be the only truly commercial NNPC subsidiary.[81] NETCO and, to a lesser extent, NPDC constitute islands of progress among NNPC's subsidiaries. The subsidiaries have been hampered by a host of historical problems, including political interference and inhospitable macroeconomic context, as already mentioned.

Stunted Value Addition

"Local content" largely involves the extent of linkages or complementarities that exists between the oil industry and the rest of the economy. This means the promotion of local factor input, increasing local administrative and technical capacity, utilization of local raw material and components, as well as promotion of linkages with such industries as agriculture, shipping and banking. Increased national content is also now seen as capable of reducing resource control agitations.[82] Nigerian industry experts have for long

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[80] The 1990 figure is a conversion based on the exchange rate of $1=8.04 naira in 1990. (http://en.wikipedia.org/wiki/Nigerian_naira#Exchange_rate_history). The 2000 figure is based on the interbank exchange rate of June 15, 2000, as derived from http://www.oanda.com/convert/classic.

[81] I have not been able to ascertain the amount of this loan, but it is not expected to be lower than several million dollars.

[82] This view was expressed by several senators on the occasion of passage of the bill at the Senate during late April 2006. See *Independent Online*, April 28, 2006 www.independentngonline.com/?c=44&a=1511.

touted the importance of investment in the oil industry. For S.A. Madujibeya for example, capital investment was the best measure of the expansion of the oil industry.[83] The enhancement of local content in the petroleum industry has been a consistent concern of Nigerian governments since independence, although enthusiasm with enforcement has varied. For example, Petroleum Decree 1969 mandated all future OPL holders must, within the first year of operation, submit a detailed plan for recruiting and retaining Nigerians, and required all future OML holders to employ Nigerians in 75 percent of professional, managerial, and supervisory positions, and in 100 percent of all other positions.[84] The 1976 panel report called on the government to target its incentives for the IOCs to invest in Nigeria.[85] Commercialization and subsidiarization in 1988 were informed by the drive for, and increased the urgency of, increasing local content. Results have been uniformly poor. This failure goes to the heart of the NOC; local content addition was a principal reason for the creation of the NOC in Nigeria.

IOCs are perceived to have traditionally resisted the transfer of technology.[86] This view is not limited to the traditional E&P IOCs, but also to Western service companies, as the experience of NNPC's NETCO with Bechtel shows. Yet, it has been in the IOCs' interest to employ Nigerians to employ indigenous managers, which Shell-BP was doing before the Petroleum Decree of 1969. Indigenous managers and technical personnel cost less to employ. Indeed, Shell-BP employed Nigerians as wellsite engineers as of the mid-1960s.[87] The real problem at this time was finding enough qualified Nigerians, a general

[83] S.A. Madujibeya, "Oil and Nigeria's Economic Development," *African Affairs* 75, no. 300 (1976): 86.
[84] See Pearson, *Petroleum in the Nigerian Economy*, 64; Jedzrej, (2000):31n.
[85] Federal Republic of Nigeria. *Report of the Panel*.
[86] Ikein, *The Impact of Oil*, 16, 18.
[87] This is based on interaction with a family member who started his professional career as a Shell-BP wellsite engineer at this time.

handicap across the sectors.[88] With virtually every qualified Nigerian engineer getting jobs in IOCs in the 1960s and the people's predilection toward Western education, Nigeria seemed set rapidly to build endogenous capacities in the industry. But even if it is in IOCs' interests to employ Nigerians, it has certainly never been their mission to develop endogenous capacities for the country; their interest in indigenous manpower has been short-term, a natural characteristic of extractive enterprises. Besides, there is a general perception among Nigerians that Western companies in general, perhaps due to residual racial bias, treat Nigerian personnel as inferior to their Western counterparts, a bias that seemed to increase with the increasing availability of graduates from Nigerian universities. By 2000, up to 90 percent of capital input went overseas via equipment purchase, consulting and service fees, and expatriate wages.

Corruption

Corruption is one of the most persistent and ubiquitous features of NNPC. Successive probe panels into the NOC since 1975 have been unanimous in indicting the corporation. NNPC's top executives have been too often implicated in fraud over the years; merely working as a principal officer in the corporation seems automatically associated with the suspicion of corruption. The corporation's managing director, Daukoru, and three GEDs, including Kupolokun, were compulsorily retired in 1993 by the Shonekan interim government. They were accused of paying inflated fees for the

[88] Jedrzej, (2000): 31.

lease of two supertankers ostensibly for oil storage.[89] In the very least, the scandal indicates how far and easily the political leadership uses NNPC to perpetrate fraud. The contractor involved in the scandal was reportedly linked to President Babangida, whom authorizing minister Chu Okongwu worked for. The scandal seemed to have willing NNPC accomplices. The NNPC management apparently defied the order of Okongwu's successor Philip Asiodu for end of payment and modification of the project.

Ten years later, another NNPC GMD was reportedly fired over a controversy relating to award of fuel importation contracts,[90] just as some $2.5b supposed to be in the Federation account allegedly went missing during his stewardship in NNPC between 1999 and 2003.[91] One recent senior manager is reported to have diverted up to $600m to his private account.[92] Fat lodgments in private accounts are to be taken seriously in light of abundant documented cases of improper payments, unaccounted for crude oil, and other transparency issues. The case of the refineries is noted below. According to a late January 2007 report, officials of the corporation siphoned $5.2b during the same period primarily through payments posted in the name of pre-1999 JV cash call arrears already

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[89] See *Lloyd's List*, November 2, 1993; *Lloyd's List*, November 3, 1993; *Economist*, November 6, 1993; *Financial Times*, October 9, 1993; *Platt's Oilgram News*, October 12, 1993. "The plan to charter two very large vessels for storing about 1m tonnes of fuel through Lenoil, an independent oil and marketing company, was approved by Mr Chu Okongwu, who was oil minister in 1992. Although each ship was costing Nigeria an estimated Dollars 49,000 a day, the so-called strategic reserve never supplied any fuel. Nigeria has adequate storage capacity on shore but its fuel shortages stem from large-scale smuggling, and crumbling refineries and distribution systems run by subsidiaries of NNPC. Mr Philip Asiodu, who became oil minister in January this year, rejected the chartering scheme and ordered instead the purchase of smaller tankers secondhand, also through Lenoil. Although Mr Asiodu blocked a demand by Lenoil for Dollars 62m, it is alleged that most of the payment went through shortly after he left office in August, leading to the arrest of the NNPC directors" (*Financial Times, November* 3, 1993.)

[90] *Africa Energy Intelligence*, December 10, 2003.

[91] The amount is quoted in the Nigerian currency as 310b naira. (*This Day*, May 28, 2006, www.thisdayonline.com/nview.php?id=49169.) Conversion is based on January 1, 2003, and the exchange rate is derived from www.oanda.com/convert/classic.

[92] *ElenduReports*, December 1, 2005, http://elendureports.com/index.php?option=com_contenttask=view&id=119&Itemid=33.

paid by the Abubakar government and interest due on high-yield NNPC deposits.[93] As Abubakar's government payment did not offset all cash call arrears,[94] however, the extent to which these payments may be fraudulent will depend on the difference between the payments and the outstanding pre-1999 cash calls. NNPC officials have even been fingered in recent pipeline vandalism.[95]

In June 2006, NNPC and PPRA disagreed over 92b Naira NNPC withdrew from the Excess Crude Account without the approval of the finance ministry. While NNPC claimed it withdrew the money to recoup funds it had used to subsidize imported refined petroleum products, PPPRA insisted NNPC did not submit any claim for refund of subsidy money before the agency.[96] President of the Nigerian Labor Congress (NLC) Adams Oshimole did not break a new path when he observed in 2003: "There is a lot of fraud in NNPC**.** The place is so dirty and it is one area that does not have an element of transparency in its operations."[97] His observation merely underlines perceptions of NNPC across the spectrum of the Nigerian public.

NOC corruption antedates NNPC. In fact, suspicions of corruption led to the dissolution of NNPC's precursor, NNOC, following the recommendations of the panel set up to probe the company. The panel discovered that highly-placed NOC personnel had instigated preferential discounts to select buyers of Nigerian crude and engineered

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[93] The reports cites an anonymous industry source, however, the source reference to NNPC's account as "our account," the detailed description of the transactions, and supporting documentation apparently tendered suggest this source is in the corporation. (*The Guardian*, January 29, 2007, www.guardiannewsngr.com/news/article01).
[94] See Human Rights Watch, (1999): 32.
[95] A "criminal syndicate," involving unidentified NNPC officials working with accomplices in the security forces is said to have started the vandalism that resulted in the pipeline explosion that happened in the Lagos area in late December 2006. Citing eyewitnesses, Saharreporters.com reported that a group of people arrived at a "vulnerable spot" in the pipeline at about 6 am with five tanker trucks, soldiers and policemen, opened the pipeline with specialist tools, filled the tankers and drove off. It was after they left and a crowd descended on the area to scramble for gas that the fire erupted about 7:45 am. (See http://saharareporters.com/dn001.php?dnid=217).
[96] *Champion*, July 26, 2006, www.champion-newspapers.com/news/article_1.htm.
[97] *The News*, September 16, 2003.

other trading practices that benefited select IOCs and traders while preventing the country from taking advantage of price increases spawned by the 1973-74 shortages. The panel established serious transparency breaches on the part of NNOC senior management, but it was unable to establish that the personnel personally profited from the sales, because it lacked enough "resources and materials." The fact that the panel strongly suggested that government probe the assets of the individuals involved indicates strong suspicion of corruption on the part of the panel.[98] If NNPC was formed in hopes of ending corruption in the NOC, such optimism was clearly misplaced. Corruption became more overt, extensive, and widespread in NNPC. Diversion of crude oil and project funds, underreporting of crude oil output, inflation of contracts, and importation of substandard fuels have been some of the vehicles of corruption in the corporation.

One particularly tenacious corrupt practice has been illegal sales of crude.[99] A special government tribunal in 1980 found NNPC's accounting system to be lacking in transparency. For example, the crude marketing section of the corporation's commercial department withheld at will from the accounting department crude oil sales.[100] As part of the new Buhari regime's war on corruption, minister Tam David-West revealed in February 1984 that illegal diversion of Nigerian crude cost the country more that $17b in the previous four years.[101] In September 1993, a military panel set up by the Abacha junta suggested that the proceeds from the sale of 200,000 barrels of NNPC's allocations

[98] See Federal Republic of Nigeria, *Report of the Panel*, 9.6-9.15.
[99] The tribunal was set up following widespread reports of unaccounted withdrawals totaling 2.8m naira ($5.4m in 1978 value) from NNPC accounts between 1976 and 1979. The tribunal found allegations of withdrawal to be baseless, having originated in a *Punch* newspaper publication that drew from an urban legend in the Lagos area.
[100] Federal Republic of Nigeria, *Views of the Government*, 4.
[101] Terisa Turner, "Nigeria: Oil Smuggling & and Other Economic Troubles." *Multinational Monitor* 5, no. 5 (1984): http://multinationalmonitor.org/hyper/issues/1984/05/turner .html.

between June and August were diverted.[102] The Pius Okigbo panel also appointed by Abacha to probe the management of revenues from Nigeria's oil export during the Babangida years reported that $12b Gulf War oil windfall disappeared through special accounts Babangida reportedly created as sole approving authority. The proceeds did not reflect in oil receipts and their expenditure did not reflect in budgeted expenditure.[103] Commodity traders Glencore and Germany's Wintershall, alongside other foreign traders, were in 1997 and 1998 fingered to have paid 10-15 percent in commission to government officials for securing term contracts. NNPC and military officials were part of the government task force that awarded the contracts.[104] Consequently, "Nigeria's equity crude market [remained] the preserve of seven traders–Addax, Arcadia, Attock, Gleoncore, Marc Rich, Trafigura and Vitol."[105]

No less disquieting is outright oil to theft, otherwise known as "bunkering." One recent estimate puts the quantity of stolen crude at 200,000 barrels per day. Bunkering has been on the rise since the 1980s, and it was reported in December 2003 that profits from oil theft exceeded that from the formal market. Evidence has accumulated over the years indicating that influential people, including highly placed NNPC officials, have been behind bunkering. It is indeed unlikely that bunkering would have been as widespread without the collusion of officials of NNPC and other regulatory bodies. We have seen, for example, how NNPC officials create the conditions for and participate in underreporting crude production, as well as their involvement in the diversion of crude. One indication of NNPC collusion was the allegation in 2003 by oil-rich Bayelsa State

[102] Chris M. Alli, *The Federal Republic of Nigeria Army: The Siege of a Nation*. (Lagos: Malthouse Press Limited, 2001) 327.
[103] *Punch*, September 5, 2006.
[104] Jedrzej, (2000): 40; *Africa Confidential*, May 1, 1998; *Africa Confidential*, June 26, 1998.
[105] *Africa Confidential*, April 16, 1999; *Africa Confidential*, May 14, 1999; *Financial Times*, August 4, 1998.

governor Diepreye Alamieyeseigha that the corporation's officials killed an investigation by submitting a false analysis that reported as agricultural chemicals crude oil recovered from thieves.[106] In early January 2005, two navy admirals were court-marshaled and dismissed from service for complicity in an October 2003 disappearance of a Russian oil tanker arrested earlier for bunkering. Details of the incident, including the transfer of the tanker's oil cargo while under navy custody, confirmed long-suspected collusion of navy commanders in oil bunkering.[107] There are reports that the governor of one Niger Delta state is a doyen of bunkering.[108]

Simulated refined products shortages in the domestic market have provided opportunities for massive fraud in the corporation. Until 2005, when sabotage of pipelines conveying crude oil to the refineries escalated, the most important cause of shortages appears to have been sabotage by NNPC and highly placed government officials who benefit from the crisis. NEITI audit reported Port Harcourt refinery's lack of metering equipment in product transfer pipelines to depot during 1999-2004. "Proper accountability is not guaranteed".[109] Also, considerable quantities of crude oil go missing between PPMC and the refineries. There were media reports in mid-January 2007 that an updated NEITI audit report submitted in December 2006 has stated that 22m barrels did not reach the refineries between 2001 and 2004, and that NNPC Crude Oil Marketing Division (COMD) cannot account for 65m barrels of crude between 1999 and 2004. The refineries received more crude oil than NNPC recorded between 1999 and 2000–66m barrels was reported sent in 1999 but 99m barrels were received, and 36m barrels was

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[106] *Africa Confidential*, December 19, 2003.
[107] www.irinnews.org/report.asp?ReportID=44956&SelectRegion=West_Africa&SelectCountry=NIGERIA.
[108] http://elendureports.com/index.pithp?option=com_content&task=view&id=87&Itemid=33; http://elendureports.com/index.php?option=com_content&task=view&id=199&Itemid=33.
[109] NEITI, "Audit: Refineries and Product Importation," 17.

sent in 2000 while 46m barrels were received.[110] President Obasanjo, who abolished NNPC's monopoly over oil importation in late 2003 in an effort to check the problem, reasoned: "Maybe those who get involved in the monopoly of importation are also ensuring that the refineries are not working satisfactorily. Maybe if there is no monopoly it will be easier to get our refineries to work."[111] Some experts tout the supposed implementation of deregulation of refined petroleum products prices as the panacea for shortage. According to them, this would encourage oil majors to enter the business and lead to the revival of local refining (e.g.).[112] Yet, periodic government raises of prices have remained a major issue – for example, NNPC and DPR had cause to issue a joint statement as recently as early January 2007 assuring the public that a price increase was not on the table—signifying that genuine deregulation is yet to arrive.

The officials who sabotage the refineries to promote fuel importation benefit in two main ways from fuel supply and sales. First, funds for maintaining the refineries go into private pockets, guaranteeing low capacity utilization or complete breakdown and inevitable shortages. Second, heavily inflated supply term contracts and import licenses are awarded to cronies for the importation of refined products from abroad. Bribes are also collected from retailers, who then pass the cost to consumers.[113] According the 2006 NEITI audit of the refineries during 1999-2004, "The importation process, including the tendering, contracting and procurement practices, falls short of current good practice standards, and it is questionable whether they fully protect [Federation] interests. … [In]

[110] NNPC's spokesperson Ajuonuma stated that all this happened during the time of Gaius-Obaseki (1999-2003), but the report covers 2004, during which 11m barrels was unaccounted for. (www.businessworldng.com/vol1no17/energyworld/energyworld.html; http://allafrica.com/stories/200701150200.html) This report has not yet been published on the NEITI website as at February 11, 2007.
[111] *African Business*, Dec. 2003.
[112] Apkoghomeh and Badejo, "Petroleum Product Scarcity," 37.
[113] *Economist*, October, 18, 2003.

many areas of the process, there was a lack of written procedures. Discretionary management decision making on the allocation of importation contracts appears unnecessarily wide".[114] The general manager of NNPC's PPMC Commercial Department who plays a central role in refined products importation impenitently disregarded DPR's statutory right to grant licenses to importers.[115]

Perhaps, the most bizarre displays of callous greed took place during the Abacha years. Sometimes, the little gasoline that trickled from the struggling refineries was tankered offshore, then returned to Nigeria's harbors as "imported" fuel, and sold at inflated prices. This way, massive investments in the refineries returned nothing to the economy, at the same time that Nigeria was overpaying for fuels. The imported products are bought at rates already significantly higher than their prices in the domestic market, requiring the infusion of massive subsidies. Fuel subsidies were in 2003 estimated to be $1b annually.[116] To all this loss is added freight and handling costs. On top of this, NNPC project funds were wasted in importing refined petroleum products, a practice that was to continue throughout the 1990s.[117] In other instances, the expensive imported fuels are actually substandard products, as happened with supplies from Glencore and Wintershall in 1996, with the junta's equanimous forbearance.[118]

As it turned out, the changes introduced by the Abubakar transitional junta to improve the supply system appeared to have merely scratched the surface of corruption and shortages. Glencore, initially dropped as fuel supplier for, among other things, importing low-quality gasoline was soon back in business by the end of the year,

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[114] NEITI, "Audit: Refineries and Product Importation," 41, 56.
[115] Ibid.
[116] *Economist*, October 18, 2003.
[117] See Alli, *The Federal Republic of Nigeria Army*, 327.
[118] *Financial Times*, August 4, 1998; Karl Maier, *This House Has Fallen: Nigeria in Crisis* (Boulder, Colorado: Westview Press, 2000), 42. For the Glencore and Wintershall cases, see *Energy Compass*, October 20, 2006.

reportedly after the intervention Babangida's son Mohammed, as did foreign companies that prevailed during the Babangida years.[119] Complicity of highly placed government officials in corrupt deals is by no means limited to the "labyrinthine network" of fuel supply and sales.[120]

Shortage of transparency has also played out in the award of high-profile contracts and of oil concessions. The award in 1994 of the contract for constructing the facility of NNPC's partially owned subsidiary NLNGC has unmasked a musical chair of graft and has spawned a major international investigation. At least, $180m, although the figure could be up to $1b, was allegedly paid as a bribe to secure the contract for setting up the facility, reportedly the largest engineering project ever executed in Africa. Donald Etiebet, who was the petroleum minister at the time, has claimed that Abacha frustrated the minister's attempt to impose transparency and due process. Etiebet, claimed to have refused a subsequent attempt by an apparent representative of one of the successful consortium partners Kellog, Brown & Root (KBR) to "set up an arrangement" for the minister, reportedly wrote the chairman of the NLNG board Mohammed Dikko Yusuf casting doubt on the "integrity of the pending contract."[121] Chairman Yusuf himself was fired in 1997 reportedly for refusing the demand of petroleum minister Etete (Etiebet's successor) for the rewriting of construction and supply contracts.[122]

The awarding of oil field concessions has been seen as the most important vehicle for graft in the industry since the Babangida regime in the mid-1980s. The allocation of oil blocks to indigenous companies—industry revolution in its own right—that the

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[119] *Africa Confidential*, December 18, 1998.
[120] As characterized by *Africa Confidential*, June 26, 1998.
[121] *Africa Confidential*, June 24, 2004; *Africa Confidential*, September 10, 2004; *Africa Confidential*, September 24, 2004; *Africa Confidential*, July 22, 2005.
[122] *Africa Confidential*,, April 3, 1998.

regime pioneered was also seen as a way the leaders helped cronies and also acquired the resources by proxy, sometimes through family members. As we have seen, most fields NNPC discovered were given away in a discretionary manner. Abacha is said to have awarded several choice blocks to his business partners, the Lebanese Chaguiri brothers. Abacha's oil minister Etete is known to have awarded an oil block to his Malabu Oil. The Abubakar interim regime is notoriously associated with frenzied award of concessions on a discretionary basis during 1998-99. Abubakar's son is reported to have influenced the award of OPL 249 to an Indian, Ramesh Kansagra.[123] It was reported in 2000 that the business of Leno Adesanya, the businessman who was at the center of the 1993 strategic reserve deal and a Babangida associate since the late 1980s, had "survived better than expected."[124]

Shortage of due process remains a major factor in 2007, in spite of the Obasanjo administration's reforms program. As the minister of petroleum and NNPC chair for virtually his entire eight-year tenure, President Obasanjo must be mentioned in a discussion connecting the corporation to the wider transparency problems surrounding the industry and Nigerian oil revenues. More than any other time in Nigeria's entire history, Obasanjo's feud with his deputy has provided Nigerians with a rare glimpse into the stark reality of corruption in the oil industry. The quarrel between the two leaders is unprecedented in Nigerian history, and the Nigerian public has been treated with dealings hitherto kept in high secrecy. In this political combat, deals that had been carefully closeted for years or those that had escaped close public scrutiny when they first entered the public domain are released or re-released to the media as new information. The

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[123] *Africa Confidential*, August 4, 2000.
[124] *Africa Confidential*, April 14, 2000.

political context of the allegations is, of course, cause for caution in using the information. But when the nation's two most powerful leaders, serving in the same government, freely trade accusations of corruption, such accusations must be taken seriously, and political context is immaterial as long as the allegations are sound. In fact, this context is valuable because the revelations would not have been possible without it. It is equally noteworthy that the revelations have sometimes been backed by documentation. The value of the allegations is also enhanced when the accused fails to refute them convincingly, as has happened often enough. In short, the revelations have given credence to what had sounded like mere rumors a few years ago. Analysts of the Nigerian oil and gas industry now have the feedstock they need to transcend characteristically insipid treatment of corruption, to embark on concrete analysis.

Mutual recriminations between Obasanjo and his deputy over misappropriation of monies in the Petroleum Trust Development Fund (PTDF) in particular have illuminated the incidence of corrupt practice among top government officials and a window into the attitude of the political elite to the oil wealth. The PTDF was established to lodge the Federation's receipts from signature bonuses, royalties, and licensing and other fees from crude oil and gas for the purposes of manpower development. President Obasanjo removed the vice president from the chair of PTDF. Thereafter, the anticorruption watchdog Economic and Financial Crimes Commission (EFCC) and another panel made up of Obsasanjo's closest advisers indicted the vice president for allegedly misappropriating PTDF funds, toward a complicated business interest involving U.S. congressman William Jefferson.

The vice president reposted that Obasanjo was the primary beneficiary of slush money from PTDF, and he accused Obasanjo of graft and running the oil industry single-handedly. He also warned early November 2006 that the Obasanjo camp was hastily purging incriminating information and doctoring industry related documents, including retroactively appending "due process," as well as making hurried, retroactive approvals for contracts to cover up withdrawals already made from the PTDF. These allegations became more interesting when the Federal Executive Council (FEC) quickly announcement of approval of a spate of capital projects from the PTDF fund.[125] Abubakar's camp alleged that these contracts were part of the retroactive measures the presidency had taken to cover-up up improperly awarded contracts ahead of an impending senate investigation into these funds. "We reiterate that this mad rush for Council approval was prompted by the fact that we had hinted in previous press statements that we intend to raise questions about these particular contracts at the Senate hearing."[126] The PTDF scandal concerns NNPC because of the implication in Obasanjo's tenure elongation effort of both the corporation and PTDF funds. NNPC seems to have sided with the president in the row and was alleged to have attempted to undermine the senate panel probing the fund. Vice President Abubakar revealed September 2006 that NNPC had failed to remit to the PTDF $555 in signature bonuses accruing from the

[125] For the vice president's warning, see *This Day*, November 2, 2006, www.thisdayonline.com/nview.php?id=62123; *Nigerian Tribune*, November 2, 2006, www.tribune.com.ng/02112006/news/news3.html. For the presidency's announcement, see *Punch*, November 2, 2006, www.punchng.com/Articl.aspx?theartic=Art20061102149846. The projects involved $7.6m for the resuscitation of the Defense Industry Corporation (DIC), $25m to facilitate the establishment of a "Gulf of Guinea Institute" for research in oil and gas. More spending from PTDF included an unspecified some earmarked toward facilitating an "African Institute of Technology." From all appearances, the president was not comfortable with a public hearing, as insisted on by the vice president. (*Times of Nigeria*, December 3, 2006, www.thetimesofnigeria.com/index.php?option=com_content&task=view&id=1507&PHPSESSID=b70981c16c974a136298a895eb19fa0f)

[126] *Times of Nigeria*, November 6, 2006, http://www.thetimesofnigeria.com/index.php?option=com_content&task=view&id=1359&PHPSESSID=69d2097ea4d9b653ea435260ecd42f4f

2002-03 oil block bid rounds.[127] NNPC responded that funds realized from the 2000 bid round "were far in excess of what was reasonably required for training" and the president decided to limit PTDF deposits to $100m a year.[128] But no law permits the president or NNPPC such discretionary handling of the fund.

The anti-corruption agencies are uncharacteristically slow to investigate fraud in the oil industry, compared to, for example, the financial services sector, a fact that belies the depth of corruption in the industry. In fact, it was not until late 2006, after opposition politicians began to leak to the media information about sleaze in the industry, that EFCC, seemed serious with probing the industry beyond oil bunkering. Announcing that his anticorruption commission had commenced investigation into 30 of the concessions awarded in the May 2006 "mini-bid," EFCC chairman Nuhu Ribadu admitted in late January 2007 that the industry is secretive and corrupt, and that the award of oil blocks still lacked transparency, despite the introduction of open bidding.[129] One case involved a discretionary award to Starcrest Energy of the choice block, OPL 291, adjoining Chevron-Texaco's prolific Agbami field. Starcrest, which belongs to President Obasanjo's associate Emeka Offor, had been hurriedly incorporated in Nigeria reportedly only days before the bid and allegedly had not yet established an office. Starcrest has a PSC with Addax Petroleum, a consortium partner of Offor's other company, Houston-based ERHC Energy, in the JDZ where ERHC Energy had acquired preferential acreage

[127] "From Atiku Campaign - The Case of the Missing $555 million in PTDF funds and Other Matters," (statement, Abuja, Nigeria, September 17, 2006).
[128] *This Day*, September 26, 2006, www.thisdayonline.com/nview.php?id=59241.
[129] *Daily Independent*, January 30, 2007, www.independentngonline.com/news/44/ARTICLE/20045/2007-01-30.html.

rights in April 2003.[130] Transnational Corporation (Transcorp), a company in which the president was a shareholder and seen by many as acquiring public assets on the cheap, counts four oil blocs—OPL 218, 219, 209 and 220—as part of its assets.

The Obasanjo administration presents an ambiguous transparency image: espousal of reforms and establishment of institutions and structures for realizing them, amid credible reports of serious transparency breaches. These transparency issues may compromise the reforms. The industry is not irredeemable and the will to confront corruption has been discernible over the years. Credible attempts have been made to check corruption in the Nigerian oil industry since the malaise escalated in the late 1970s. The Buhari regime (1983-85) was marked by a general war on corruption. His petroleum minister David-West, who had announced the puncturing of a multi-billion dollar oil deal racket early 1984, declared mid-January 2007 what many Nigerians knew already: "While I worked with him, Buhari never interfered with me as Petroleum Minister. He never sent anyone to me for contract because he was not interested in contracts."[131] Another regime that showed significant interest in fighting corruption in the industry was the Shonekan interim government of 1993, culminating in the dismissal of nearly all the highest echelon of NNPC management for their role in a major scam. These efforts have been resisted by significant power centers. Commitment to anticorruption was probably a consideration in the overthrow of the two regimes. More details about the role that

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[130] *Daily Sun*, November 17, 2006, www.sunnewsonline.com/webpages/news/national/2006/nov/17/national-17-11-2006-01.htm; *Tribune*, November 17, 2006, www.tribune.com.ng/17112006/news/news1.html. For the partnership, see ERHC Energy's interim CEO Nicolae Luca's December 7, 2006 statement (www.erhc.com/news.htm#) and for ERHC's role in JDZ, see www.erhc.com/OurBusiness.htm.

[131] *The Guardian*, January 18, 2007, www.guardiannewsngr.com/news/article06. David-West, like Buhari, did not leave government a rich man, even though he was retained for sometime thereafter by the Babangida junta. I was struck by the simplicity and extreme modesty of David-West's residence in Ibadan, where he lives in an old bungalow courtesy of the university he worked as a professor of virology. Buhari as a military chairman of NNPC between 1977 and 1978 could have gouged the corporation at a time oil revenues were at record highs. These men are a rare breed among Nigerian senior administrators who wielded the power to award and cancel concessions and big oil contracts.

corruption in the oil industry played in these events will likely emerge in the future. The regimes that replaced them showed no interest in fighting corruption in the industry; instead, they thrived on it.

PETRO-POLITICS

"Petro-politics" refers to the politics in which oil plays a central role. This politics has dominated post-Biafra Nigeria.[132] Geographer Michael Watts has used the terms "petro-capitalism," "petro-revenues," "petro-violence," and "petro-corruption" to characterize various elements of the petroleum-driven political economy.[133] I take liberty in referring to the politics as "petro-politics." The fact that petroleum is not only a strategic industry but also the nation's preeminent revenue earner ensures visibility of this resource and that access to it is marked by intense contestation and conflict.[134] As the spearhead of the critical oil and gas industry, NNPC's relationship to Nigerian politics cannot have been marked by a lack of involvement. In spite of its significant role in Nigerian politics, however, the corporation's involvement has seldom been direct or overt. While the corporation has been active in protecting and increasing its influence over the years, this endeavor has taken a back seat in the brutal arena of Nigerian politics.

Resource Control Agitation and Stakeholder Responses

[132] Those who argue that oil was the major cause of the Biafran war 1967-70 would push petro-politics backward in time. This subject would be more appropriately explored elsewhere. It suffices here to say that the idea that petro-politics crystallized the war is an anachronism. Although oil came into the mix at some point in the crisis, it was never the central element, and it did not figure largely in the calculations of the principal protagonists at the beginning of the crisis. The war had deeper and more longstanding causes than oil.

[133] See, e.g., Michael Watts, "The Sinister Political Life of Community: Economies of Violence and Governable Spaces in the Niger Delta, Nigeria," 2005.

[134] Transcorp stirred nationalist outrage September 2006 when its chair Ndi Okereke-Onyiuke informed the Federal House of Representatives that two oil blocs the company once competed for were awarded to an Indian firm that offered a lower bid of $55 million, as opposed to Transcorp's $75 million. (Oputa Report, *Human Rights Violation Investigation Commission: Volume IV* (2002), 149.)

Agitation for "resource control" in the volatile delta deserves some attention because of its implication for NNPC and the Nigerian oil and gas industry, as well as its contribution in shaping new ideas about corporate social responsibility among IOCs. This agitation has resulted in the sabotage of and attacks on oil facilities, and in frequent kidnappings of oil workers. Figures attributed to an NNPC report put the number of "vandalizations" on industry facilities between 1998 and 2003 at 400 annually, and 581 between January and September 2004.[135] Deepening unrest has had a telling effect on the ongoing repositioning exercise and the industry, and contributes to the volatility of the international energy market. Nigeria's projection of production of 3m b/d by the end of 2004 failed to materialize. Vandalism of facilities in February 2006 forced Shell had to abandon 480,000 barrels daily crude production or 21 percent of Nigeria's daily total in Warri in western Niger Delta.[136] Oil production had declined by 25 percentage points by May 2006 and by 32 percent or 800,000 b/d by mid-June, representing daily revenue loss of $56m in the later period.[137] Daukoru was quoted September 2006 as saying that the crisis costs Nigeria 872,000 barrels or $61.04m daily.[138]

The Warri refinery was idle for much of 2006 following militant bombing and destruction of its crude oil supply pipeline in January. The repair of the crude oil supply pipeline to the refinery was long in coming because contractors were afraid of being kidnapped. This led to the laying off in May 2006 of all remaining casual workers (150 of them) because of NNPC's inability to retain them in the absence of any production.[139]

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[135] Ibid., 110; Michael Watts, "Empire of Oil: Capitalist Dispossession and the Scramble for Africa." *Monthly Review* 58, no. 4, 2006.
[136] *This Day*, September 6, 2006, www.thisdayonline.com/nview.php?id=57714.
[137] Shell accounted for about 500,000 barrels of the loss. This figure is attributed to the director of DPR Tony Chukwueke. *This Day*, June 12, 2006, www.thisdayonline.com/nview.php?id=50376.
[138] *This Day*, September 12, 2006, www.thisdayonline.com/nview.php?id=58169.
[139] *This Day*, May 23, 2006 www.thisdayonline.com/nview.php?id=48826.

Another explosion rocked the refinery on the dawn of December 23, 2006, but damages were contained because the oil pipes which meant to catalyze the explosion were empty.[140] This second bombing was probably calculated to annihilate the refinery altogether. Damages to the pipelines network have increasingly disrupted the delivery of gas to power stations. Minister Daukoru admitted in February 2007 that the West African Gas Project had missed its December 2006 deadline partly because of sabotage by Niger Delta militants.[141] Gas supply to PHCN had dropped by 46 percent daily late April 2006.[142] These disruptions forced the government in early 2006 to take steps toward resuscitating the moribund coal industry as part of effort to deliver sufficient energy for power generation. Attacks on pipelines will likely undermine efforts to develop gas as a major component of the industry, and as a catalyst of energy reforms and of economic growth, and to achieve the capacity needed to place Nigeria as a major world producer of gas.

Underlying the overt and dramatic features outlined above are systemic issues involving not only the process and conceptions of the Nigerian nation state, but also the process of the international energy market. From the perspective of the global energy market, the Niger Delta crisis is usually seen in terms of its impact on recent volatility, but of no less importance is that past volatility of this market did in fact catalyze the problem unfolding today in the first instance. Although not given prominence in extant analyses, the correlation between sustained agitations for resource control in the Niger Delta with dwindling oil revenues is central to understanding the present crisis. An

[140] *Punch*, December 24, 2006, www.punchontheweb.com/Articl.aspx?theartic=Art200612244473651.
[141] *Vanguard*, February 13, 2007, www.vanguardngr.com/articles/2002/cover/february07/13022007/f213022007.html.
[142] Attributed to Nigerian Gas Company (NGC) managing director Chris Ogiemwonyi (*This Day*, April 28, 2006, www.thisdayonline.com/nview.php?id=46729.)

analysis of this phenomenon strongly suggests that while Nigeria's social programs were unsustainable in their specific size and form, stability of oil and gas prices at equitable benchmarks is in the long-term interests of both resource owners and consumers. An analysis of international crude oil prices as a causal factor in the Niger Delta crisis in turn implies a historical review of the Nigerian political economy, not least because of the central role of oil in it. The major discontinuity in this history came in the 1980s when sustained depression in global oil prices that resulted in the inexorable decline of the Nigerian economy, reaching a breaking point by 1990. I make haste to distinguish this position from the idea, rife among Nigerian social scientists, that economic adjustment facilitated ethnic identity, of which resource agitation in the Niger Delta is seen as one manifestation.[143] If at all economic adjustment facilitated ethnic identity, it did also certainly galvanize, reinforce, expand, and reform groups and movements with national outlook, such as militant student and labor unions. It also spawned alliances among relevant social groups across ethnic, class, and occupational boundaries. Thus, to explain Niger Delta agitation merely as a reflection of rising ethnic consciousness offers at best a limited perspective.

The struggle of the people of the Niger Delta for access to Nigeria's oil wealth has been longstanding and it antedated the crash in oil prices in the 1980s. The people had periodically expressed grievances against the oppressiveness of oil exploration in both violent and non-violent ways. The first major unrest occurred in the mid-1960s, when Ijaw college student Isaac Adaka Boro led a 12-day armed revolt of Ijaw villagers. Cashing in on residual anti-Igbo sentiment in the region, the Yakubu Gowon junta quickly co-opted jailed Boro and the movement into its civil war against Igbo-dominated

[143] See the authorities cited by Obi, (2001): 14.

secessionist Biafra that claimed the eastern Niger Delta as part of its territory. What was a genuine agitation against federal oppression virtually degenerated into an anti-Igbo affair that was to characterize political activism in the region for sometime. The creation of new states for the oil producing minority peoples freed the people from Igbo domination and gave them local autonomy, but it also came with a false sense of belonging that lasted until the1980s. During this period, the Niger Delta elite were the most consistent southern allies of the politically dominant far north, and important oil-rich communities were transferred from Igbo states to the minority states of the delta in periodic "boundary adjustments" that characterized the 1970s.

Very few incidents of agitation took place between the Boro insurgency and the early 1990s, despite the fact that very little of the oil revenues was actually channeled to the region. The most notable agitation during the period was perhaps in 1970 when six Ogoni chiefs petitioned the governor of their Rivers State over environmental degradation, demanding "a greater share of the revenues from the oil extracted from Ogoni land."[144] For the most part, the IOCs operating in the region coexisted with the people. According to an NNPC official who was a wellsite engineer in one of the IOCs in the 1980s, IOC personnel enjoyed great hospitality in the Delta. As a student activist at the University of Port Harcourt during the mid-late 1980s, the present writer can confirm that agitation against IOCs, for resource control or against environmental degradation was by no means a significant issue of the day, even as gas flares above nearby Egbema perpetually blazed the horizon. The question of why the agitation for resource control in the Niger Delta has become more widespread and sustained since the 1990s is imperative indeed.

[144] Quoted in Maier, *This House Has Fallen*, 84.

More than increased government oppression, IOC insensitivity, and environmental degradation, sustained unrest since the 1990s has also been a function of diminished government revenues from oil and virtual complete collapse of the state. Sustained Niger Delta agitations developed as part of a broader national protest movement against the scaling back of government services that resulted from depressed world oil prices. Increase in crude oil prices may not have had significant impact on industrial progress,[145] slumps have nevertheless had devastating consequences on the economy and social fabric of the country.[146] Oil had sold at robust prices during the 1970s, averaging inflation-adjusted $44.46 during the 10-year period 1971-80.[147] Nigeria embarked on massive social programs. These included the Universal Primary Education (UPE), a component of the free education policy. Even certain food items, including beef, were imported at subsidized rates. After 1980, however, prices fell sharply. Nigeria's annual oil revenues spiraled from $24.6b in 1980 to $11b in 1983, and foreign debt servicing rose from a mere 5 percent of foreign exchange earnings to 30 percent over the same period.[148] There was little left in the treasury after the political elite and their cronies had cornered much of the revenues. Drastic reductions in government's ability to meet basic commitments to Nigerians, such as schools and hospitals, subsidies and general welfare provisions became the order of the day. Nigerian regimes had long become insensitive, oppressive, corrupt and inept up to the mid-1980s, but for almost ten years prior to 1984, Nigerian children could go to school free of charge up to university, most Nigerians could afford to go to hospitals that were relatively well stocked with

[145] Felix O. Ayadi, "Oil Price Fluctuations and the Nigerian Economy," *OPEC Review* 29, no. 3 (2005).
[146] For the impact of fluctuations in world oil prices on the Nigerian economy, see Ayadi, et al. (2000).
[147] Calculated from the Historical Crude Oil Prices Table at Inflationdata.com (http://inflationdata.com/inflation/Inflation_Rate/Historical_Oil_Prices_Table.asp). My calculation of the mean is not weighted. Prices are based on U.S. crude oil imports; they are not necessarily represent the exact prices Nigerian crude in the international market.
[148] Turner, "Nigeria: Oil Smuggling."

drugs, and many still had disposal income. Sharp declines in international crude prices in the 1980s changed all this.

The economic crisis was not only a result of fallen oil prices, but also of contemporary changes in the international credit system. The anti-inflation strategy of neoconservative administrations in major Western creditor countries occasioned high interest rates, with interest rates on commercial bank loans hovering around 19.5 percent by 1982.[149] Nigeria borrowed from the Paris Club and the IMF, which required the country to implement structural adjustment, which came with scaling back of social services, currency devaluation, layoffs, and withdrawal of subsidies from petroleum products in an attempt to inch domestic prices to world levels. Price controls of the products spawned a huge black market, as middlemen seeking increased margins and unauthorized brokers found willing accomplices in the personnel of government agencies charged with the task of stopping the black market. The more fuel diverted to the black market and to neighboring countries, the more graft money that changed hands.[150] Resulting shortages and high black market prices aggravated the suffering of the majority. From the mid-1980s onward, labor and student groups embarked on frequent protests, more than had been witnessed anytime since independence. By the late 1980s, when oil prices stabilized in the range of \$10-\$11, the situation verged on social paralysis.[151]

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[149] Andrew C. Okolie, "Oil Rents, International Loans and Agrarian Policies in Nigeria, 1970-1992," *Review of African Political Economy* no. 64, (1995): 202-03.

[150] This problem exacerbated in the 1990s. By mid-1998 when the official price of gasoline was still below 50 cents, black market prices ranged between \$1 and \$4 (Maier, *This House Has Fallen*, 41).

[151] In 1998, the Nigerian government had to revise its budget later in the year because of 20-25 percent shortfall in foreign exchange occasioned by oil price of \$13 per barrel, as against \$17 projected. (*Lloyd's List*, October 4, 1998, 4). Oil prices did not experience sustained significant appreciation until the end of the 1990s.

By the 1990s, the hardship had galvanized Niger Delta people to ask more loudly than ever before questions about oil revenue. It is often mentioned in the Nigerian political discourse that seeing vast sums sunk into building from scratch the new administrative capital of Abuja in central Nigeria at time their own region suffered increased neglect and environmental degradation did nothing to assuage their discontent. Ogoni people, for example, juxtaposed their reality of increased neglect, hardship, and infrastructural decay with the network of ninety-six wells in the meager 600 sq km of Ogoniland operated by NNPC's JV partner Shell. Similarly, it was not until the late 1980s and the 1990s that petroleum industry labor unions, PENGASSEN and NUPENG, virtually moribund since formation in the 1970s came to life.

Into this volatile mix entered the annulment of the 1993 presidential election, which was apparently won by Yoruba tycoon Moshood Abiola. This development integrated Niger Delta agitation more closely into a broad coalition of the national pro-democracy movement, and the agitation henceforth enjoyed support from unusual quarters. This merger did not happen instantly; neither the anti-annulment alliance nor the Niger Delta agitators seemed to have immediately recognized the expediency of a common cause before 1993. In fact, head of PENGASSAN Chief Dabibi could declare as late as October that year that an unrest which shot down 60,000 b/d production from Elf Bonny facility was "in no way connected" with the pro-democracy movement.[152] In all probability, support from other sections of Nigeria for Niger Delta agitators would have taken longer to materialize, if at all, had the election not been annulled and the rest of country, particularly the major ethnic groups, been happy with the transition program. All

[152] *Platt's Oilgram News*, October 12, 1993.

this suggests nevertheless more a crystallization of a national movement than of ethnic consciousness.

That increased economic hardship as a result of depressed international oil prices primarily stirred sustained agitation in the Niger Delta is not to suggest that the Niger Delta had ever been well-provisioned before the depression—far from it. As Watts has observed, the people had "missed out on the oil 'boom' and were compelled to swallow the bitter pill of austerity".[153] In the zero sum game of Nigerian politics, the minority ethnic groups of the region were not politically influential enough to garner a fair share of government investment, and the difficult, marshy terrain guaranteed that Nigeria's lazy rulers ignored the Niger Delta countryside. In 1968, the people of the Ijaw town of Oguluhala (Old Forcados) at the Forcados river estuary were relocated to allow Shell-BP "unhindered access to oil and gas" and to install production and storage facilities that in time included Nigeria's largest export oil terminal.[154] The Oputa Panel of 2002 observed that "The Nigerian state [did] not have a coherent, consistent and just formula for recycling some parts of the oil wealth it accumulates back into the communities from which oil is produced." The emergence of oil as the mainstay of the economy coincided with the entrenchment of military rule following the civil war and concomitant "de-emphasis on the principle of derivation as a revenue sharing formula to other factors like population, need and even development".[155] These were the priorities of the far North whom the ruling generals primarily represented.

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[153] Watts, "The Sinister Political Life," 123.
[154] Oputa Report, *Human Rights Violation Investigation Commission: Volume III* (2002), 45.
[155] Ibid, 32.

At the peak of the oil boom in the 1970s, Rivers State from which flowed 60 percent of Nigeria's oil received only 5 percent of federal transfer payments.[156] The exploitation of the delta, despoliation of its lands and waters, and its marginalization by the Nigerian state had been constant features of the people's existence. But before the 1980s, the region's farmers and fishermen, for example, could expect reasonable prices for their aquatic and agricultural produce. Increasing environmental damage to the ecosystem ensured that the people were among top Nigerian rural-to-urban migrants, but while Nigerian migrants as a whole could expect better life in the cities prior to the mid-1980s, they were often confronted by unemployment, miserable pay, decaying infrastructure, and all the problems deriving from these after this period. According to Watts, urban poor nearly tripled between the early 1980s and the mid-1990s.[157] The significant new element was dwindling oil revenues, government's inability to maintain the social amenities and physical infrastructure.

The crash in oil prices had, perhaps, more drastic impact on Nigeria than any other oil producing country. With extreme reliance on oil rent, low investment on capital projects, and general poor record of reinvestment, low external reserves, monumental corruption, teeming population, low per capita income, hundreds of ethnic nationalities, and a flawed federal structure that thrived on the marginalization of the oil-producing minority areas, Nigeria never enjoyed such relative stability as have other oil producers, e.g., Kuwait, Saudi Arabia or Libya. These countries' smaller populations, much higher per capita incomes, and relatively homogenous populations, primed them better to resist the shocks of sharply declined oil revenues.

[156] Watts, "The Sinister Political Life," 125.
[157] Watts, "Empire of Oil."

As we have seen, sustained agitation in the Niger Delta came in the wake of a broad-based national movement against military misrule that rendered Nigeria a classic failed state. Through mainly the well-publicized activities of Ken Saro Wiwa and his tragic execution by the Abacha junta, Niger Delta agitation quickly became familiar to a global audience, focusing attention to IOCs in the region, which became the global archetype of IOC neglect and despoliation of oil bearing communities. Resource control agitation in the Niger Delta also thrived on the emerging global atmosphere of the early 1990s that questioned the viability of and justification for the multiethnic nation state, and had seen the end of the Cold War and elimination of superpower rivalry. Major Western countries and Japan overcome earlier inhibitions dictated by narrow strategic considerations in their approach to domestic conflicts in foreign countries. They paid closer attention to issues of democracy and human rights, the focus of the increasing influence of NGO-driven global environmentalist and pro-democracy movement, which sharpened their campaigns against IOCs.

Before the rise of Niger Delta agitation in the early 1990s, IOCs anywhere do not seem to have been held to higher standards of corporate social responsibility than their counterparts in other industries. In this national and international context, Niger Delta agitation required responses by the Nigerian state and IOCs if the continued flow oil was to be guaranteed. IOCs embarked on community assistance programs to oil bearing communities in efforts to make up for decades of neglect and for the failings of the failed Nigerian state, with the overall aim of acquiring the “license to operate.” Escalating militancy over the years in the presence of community assistance has forced the IOCs to reassess this approach. In the late 1990s, Shell led the IOCs in transiting from community assistance to "community development" and several years later to "sustainable community development" or "partnership.[158] As part of the new approach, the government also now requires oil companies to enter MOUs with local communities. The innovations introduced since 1997 in IOC community relations program in resource-bearing communities of the delta demonstrate the region's role in shaping globalized IOC corporate responsibility responses. In other words, the Nigerian crisis initiated new standards of accountability and corporate social responsibility in the global oil industry. "Partnership" replaced community assistance, but as graphically described by Watts in the case of Nembe, not before community assistance politics had scrambled and indeed upturned community authority structures.[159]

The new policy is set to attract greater attention to NNPC's "community relations" programs, involving the delivery of social infrastructure. In dealing with communities hosting NNPC facilities, corporation personnel have largely been successful in distancing their organization from its IOC partners' exploitation and despoliation of the communities. NNPC pursues community relations in two main ways, apart from involvement in the Niger Delta Development Commission (NDDC), established in 2000 to speed up the development of the region, in atonement for prolonged neglect. First, it contributes funds toward programs executed through its IOCs partners.[160] For example, NNPC and Shell had set up six "agricultural training centers, extension services, micro-

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[158] Michael Watts, "Righteous Oil? Human Rights, the Oil Complex and Corporate Social Responsibility," *Annual Review of Environmental Energy* 30 (2005a); Anna Zalik, "The Niger Delta: 'Petro Violence' and 'Partnership Development,'" *Review of African Political Economy* (2004). According to Zalik (2004), the sustainable community program involved "the construction of a large community development bureaucracy …, and the mushrooming of local civil society organizations as sub-contractors for particular community development interventions [such as] youth training, women in development, micro-credit and conflict resolution…. The partnership approach has also been accompanied by a renewed engagement of international development agencies [such as] the European Union and USAID."

[159] Watts, "The Sinister Political Life," 115-21.

[160] For detailed analysis of IOC community relations programs, see Zalik (2004).

credit schemes for agricultural development and livestock program" as at July 2006.[161] Second, the corporation has pursued its own direct community development programs since the 1980s, through a fund channeled through its Group Public Affairs Department. The fund is distributed among the corporation's various subsidiaries for community development work in their respective host communities. Although a great concept and good public relations tool, this program lacks material presence in areas it is supposed to have been applied. According to an industry source, program supervision is lax, and quite a significant portion of the funds never seems to go into the projects. The corporation's community programs, like those of the IOCs, seem very much like a work-in-progress. To its credit, the corporation has done a good job of image laundering, given the circumstances, but it is not because of the great success of these programs.

In response to geopolitical concerns in the Niger Delta, the Obasanjo government has proposed a series of other measures since the second quarter of 2006 to address the longstanding injustice against the people of the Niger Delta. One of these measures, launched in June 2006, commits 20 trillion naira ($160b) to the development of the region. In May 2006, DPR director Toni Chukwueke reportedly declared that the federal government would shortly begin to lease oil blocs to delta states as a way of dousing tension in the troubled region.[162] Delta politician Goodluck Jonathan is the ruling People's Democratic Party (PDP) vice presidential candidate in a handpicked team Obasanjo intends to succeed him, the closest any politician from that region would come to occupying that position. Currently, the delta elite share the domination of the public sector section of the industry with technocrats from Nigeria's three major ethnic

[161] *NNPC News* 28, no. 7 (July 2006).
[162] *Daily Independent*, May 9, 2006, www.independentngonline.com/?c=44&a=2042.

groups—Hausa-Fulani, Igbo, and Yoruba. Technocrats from Nigeria's other groups hardly figure at all. Since the 1990s, the corporation's top job has mostly been held by professionals from the delta, surely part of the larger effort to assuage the people.

Of five petroleum ministers since 1993, only Obasanjo (in his capacity as minister until January 2007) has come from outside the region, and two of the three special advisers since the creation of that position 1998 have also come from there as well. The elevation in January 2007 of Daukoru is in line with this policy. All the three major groups have had significant presence in the top both echelons of both NNPC and DPR. NNPC is currently dominated by Hausa-Fulani and especially the Yoruba, while the DPR top post in recent years has been held mostly by the Igbo. The temporary resurgence as oil czar of northerner Lukman in 2000 seems to have reflected Obasanjo's attempt to placate the northern elite, who were grumbling stirred by his early appointment of a southerner to head NNPC and introduction of open, competitive bidding for concessions.[163] Probably to address those sensitivities as well, the Obasanjo regime has awarded of oil blocks to corporate groups, not just to individually- owned businesses as had been the case. Three blocs, OPLs 217, 246 and 252, were in March 2006 offered to INC Natural Resources, a company said to be owned by the northern state of Jigawa government, on a first right of refusal basis, before the May 2006 mini-round bid.[164]

Before the return to civil rule in 1999, the military brass constituted a major constituency in the allocation of access to oil resources, but this appears no longer to be the case. Although retired generals still strut the political landscape and have the firmest grip on oil assets of all discernible Nigerian social or interest groups, serving generals can

[163] *Africa Confidential*, August 27, 1999.
[164] *This Day*, October 3, 2006, www.thisdayonline.com/nview.php?id=59789.

no longer expect oil deals as a matter of course. With a modicum of respect for the rule of law and good governance, however, it is no longer essential for a government to bribe them with oil contracts or concessions to keep them in the barracks.

Still, there is little evidence that a political solution dominates the Obasanjo administration's strategy for the delta. In an effort to stem the tide of attacks on oil facilities, IOCs have been migrating production offshore and the government gives them special incentives to do so. Indeed, Shell's leaked report of 2004 suggested that the company would cease all onshore operations by 2008. Offshore activities insulate oil facilities from insurgent attack and sabotage better than land-based operations. Spokesperson of the incarcerated preeminent leader of Niger Delta militancy Asari Dokugbo claimed in a statement May 21, 2006, that the militants had acquired heat-seeking weapons with the capability to attack deep-water offshore facilities, pinpointing the Bonga fields.[165] The escalation of attacks since then, including successful strikes on offshore facilities, indicates that the militants can back up their threat. It also exposes the inability of security forces to reestablish order in the region. All this makes it increasingly obvious that only a political approach will bring lasting solution to the crisis.

Contrary to this evidence, the government gives the impression that it is a master of the security in the region. In November 2006, the military staged a rescue effort of seven expatriate hostages, working at an offshore field of the Italian oil company Eni's Agip, which led to the killing of one of the hostages, the wounding of another, the death of one naval personnel and two militants. The navy celebrated the operation as a success. Instead of the expected approval, however, the oil majors denounced the government's strong arm tactics. An unnamed security chief of one of the oil majors in Nigeria was

[165] *Punch*, May 22, 2006.

quoted as saying: "Quite frankly, I think the entire operation described it as a fiasco. Anyone with even the least understanding of the Niger Delta will tell you that strong-arm tactics don't work there. There's nothing wrong with negotiating with the hostage-takers like we have done in the past, and safely, with huge success. Any time strong-arm tactics are applied, this sort of thing is bound to happen." A security coordinator in another IOC declared his organization would be expressly asking the Nigerian government not to stage a rescue in the event of future hostage situations involving the company's workers. Disapproving of the operation and suggesting the absence of a government hostage policy, chairman of the federal House of Representatives Committee on the Navy Anthony Aziegbemi called for a new direction.[166] The government's primary motivation of dispelling any signs of weakness had backfired. Perception on the part of the militants of cracks within the government and in the relationship between the government and the oil majors undermines both government coercive capacity and reinforcing a comprehensive political response as the option most likely to yield enduring solution.

Most politicians and leaders of opinion now appear willing to find a solution to the problem. The Oputa Panel recommended that the government "embark on projects and provide social amenities in the oil-producing communities aimed at improving social amenities in the oil-producing areas." The House of Representatives' overriding by 98 percent majority vote of Obasanjo's veto of the bill establishing NDDC in 2000 was a resounding acknowledgement on the part of the mainstream political class of longstanding neglect of Niger Delta minorities. Oil companies are now required to contribute community relations funds through NDDC. These contributions amounted to

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[166] *BBC News*, http://news.bbc.co.uk/2/hi/africa/6177062.stm.

\$362, 236, 000 during the four-year period 2001-04.[167] The majority of the delegates to the National Political Reform Conference 2005 adopted a raise in revenue derivation to 17 percent from the prevailing 13 percent, although this fell short of the 25 percent demanded by the mainstream Niger Delta elite who walked out of the conference.

Major presidential candidates in the 2007 election have promised comprehensive programs for the problem. The ruling PDP's presidential candidate has promised to develop the region, amidst reports that the Obasanjo government is in the process of importing \$2b worth of arms for crushing the insurgency. Atiku Abubakar of the Action Congress has pledged to create a federal ministry for Niger Delta affairs to be headed by an appointee from the region and to build the Niger Delta "the way the government had developed Abuja." Buhari of the All Nigerian People Party (ANPP) seems to have gone furthest in promising to restructure Nigeria, with a view to instituting a genuine federalism, but he has not unfolded his detailed strategy for doing this.[168] The military too is increasingly canvassing a political solution, with army chief of staff General Owoeye Azazi and commander of the important Port Harcourt based 2 Mechanized Brigade Brigadier General Samuel Salihu among the voices.[169]

Despite the fact that the government and oil majors have both benefited from huge revenues accruing from unprecedented high crude prices of recent years, deriving in part from instability in the Niger Delta, it has been a mixed result for Nigeria at best.

[167] Calculated from NEITI, "Audit: Financial Flows," 49.

[168] For Abubakar's promise, see *Times of Nigeria*, December 8, 2006, www.thetimesofnigeria.com/index.php?option=com_content&task=view&id=1533&Itemid=85&PHPSESSID=e1f16924491a5c766bfef4e017 ; www.independentngonline.com/news/44/ARTICLE/18552/2007-01-08.html. For Buhari's promise, see *Sunday Independent*, January 8, 2007, www.independentngonline.com/news/44/ARTICLE/18552/2007-01-08.html; *Daily Triumph*, December 12, 2006, www.triumphnewspapers.com/archive/DT12122006/buhar121202006.htm.

[169] Speaking on the Niger Delta problem, Azazi declared: "Internal security problems are not always prone to military solution. They always get solved applying political solution. The military can only come in to stabilize the situation to make room for political solution to be applied" (http://allafrica.com/stories/200607010202.html). For Salihu, see *Daily Independent*, November 30, 2006, www.independentngonline.com/news/44/ARTICLE/16275/2006-11-30.html.

Increased oil revenues are attenuated by huge human and social costs, disruption in the implementation of strategic plans, descent to lawlessness, and sheer negative publicity from the unrest and clumsy efforts to suppress it. By the logic of IOCs calculating margins on the basis of global strategies, rather than the internal economics of particular operations, IOCs may care less about an enduring solution of the problem. Zalik (2004) goes as far as arguing that IOCs are invested in promoting instability as a way of guaranteeing huge profits.

Nigeria ought to take a more forceful approach in promoting stability in the Niger Delta, toward the stability of the world oil market, and the open access to and equitable distribution of energy resources that it purports to promote. From this perspective, the negative energies dissipated toward suppression of unrest, and on superficial, palliative programs would better be converted to constructive engagement with the people of the Niger Delta and to the implementation of Nigeria's energy policy and developmental imperatives. The most enduring political solution is more likely to emanate from the restructuring of Nigeria into a true federation in which the component regions have substantial control over their natural resources than from tokenistic elevation of individual members of the delta elite to high office and palliative infusion of money into incompetent and corrupt bureaucracies.[170]

Patronage and Public Perceptions of Oil Resources

[170] NDDC, for example, had been widely discredited by 2006 as corrupt (Watts, "The Sinister Political Life," 129; Watts, "Empire of Oil."). The corporation found it necessary to set up an industry-wide committee in early March 2004 to monitor the work of NDDC after the IOCs complained that the commission's achievement in terms of projects did not reflect the extent of the financial contributions that flowed into its accounts. In response, the commission asserted among other things that the IOCs deducted spending on their own separate community development projects before remitting their contributions, drastically diminishing anticipated funds. NNPC's upstream business management division NAPIMS was to lead the committee. (*This Day*, May 4, 2004; *Global News Wire - Asia Africa Intelligence Wire*, March 4, 2004). The Commission of Nobel Laureates on December 1, 2006, considered the commission called for its abolition to minimize bureaucracy and improve transparency.

Nigerian governments have increasingly used access to oil wealth and senior petroleum administration posts to leverage geopolitical concerns. In fact, access to oil money, patronage, fields, and contracts have been used as an instrument of politics in

Nigeria since the civil war.[171] This phenomenon has been most pronounced under Abacha, and Obasanjo. When Abiola was jailed for claiming his mandate in the 1993 election, the Abacha regime cancelled his oil licenses.[172] The Abacha government used the grant of oil import license for political patronage.[173] In 1998, Abacha was also reported to have offered oil-trading contracts and concessions to federal legislators and other influential figures to ensure his transformation to civilian president.[174]

Obasanjo was widely reported to have resorted to this method in 2005-06, during his unsuccessful bid to amend the constitution, to allow him a third term in office. Opposition politicians allege that much of the nearly $13.2m the Obasanjo administration had withdrawn from the Excess Crude Account without authorization were channeled toward this bid.[175] One unidentified federal legislator was quoted as saying that "a very senior official" of NNPC offered him inducements to support Obasanjo's tenure

[171] The Federation and breakaway Biafra jostled for oilfields, and according to historian Maria Steyn, the Federation used Elf as a guinea pig for nationalization in 1971 because of the sympathies the French company had shown for the Biafran side (Steyn 2003:204 Steyn, Maria Sophia Steyn, "Oil Politics in Ecuador and Nigeria: A Perspective from Environmental History on the Struggles between Ethnic Minority Groups, Multinational Oil Companies and National Governments" (Ph.D. dissertation, University of the Free State, Bloemfontein, South Africa, 2003). Nigeria has also used oil as an instrument of international diplomacy. The punitive nationalization of BP in 1979 was a piece in Nigeria's assertiveness during that era that saw the country give substantial oil money to freedom fighters in Southern Africa during that decade. It was reported that the military government awarded oil-trading contracts to influential figures in Liberian during the 1990s to advance Nigerian intervention in civil wars in Liberia and Sierra Leone, quite apart from discounted crude supplies to those countries. (*Africa Confidential*, February 6, 1998).

[172] Oputa Report, *Volume IV,* 106.

[173] *Financial Times*, December 23, 1998.

[174] *Africa Confidential*, January 23, 1998; *Africa Confidential*, October 23, 1998.

[175] *This Day*, May 9, 2006, www.thisdayonline.com/nview.php?id=47672. Finance Minister Ngozi Okonjo-Iweala said in May 2006 that $2.3b of that money would go toward the development of seven power plants in the Niger Delta. (*Punch*, May 12, 2006, www.punchng.com/main/article04.)

extension.[176] While this allegation is not corroborated, the fact the presidency determines NNPC's topmost hierarchy does not allow them enough independence to resist the president's desires. If the report is accurate, this involvement would be the highest level of partisan activism reported publicly so far in the history of the corporation. In the very least, some highly-placed corporation official or group have enough motive to facilitate the perpetuation of Obasanjo's rule, given that presidential tenure is tied to their job security.

In May 2006, the government withdrew 50 percent of the prolific deepwater offshore oil acreage (OPL 246) it had awarded to South Atlantic Petroleum Limited (SAPETRO) owned by former army general and Obasanjo's estranged former associate Theophilus Danjuma, in a move seen by many as a reprisal for Danjuma's vocal opposition to Obasanjo's ambition.[177] This was an interesting turnaround, given the disquiet that SAPETRO's seeming above-the-law status had caused in the industry 2003, when Danjuma was still an Obasanjo loyalist.[178] The withdrawn acreage was renamed OML 130 and awarded to the Indian consortium ONGC-Mittal October 2006, with the government claiming it was routine for operators to lose 50 percent of their block when transiting from OPL to OML.[179] Indeed, Petroleum Act 1969 stipulated that an OML holder is obliged to relinquish 50 percent of the acreage after 10 years, and practice over the years had established that the government no longer had to convert an OPL to OML

[176] *Vanguard*, May 21, 2006, www.vanguardngr.com/articles/2002/cover/may06/21052006/f421052006.html.

[177] OPL 246 was said in 2003 to have proven reserves of 1b barrels of crude oil and 1-4 tcf. (*The News*, September 16, 2003.)

[178] It was said alleged that SAPETRO's huge reserves were not reported to NAPIMS, NNPC's division responsible for managing the government interest. DPR was implicated for withholding the information that is statutorily reported to NAPIMS. See *The News*, September 16, 2003. The critics seem to have confused SAPETRO's sole risk operation to be of the nature of NNPC's JVs in which the Federation had majority stake. Indeed, NNPC issued a directive in June to its partners – JVs, PS, and service contractors – to the effect. (*Global News Wire - Asia Africa Intelligence Wire*, July 21, 2003.) DPR's withholding of the production, reserves and project information from NAPIMS support the critics' claim that "influential quarters" colluded in the censor.

[179] *Champion*, October 5, 2006, www.champion-newspapers.com/news/article_6.htm.

as a matter of course,[180] but it appears the Federation had not consistently enforced this requirement over the decades.[181]

As part of reversing the discretionary concessions of the Abubakar era, the Obasanjo administration cancelled the oil block Abacha's oil minister Etete had awarded his Malabu Oil. Etete escaped to exile in France, from where he published advertorials threatening to expose Obasanjo's alleged involvement in massive graft. Etete returned to Nigeria in 2006 following his curious pardon by Obasanjo. Days after his return, he was on television leveling unsubstantiated allegations of fraudulent oil deals on Obasanjo's deputy and political foe Atiku Abubakar. Obasanjo's feud with his deputy escalated when the president relieved the vice president of responsibility for overseeing the PTDF, in an attempt to undercut the latter's access to patronage resources and to weaken his potent political machine. In light of these developments, many at a ruling PDP conference following the 2003 elections seem justified to have "argued that growing criminality in the oil industry was financing the new round of political campaigns."[182]

As the cash cow of the government, the NOC has been the cynosure of the attention of Nigerian presidents, who have held enormous sway on the corporation. Murtala Mohamed is quoted to have declared July 1975 soon after the coup that brought him to power that his predecessor's (Yakubu Gowon's) appointment of I. T. G. Ordor as the chief executive of NNOC was "the last straw that broke the camel's back" – perhaps the final impetus for his support for the coup that ousted Gowon 25 days earlier. Mohamed had been the leading opponent of Ordor's appointment in the federal

[180] Andrew I. Chukwuemerie, "Ownership of Associated and Discovered Gas in Nigeria Under the Old Joint Venture Contracts," *OPEC Review* 27, no. 1 (2003): 11.
[181]NEITI, *Nigerian Extractive Industry Transparency Initiative Licensing Process Review*, (2006e), www.neiti.org/FARProcessLicensin.pdf, 8-9
[182] *Africa Confidential*, December 19, 2003.

cabinet.[183] The new junta set up a three-man panel to probe oil sales during 1973-74. This panel submitted a report (Federation of Nigeria 1976) that recommended the dissolution of NNOC. It is conceivable that the Shonekan government's efforts to clean NNPC of corruption were a factor in the speedy overthrow of that government by the military under Babangida's ally Sani Abacha. Lenoil owner Len Adesanya involved in the bogus fuel supply contract deal to defraud NNPC of $41m in 1993, was linked to "right to the top" of the "Babangida's military regime."[184] Following a long strike by Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSEN) in July 1994, Abacha summarily relieved and retired army and navy chiefs General Chris Mohammed Alli and Admiral Alison Madueke, respectively, who appeared sympathetic to the workers' cause. Alli had chaired a panel that submitted a highly critical report of the oil industry late 1993. The leaking of Abacha family's oil deals was raised as a possible reason for implicating 10 senior army officers, including Abacha's deputy Oladipo Diya, in December 1997 in a plot to overthrow Abacha was suspicion of their involvement.[185]

In mid-December 2006, the chairman of the Senate panel probing the PTDF scandal alleged a conspiracy to frustrate the work of the panel and declared that the NNPC GMD, the DPR director, and the junior minister were acting under the instructions of "somebody higher in the system" by hedging on appearing before the panel.[186] President Obasanjo was the substantive minister and NNPC chairman and, therefore, the

[183] Gown had appointed Order against the overwhelming opposition of council members. Although Ordor, who was the manager of the then only refinery in Port Harcourt, was by far the most qualified candidate among those nominated, most council members opposed his appointment for two reasons. First, many had not forgiven him for having supervised secessionist Biafra's refineries during the civil war that ended five years earlier. Second, his appointment was perceived as a ploy to cover up for suspicious oil sales on the part of military president Gowon and permanent secretary Asiodu. The Mohamed regime terminated Ordor's appointment in short order (Turner, "Commercial Capitalism," 188-91).
[184] *Financial Times*, November 3, 1993.
[185] *Africa Confidential*, January 9, 1998.
[186] *Champion*, Dec. 14, 2006, www.champion-newspapers.com/news/article_7.htm.

direct boss of all three senior oil officials. An indication was seen in 1998 of how constricting presidential control is on the GMD and their desire to act independently whenever they have the opportunity. As soon as the new Abubakar junta abolished the office of minister, GMD Dalhatu Bayero moved quickly to sack PPMC managing director Haruna Abubakar, a close associate of the Abacha family, something he could not have done while Abacha was president.[187] Even the present restructuring exercise does not appear to have escaped political interference. Mansur Ahmed, former GED Refineries and Petrochemicals, appears to have been an early casualty of Obasanjo's efforts to disempower his deputy Atiku Abubakar. Ahmed is said to have been an Abubakar loyalist.[188] His replacement, Abubakar Lawal Yaradua, a member of the family of the late Musa Yar'Adua (Obasanjo's deputy in the 1970s), and is the brother of Umar Yar'Adua handpicked by Obasanjo to succeed him as Nigeria's president. Another Abubakar loyalist, Greg Ero, described as the frontrunner to replace Obaseki in 2003, lost out as well.[189]

Rarely has a president held as close a grip on NNPC as Obasanjo has since 1999. The president kept the position of minister to himself until five months to the end of his eight-year tenure. He operated with a Special Adviser on Petroleum Resources between May 1999 and December 2005. Thereafter, special adviser Daukoru was promoted to junior minister, likely done to enable him assume Nigerian presidency of OPEC in January 2006, until January 2007 when he became the substantive minister. Daukoru is a former Shell executive and NNPC GMD between June 1992 and October 1993. Until January 2007 when he relinquished the petroleum ministry, president Obasanjo was the

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[187] *Africa Confidential*, June 26, 1998, *Africa Confidential*, August 28, 1998; *Africa Confidential*, December 18, 1998.
[188] *Africa Energy Intelligence*, September 3, 2003.
[189] *Africa Energy Intelligence*, July 2, 2003.

chairman of the NNPC board. The impression NNPC gave the general public that the junior minister held this post would have unlikely jeopardized the president's hold on the corporation in any way.[190] The board was programmed to toe Obasanjo's line. The junior minister himself fully understood his supernumerary role; the GMD is the president's acolyte, having served him as a special assistant between 1999 and 2003, and apparently remains an Obasanjo loyalist; the GEDs and GGM Sena Anthony were apparently appointed by acolyte Kupolokun; GED Abubakar Yaradua has family friendship connection with the president as already noted; the rest of the government appointed board members are the president's appointees, with Onaolapo Soleye among them known to be the president's childhood and lifelong friend. Both the assistant minister and the GMD were long-term allies and presidential aides before their respective appointments. Their cooperation would have facilitated the integration of to the presidency. The junior minister (now minister) had no real powers and was programmed to work with a protégé of the president in the person of Kupolokun. Never before has an NOC chief had so often to publicly acknowledge the president as Kupolokun has done. On the one hand, this can be understood as reflecting President Obasanjo's reform agenda driving the reforms at NNPC. On the other hand, it can be understood as reflecting the president's position as the direct boss of the NNPC chief. President Obasanjo's hold on the corporation is therefore unvarnished. Obasanjo-era balance of power is unique in the history of the corporation.

Presidential interference diminishes the influence of the minister over NNPC. A president that empowers the ministry would create the condition capable of detracting

[190] The NNPC website listed Daukoru as the chairman of the board (www.nnpcgroup.com/board.htm). This was an attempt to play down the president's overarching influence in oil administration. Daukoru's role as board "chairman" was neither substantive nor backed by law.

from that president's own ability to dispense patronage. As real power resides in the president, the GMD often competes with the minister (or petroleum adviser as the case may be) for his ear; being close to the president enhances one's influence in the industry. Although in theory, the minister oversees NNPC, and has responsibility over the appointment and dismissal of its chief executive, only a few ministers—if at all—could possibly have done so without the approval of the country's president.

To date, the NNPC GMDs generally have some leverage over the minister. They have been acutely aware of the close control Nigerian presidents tend to keep over the corporation, and have often been capable of acting in polite disregard of the minister. It is also part of the corporation's institutional memory that the corporation came into existence from the merger of the ministry and DPR, and that it has been a permanent fixture of the industry since its formation, while the ministry has not. Even when the minister announced their appointment or their removal, the GMDs have known that their appointment and removal have, in the very least, had the approval of the presidency. In January 2000, President Obasanjo reportedly subordinated GMD Jackson Gaius-Obaseki to presidential special adviser Rilwan Lukman (1999-2003), who until spring 2000 was a rather supernumerary figure. Lukman's apparent triumph was short-lived, as events later showed. Gaius-Obaseki had succeeded in reducing the influence of the petroleum adviser before Obsanjo changed course. By 2003, Gaius-Obaseki had reportedly reestablished primacy over Lukman, forcing the later to resign. Lukman's successor Daukoru would be stepping into a weakened office of the presidential adviser. Gaius-Obaseki himself soon lost his position as GMD, and was replaced by Funsho Kupolokun. Why did Gaius-

Obaseki lose his position soon after apparently winning the turf war against the special adviser?

One reason adduced for Gaius-Obaseki's ouster is his lukewarm disposition to Obasanjo's reforms. This immediately raises the question of how he was able to beat Lukman in the competition for Obasanjo's attention, given that Lukman was reputed to be a reformist and liberalizer. Another way to frame the question is, why and how did Kupolokun get the job? Given his involvement in the 1993 strategic storage scandal, Kupolokun's ascent to NNPC's top job was unusual and a remarkable turnaround.[191] He is said to have gone into private business as an oil services consultant after his cashiering from the corporation, until Obasanjo tapped him as Special Assistant on Petroleum Matters in 1999.[192] Kupolokun's main advantages over Gaius-Obaseki and other NNPC rivals for the job rested primarily on Kupolokun's closeness to the president. Acting on the new strength of the office of presidential assistant, Kupolokun issued new MOUs for both foreign JVs and Nigerian sole risk operators, and prepared ground for announcing the 2000 concession bid round. These moves undermined Obaseki's NNPC role in the industry, an unfortunate interventionist act for somebody who would head NNPC. With his enthusiastic role in undermining NNPC authority, Kupolokun seems to have positioned himself as Obaseki's rival.

Kupolokun had other things going in his favor. He was reportedly an old ally of Daukoru, who was being lined up as presidential special adviser and Kupolokun's would-

[191] He has denied having anything to do with the deal, averring never to have recommended strategic storage to any authority. (*This Day*, November 8, 2003, www.thisdayonline.com/archive/2003/11/08/20031108cov03.html.)
[192] It is plausible that Obasanjo would have sought out people like Kupolokun with NOC and international experience to help track the shady deals attributed to the Abubakar regime during its frenzied last days. President-elect Obasanjo was reported to have met Abubakar by early May over some of the reports. See *Africa Confidential*, May 14, 1999.

be nominal boss.[193] Their relationship had some pedigree. As GMD and GED Commercial respectively, Daukoru and Kupolokun had been implicated in the same scandal in late 1993 and were summarily cashiered from NNPC.[194] Aside from his link to the presidency and his relationship with Daukoru, Kupolokun had advantages over Gaius-Obaseki with respect to NNPC's top job. Kupolokun apparently came across as a reformer. Although Obaseki is associated with some reforms—increased the price of Nigerian crude, improved transparency, work ethic, and professionalism[195]—his apparent opposition to privatization also stacked the odds against him. Limited privatization had gathered momentum among industry administrators since the late 1980s, but efforts to get it off the ground was often frustrated by the NNPC hierarchy. Gaius-Obaseki had come to be perceived to represent this opposition by 2003. Opposition to privatization may have earned him support from the NNPC rank and file, including labor. Quite possibly, his stance on privatization may have been his way of consolidating his influence within the corporation, where privatization is generally an anathema. His significant increase in staff emoluments was still remembered nostalgically by NNPC personnel in 2006. In the end, however, the NNPC hierarchy does not necessarily make or mar the GMD, and his rivals would have viewed his anti-privatization predilections as an effective weapon against him.

Kupolokun, on the other hand, seems to have offered himself as a hardboiled liberalizer, a counterpoint to Gaius-Obaseki. Stories that echoed this image, and which were sure to promote his acceptance within the industry, heralded his appointment in

[193] *Energy Compass*, November 6, 2003.
[194] In the case of Daukoru, he was charged alongside others for diverting $41.1m in the deal. Reports about the case fizzled out after the Abacha coup.
[195] *Energy Compass*, November 6, 2003; *Africa Confidential*, October 22, 1999.

early November 2003.[196] Indeed, Kupolokun seems to have been well-placed to execute the reforms. As presidential assistant between 1999 and 2003, he served on the Joint Ministerial Council on Nigeria Sao-Tome Development Authority overseeing the Joint Development Zone (JDZ), the federal government's Special Committee on the Review of Petroleum Products Supply and Distribution (SCRPPSD), the precursor of the Petroleum Products Pricing Regulatory Agency (PPPRA), established in October 2003, and OGIC.[197] He is, thus, likely to have played some role in crafting the transformation exercise, together with his immediate boss Lukman and former boss and associate Daukoru, both of whom have been portrayed to be liberal reformists. As a former NNPC executive discharged from the corporation a decade earlier, Kupolokun would likely have returned with clear perspectives about the issues and personalities in the corporation, and these would have reflected in his reorganization exercise.

Despite the weightiness of NNPC in the calculus of Nigerian rulers and the corporation's periodic involvement in sensational allegations of corruption since the 1980s, the corporation has managed to enjoy relative insulation from political controversy. However, the corporation can no longer continue to enjoy insulation from politics, and much has already changed since the 1990s. NNPC's political dimensions have come to transcend its perception as a mere instrument of patronage at the hands the government of the day. The foregoing developments, as well as recent attacks on NNPC's wholly-owned facilities, especially the pipelines network, have culminated from deteriorating economic conditions originally associated with depressed crude oil prices,

[196] One headline called him "Mr. Deregulator," portrayed him as an Obasanjo loyalist who had been part of the president's policy team since 1999, highlighted his reform credentials, and strenuously placed Kupolokun at the center of the reform proposals for the industry. (*This Day*, November 4, 2003). The story did not discuss the circumstances surrounding Kupolokun's exit from the corporation a decade earlier, which would have been of immense interest to observers.
[197] *This Day*, November 4, 2003.

oppressive military rule, resource control agitation, and NNPC's perennial failure to make available to the domestic market sufficient quantities of refined products. The delay in the onset of public focus on the corporation probably reflected a general perception of the corporation as a mere organ of the state lacking an authority of its own.

Initially, political focus on NNPC was rather lenient. In December 1992, the Ken Saro-Wiwa led Movement for the Survival of Ogoni People (MOSOP) had named NNPC and its JV partners in demanding restitution for the exploitation and despoliation of Ogoniland, but that organization and others like it did not direct violent action against NNPC those days. When the Nigerian Human Rights Violation Investigation Commission (HRVIC) considered MOSOP's petition in 2002, the commission's report reserved its criticisms for the Nigerian state and the "oil multinational companies".[198] Another petition to the HRVIC attributed Nigeria's first major pipeline fire disaster October 17, 1998 in delta village of Jesse to NNPCs' negligence, but it never saw the light of day. The petitioners do not seem to have been sufficiently insistent with their case.[199]

After NNPC's facilities had become the target of sabotage, the connection between the attacks and politics sometimes was more apparent than real. Politically motivated attacks on NNPC's facilities are part of a general plan to cripple the Nigerian oil industry rather than a calculated attack on NNPC as an institution, and frequently enough, pipeline vandalism has been motivated by theft of gasoline than by politics. In 1994, the Abacha regime incarcerated several pro-democracy activists for allegedly

[198] Among other things, MOSOP $4b compensation for environmental damages, $6b as taxes and royalties, and immediate cessation of gas flaring in Ogoniland. (Oputa Report, *Human Rights Violation Investigation Commission: Volume II* (2002), 29.)
[199] The commissioners asked the counsel for the petitioners to reframe the petition in line with commission's terms of reference and to reappear before the commission. When this was not done, the case was struck out but commission allowed for its relisting. This was apparently not done (see Oputa Report, *Volume IV,* 278.).

plotting to blow up an NNPC fuel depot in the Lagos area, but it was generally believed to be a frame-up.[200] The allegations may have been a product of the fertile imagination of their authors, but the use of violence to level with political opponents does, however, illustrate another facet of politics involving the corporation: its use as a tool for nationalist propaganda. It is likely the Abacha junta sought to discredit pro-democracy agitators by portraying them as extremists attacking a national institution. At a time when the pro-democracy and resource control agitators had virtually fused into a single movement and attacks on oil facilities had garnered broad support, linking the movement to anti-NNPC activity had the potential of whipping nationalistic sentiments against the movement. The predilection to look away from NNPC has not been limited to activists. The absence of a scholarly literature dealing with NNPC is perplexing.

Increased focus will likely be brought to bear on NNPC in coming years. Apart from increased labor unrest among its employees, NNPC has increasingly been in the political limelight, just as political constituencies increasingly perceive their members' access to oil wealth as a measure of membership in the Nigerian nation. It could even be worse, if the corporation does not improve its operations and social service delivery. Although frequent fuel shortages do not seem to have elicited widespread negative perceptions of NNPC yesteryears, this has begun to change. Frequent pipeline fire disasters further cast the corporation in a negative light. The Nigerian public and press now receive NNPC's tendency to blame shortages on "greedy marketers" with a dose of skepticism and its propensity to blame pipeline fire disasters on "vandals" and

[200] Two of the aggrieved later petitioned the Oputa Panel over gross human rights abuses during their lengthy detention and made a claim for monetary compensation, but the panel chose to take no stand on the matter (Oputa Report, *Volume IV*, 281).

"hoodlums" with derision.[201] No doubt, greedy marketers are implicated in the problem and the act of breaking pipelines and taking gasoline from them is vandalism, but the culprits would have hardly had a thriving black market if NNPC refineries had been working.

Partly by its own making, NNPC is in the limelight. Due to Kupolokun's style, the ongoing reform program, and the corporation's well-earned notoriety accruing from perennial fuel shortage, his NNPC has been the most activist, particularly in terms of engagement with the public and the media. He gives speeches frequently, expounding on and pontificating about the reforms, and the public affairs department is active in ensuring these and other information are well-publicized. While these efforts will likely ensure that talk of reforms will survive Kupolokun's reign, the raised public profile of the corporation also means that the Nigerian public is currently watching NNPC more closely than any time in the past. This interest is likely to increase, and the corporation will be closely scrutinized by a critical and better-informed public in the years ahead.

REPOSITIONING AND RESTRUCTURING

The review of NNPC so far depicts a struggling corporation, constrained by internal weaknesses, such as institutional frailties and corruption, and externally imposed burdens, such as intervention by political leaders, and sundry sociopolitical obstacles embedded in the geopolity. Consequently, the corporation has largely failed in fulfilling its original role of effectively representing the Federation's interest in the industry and in executing efficient commercial operations in the course of driving Nigeria's economic and technological development. The corporation has lagged behind its NOC counterparts

[201] *The Guardian*, December 29, 2006, www.guardiannewsngr.com/editorial_opinion/article02.

in other countries, such as Brazil, Venezuela, Malaysia, and Indonesia. Even in Africa where Nigeria is the largest producer, NNPC lags behind several other NOCs. For example, the success of Angola's Sonangol is now being justifiably celebrated (see de Oliveira 2006). As at April 2005, NNPC's annual turnover stood at \$4.8b, compared to Algeria's Sonatrach's \$26.6b.[202] There is now a clear recognition of the structural weaknesses of the Nigerian oil and gas industry and the corresponding weaknesses of NNPC. The current repositioning of the corporation aims to put the corporation on the road to superior performance.

The Obasanjo era has seen a push for far-reaching reforms in the industry. The first far-reaching restructuring of the corporation prior to the present exercise took place during the Babangida regime in the second half of the 1980s, involving the reestablishment of DPR as an organ of the ministry, revival of the LNG project, renewed effort at commercialization leading to the creation of the five "semi-autonomous" sectors and to subsidiarization, and the involvement of indigenous companies in the upstream sector, among others. The Shonekan interim regime seemed willing to embark on reforms, as seen in its restructuring of NLNG, and commitment to privatization and anticorruption, but the detailed program (if one had been fleshed out before the regime's overthrow) never made it to the public domain. The Abdusalami Abubakar regime moved quickly to announce the payment of ₤630m NNPC's cash call arrears in the JVs.[203] The regime's IMF-inspired reforms required Nigeria's submission of an externally audited account of NNPC for 1997 by February 1999 and its publication by May of the same

[202] *African Business*, April 2005.
[203] *Platt's Oilgram News*, July 22, 1998, 3; *Financial Times*, August 4, 1998.

year. The government was also required to submit a similar account for 1998 by May 1999.[204]

By the time the Abubakar regime handed over power to Obasanjo in May 1999, however, controversy had trailed newly-awarded oil concessions, audited accounts of NNPC were late, and privatization seemed to have stalled, amidst unexplained steep drawdown of Nigeria's external reserves.[205] The fresh Obasanjo administration gave the World Bank access to NNPC accounts, revoked the concessions the Abubakar junta had railroaded on its way out, and abolished middlemen whose commissions had unnecessarily increased Nigerian cruse oil prices.[206] These were elements of an elaborate reforms program that was to crystallize and is still unfolding.

The current program derives from the work of the Obasanjo administration's Oil and Gas Sector Reform Implementation Committee (OGIC) inaugurated 2000, and the National Energy Policy of 2002. The OGIC was initiated 1999 by Vice President Abubakar, in his capacity as chairman of the National Council on Privatization (NCP), "in the quest for coordinated and sustained growth and structured development of the oil and gas sector".[207] Launched in April 2000, the 25-member committee was headed by presidential adviser Lukman with the primary mandate to reform and restructure the oil and gas industry. The committee's recommendations drew on memoranda submitted by the office of the presidential adviser on petroleum, DPR, NNPC under Gaius-Obaseki, the World Bank, and representatives of IOCs, and apparently on deliberations at a

[204] *Africa Confidential*, February 5, 1999.
[205] *Africa Confidential*, April 16, 1999; *Africa Confidential*, May 14, 1999.
[206] *Africa Confidential*, August 27, 1999.
[207] Federal Republic of Nigeria, *National Energy Policy: The Presidency, Energy Commission of Nigeria* (August 2002), ix.

stakeholders' workshop in which representatives of major labor unions and Niger Delta resource control groups also participated.[208]

The committee reviewed the history and structure of the industry, to grasp the fundamental causes of the sector's low performance, and to consider other countries' experiences with a view to adapting to Nigeria an industry structure that meets international standards. The overall aim is to maximize the contribution of the oil and gas industry to Nigerian economic development by growing reserves and production, developing the gas market, working to allow the oil industry create new industries, improving accountability, and providing for the autonomy of the principal public sector agencies. As part of the industry's restructuring, the OGIC recommended the separation and clarification of the roles of the ministry, NNPC, and the regulator.

Apart from the National Oil Company (NOC) to focus strictly on commercial activities and having an independent board of directors, the proposed structure is to comprise three other principal agencies, all to report to the Ministry of Petroleum Resources–National Petroleum Directorate (NPD) responsible for planning and policy formulation for optimal utilization of Nigeria's oil and gas resources, a regulatory Petroleum Inspectorate Commission (PIC) to replace DPR, the Petroleum Pricing and Distribution Authority (PPDA), and National Petroleum Research Center (NPRC) to be responsible for R&D and for promoting capacity building and Nigerian content. The essential features of all the agencies are clearly defined in a way to obviate overlapping responsibilities, ensure better funding, promote increased autonomy of individual institutions especially the NOC and the regulator, and insulate them from political interference. The NOC's chief executive officers, as well as those of the sister agencies,

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[208] Federal Republic of Nigeria, *National Energy Policy,* ix-xiiv.

are to be appointed and dismissed only with approval by the federal Senate. This measure would reduce the stranglehold the presidency has historically maintained over the oil industry. OGIC articulated clear regimes for the upstream, midstream, and downstream sectors.

The NOC is to relinquish all regulatory roles that NNPC currently performs. One important way to resolve this matter is the proposed transfer of NNPC NAPIMS to the proposed NPD. The question of the appropriate location of NAPIMS has long been an issue. Babangida junta's Technical Commission on Privatization and Commercialization had in 1992 determined that, as manager of the Federation's direct investment in the oil industry, NAPIMS should be directly responsible to government, specifically the finance ministry, rather than be a unit of the NOC. NNPC apparently resisted the move.[209]

In addition, OGIC urged harmonization and modernization of oil and gas laws and regulations, fiscal reforms in royalties and taxes particularly with respect to gas, which existing laws do not address at all. It also recommended improvements in project funding, such as inserting into PSCs clauses that "allow for periodic reviews and modifications of existing terms," and enabling the NOC to raise its own funds in financial markets, using oil and gas reserves as collateral. OGIC furthermore called for reforms in community relations to support mutually beneficial arrangements between host societies, on one hand, and government and oil firms on the other. It stressed a need to abandon past failed approaches (including "divide and rule tactics, and selective empowerment of local groups in conflict with each other") and to embrace consultation with host communities, endorsing the "partnership development" version of social assistance

[209] *Platt's Oilgram News*, April 28, 1992, 3.

already adopted by Shell since 1998. It also recommended more robust and effective government compensation for crop and environmental damages.

The proposed structure has not yet been implemented, but implementation of some elements of the OGIC and the National Energy Policy recommendations is well underway. One such element is the entrenchment of the system of open, competitive bidding, which has been more or less applied since the 2000 bid round. But a clear and systematic regime came on stream in 2005 bid round, based on a publicized licensing round schedule containing guidelines, procedure and criteria for technical and commercial evaluation consisting of four elements, namely, signature bonus, work program commitment, cost oil recovery ceiling, and local content. The schedule also spelled out the prequalification procedure and transparent bidding criteria.[210] With regard to NNPC, the foci of the current repositioning and restructuring reform program include local content, gas, renewable energy, privatization, and efforts at improving transparency. Otherwise referred to as Project PACE (acronym for Positioning, Aligning, Creating and Enabling), the program is managed by consulting firms American Accenture and British Shell Global Solutions, the project was launched in 2004 to realize a dynamic, efficient, and transparent NOC as envisaged by OGIC. The more forward-looking arms of the corporation, such as CPDD (which coordinates the program), NPDC, IDS, and particularly NETCO had made significant progress with reforms by the summer of 2006. Others that appeared well on their way were those created by the reform exercise itself, such as Renewable Energy and Nigerian Content.

“Rightsizing”

[210] NEITI *Licensing Process Review*, 11-12, 14-15.

An urgent area of action was to "right-size" the workforce. As one of the better-paying employers in Nigeria, NNPC's senior managers and others with some influence in the corporation were often under pressure to secure employment for, or on behalf of, relatives, friends, and primordial group members. This practice ensured overstaffing and the employment of many unqualified people. Prolonged employment embargo imposed during military rule had resulted in the aging of the workforce. By 2003, when rightsizing began, the average age of the workforce was 45 years, 76 percent were above 40 years, and 31 percent were due to retire in the following ten years; only 2.5 percent were below 30 years. The Warri Refinery and Petrochemical Company was so top-heavy in senior personnel in 2006 that senior personnel (not including the 3 percent at the managerial level) made up as much as 80 percent or 681 of the refinery's total staff load of 897, according to its chief executive. More than one half of the senior personnel were due to retire in short order, but there were no plans afoot to hire replacement personnel due to NNPC's embargo on hiring.[211] In short, the corporation was bloated with a large workforce it did not need. The system needed rejuvenation or, as one corporation official recently described it, "to shed excess weight." As at July 2006, corporate headquarters and most of the subsidiaries had completed a skills gap analysis to identify areas of deficiency, and the corporation has been sending its staff abroad to acquire the training and exposure requisite for bridging gaps, as well as looking outward, seeking out and recruiting people knowledgeable in areas where NNPC is weak, with a focus on Nigerians.

Upon appointment in November 2003, Kupolokun moved quickly to downsize the workforce, with 1,388 workers, including 28 senior officials, including three GEDs, as

[211] *This Day*, May 23, 2006, www.thisdayonline.com/nview.php?id=48826.

the initial casualties.[212] This move entailed cutting down the number of directorates from six to four. Speaking later in December 2003, Kupolokun stated, "What we are doing really is cutting our coat according to our size. We must have an efficient organization, because it's only when NNPC is efficient that we can talk about growth. So we are going to have the right people in the right places, we are going to encourage people to develop in a very meaningful manner and in the right areas. There is no way you can do all this without some pain."[213] NNPC's spokesman Livy Ajuonuma averred that "The on going reforms in the petroleum sector require an NNPC with appropriate staffing, adequately skilled, motivated professionals driven by a shared commitment to excel and perform efficiently in the current business environment."[214] Recruiting of young and experienced personnel is ongoing. Although a tad late in coming for the refineries, NNPC's reported retrenchment of 5,000 workers in January 2007 targeted the subsidiaries, particularly the refineries.[215]

Privatization

Related to rightsizing is the privatization of poorly performing subsidiaries, especially the refineries. There are benefits that both NNPC and the Nigerian economy can derive from privatization. It would relieve NNPC of inefficient and loss-prone operations, attract foreign direct investment to the economy, and in the context of renewed focus on the promotion of local content open up investment opportunities to Nigerian business. An indication of how Nigerian businesses stand to gain from privatization of NNPC's assets is the expansion strategy of dynamic "indigenous"

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[212] *This Day*, November 27, 2003.
[213] *African Business*, Feb, 2004.
[214] *This Day*, November 27, 2003.
[215] *Punch*, January 3, 2007, www.punchontheweb.com/Articl.aspx?theartic=Art200701034173045.

downstream operator NIPCO (formerly IPMAN Petroleum Marketing Company) in 2006, which included acquiring every terminal NNPC would put up for privatization and acquiring refineries.[216] The Babangida, Shonekan, and Abubakar regimes took steps to privatize some units and operations of NNPC. The Babangida regime opened up the upstream sector to private Nigerian companies, but perhaps more than anything else the giving up of Minister Jibril Aminu of the chairmanship of the NNPC board to pave way for privatization demonstrated the seriousness of that regime in that direction. The Shonekan regime earmarked the refineries for privatization and reduced the Federation's stake in the NLNG. The Abubakar junta favored partial privatization of the refineries and, eventually partial privatization of all other NNPC subsidiaries and of the government's stake in the JVs.[217] For various reasons, however, no sustained results attended these plans. For the Shonekan and Abubakar interim regimes, time was clearly a factor, but for the most part shortage of will, vested interest, and naked corruption have been among the biggest obstacles to privatization.

The basis for privatization under the current repositioning exercise is the Privatization and Commercialization Decree of 1988 (amended 1999). As part of efforts to persuade the IMF to reschedule $29b debt and to secure new loans, and because the Bureau for Public Enterprises (BPE) lacked the political clout and technical know-how to effect the necessary reforms, the Abubakar regime inaugurated the National Council on Privatization (NCP) March 1999. Many Nigerians were skeptical of the push for privatization, seeing it as a scheme of the generals to grab as much of the national wealth

[216] NIPCO started in 2004 with 35 million liters could boast petroleum products storage capacity of 50 million liters by May 2006. Much of the growth came by refurbishing disused Unilever tanks. (*The Sun*, May 22, 2006, www.sunnewsonline.com/webpages/features/energy/2006/may/22/energy-22-05-2006-001.htm).

[217] For information on steps taken by the Abubakar regime, see *Financial Times*, August 4, 1998; *Financial Times*, January 8, 1999; *Financial Times*, February 22, 1999; Financial *Times*, March 8, 1999; *Financial Times*, March 24, 1999; *Financial Times*, March 30, 1999; *Africa Confidential*, February 19, 1999; *Africa Confidential*, October 9, 1998.

as they could.[218] The reforms were already afoot by the time Kupolokun was named to head NNPC November 2003. Obasanjo had announced September 2003 that the four refineries were up for privatization, and he invited expressions of interest from the investing public. PPMC and NGC were to be privatized.[219] About 17 Nigerian and 11 foreign companies had responded by the time Kupolokun assumed office in November.[220] Privatization was to be in the forefront of Kupolokun-era reforms.[221] Some observers had been able to surmise by the beginning of the first quarter of 2000 that the Obasanjo government would not push privatization beyond the refineries; the Federation's stake in the JVs was not to be privatized.[222] Private investors who secured licenses in 2001 to establish refineries were still to show any tangible results in 2006, causing DPR to review the 18 licenses it had already issued.

The privatization of former NNPC subsidiary African Petroleum (AP) turned out to be a fiasco. When AP was sold, it apparently owed NNPC N10.5b, but this debt was not disclosed to investors during privatization. NNPC stopped AP from lifting refined products, and after three months of AP still not paying up, NNPC took it over in the first quarter of 2006 by converting the debt into equity.[223] It is a puzzle that NNPC did not know that its AP subsidiary owed a debt to NNPC. But the surest indication that the problem involved corrupt NNPC officials emanated from the report of the tribunal set up to investigate the matter. The tribunal submitted its findings in February 2003, pointing to inflation of AP debt and instructing NAPIMS/NNPC to write off the debt. Apparently, the debt was foisted on AP. Had NNPC acted properly, AP's privatization would have

[218] *Financial Times*, March 8, 1999; March 24, 1999; March 30, 1999.
[219] *This Day*, September 19, 2003.
[220] *Petroleum Intelligence Weekly*, November 20, 2003.
[221] *This Day*, November 27, 2003.
[222] *Africa Confidential*, April 14, 2000.
[223] *NNPC News*, Vol. 27, No. 3, March 2006.

had a greater chance to succeed. As late as May 2006, Total complained that the rules and conditions for bidding for refineries were confusing at best. As a result, Total chose not to take part in the exercise.[224] These experiences illustrate some of the difficulties of privatizing in a non-transparent environment.

Implementation of the privatization program is perhaps not as orderly as it ought to be. While the privatization of the Eleme Petrochemical Company Ltd (EPCL) appeared on schedule in May 2006, with major investment by the Lohia family of Indonesia which was billed to take full control of the company in July 2006, this company was nevertheless not among the assets OIGC recommended for privatization. OIGC specifically earmarked "the petrochemical plants in Warri and Kaduna…along with the refineries."[225] Perhaps, the slow pace of privatization is because NNPC is still trying to figure out the best way to take advantage of the exercise, to leverage it in a way to position itself strategically in the industry so that private investors would find having to deal with the corporation indispensable in the post-privatization era.

Natural Gas

Natural gas is a key aspect of the current repositioning exercise and NNPC's internationalization strategy. The development of this resource is a relatively new dimension in Nigeria. Gas was found at the same time as oil; yet, for a long time, this associated gas was not found to be profitable to exploit. Although the scholarship of the early 1990s noted significant obstacles to the prosperity of the resource, such as the economic price (including depletion and environmental impact) and the paucity of large-enough markets to ensure acceptable margins to resource holders, it also predicted gas as

[224] *This Day*, May 24, 2006, www.thisdayonline.com/nview.php?id=48909.
[225] Federal Republic of Nigeria, *National Energy Policy*, 12.

the preeminent energy resource of the 21st century.[226] Until the commissioning of the LNG plant in 1999, the spearhead in the drive to exploit the country's natural gas endowment, virtually all of it—estimated in 1998 to amount to 2 bcf/d, "approximately the [daily] consumption of a major Western economy"[227]—was flared.

The huge deposits of gas, and resulting waste and environmental damage have led to a shift in policy toward commercial production. As much as 19 tcf of gas was discovered from the deep offshore in the ten-year period 1996-2006.[228] The government has since commenced charging gas flaring tax on oil companies in an effort to facilitate commercial production. After setbacks in the 1990s, gas flaring, reported to be down by 40 percent in 2006, is projected to cease completely by 2008 when NLNG is expected to produce near capacity.[229] NLGC, in an island of Bonny off Port Harcourt, currently has three trains with a yearly production capacity of 9.1m tons of gas; work is in progress to add two more trains. A sixth train is planned to follow in short order. There is another plant in Brass to the west of Bonny. A third LNG plant Olokola in the Nigerian southwest is expected to produce up to 5m tons a year by the end of 2007, while a gas to liquid (GTL) plant in Escravos is nearing completion. It was projected in 2006 that the four-train Olokola plant would deliver 22 mpta and Brass 10 mpta by 2010.[230] Toward

[226] See Trinidade, (1990).
[227] *Journal of Commerce*, December 21, 1998, 11A. Commercial utilization of gas began 1963 (L. H. Schätzl, *Petroleum in Nigeria* (Ibadan: Oxford University Press, 1969), 137.).
[228] Kupolokun, *Nigeria and the Future Global Gas Market*, 4.
[229] LNG was not on target, in spite of the 20-fold increase ($8.6) in the penalty for gas flares the Abacha regime imposed in January 1998 and the commissioning of the LNG plant in 1999. (*Journal of Commerce*, December 21, 1998, 11A.) Flares were estimated to consume about 2m b/d, amounting to $140m per day in October 2006. (Editorial, *The Guardian*, October 26, 2006, www.ngrguardiannews.com/editorial_opinion/article01.) There was a report of a rift among the stakeholders of the Brass LNG surfaced in September 2006. There are allegations that NNPC unilaterally reduced the stakes of ConocoPhillips and Total to 16.5 percent and 12.5 percent respectively. (*This Day*, September 4, 2006, www.thisdayonline.com/nview.php?id=57512.)
[230] Kupolokun, *Nigeria and the Future Global Gas Market*, 10. The three LNG plants are JVs between the federation and consortia of IOCs. NNPC manages FGN's 49 percent stake in the Bonny plant, Shell 25.6, Total 15, and Eni's Agip 10.4. At the Brass plant, NNPC manages 49 percent stake, while Eni's Agip, ConocoPhillips, and Total own 17 percent stake each. Total took over Chevron's stake after Chevron divested in December 2005. With regard to Olokola, NNPC

achieving these ambitious targets, Nigeria plans to develop domestic demand for gas and to exploit the massively expanding international market. Demand is expected to rise from 1.5 in 2006 to 15 bcf/d in 2010. Domestic consumption is expected to increase from less than 1 bcf/d in 2005 to about 3 bcf/d in 2009. This represents an annual growth rate of 25 percent, the highest in the world. With a production capacity projected to reach 30mpta by 2012, Nigeria is set to become a global leader in the production of LNG.

On the international front, contracts have been secured for a twenty-year supply of gas to the southern European market. In September 2006, a Nigerian delegation (minister and NNPC senior management) went to Algeria for talks on the 2,500 mile Trans-Sahara Gas Pipeline from the Niger Delta through Niger to Algeria and, from there to southern Europe via the Mediterranean.[231] Two other international pipelines are proposed: one to Equatorial Guinea for supply to that country of 600 million standard cubic feet of natural gas from 2009; and the 630 km West African Gas Project (WAGP), through which a pipeline will deliver 580 mmscf/d of gas from the Niger Delta to West African neighbors, Benin, Togo and Ghana by the first quarter of 2007.[232] In late November 2006, NNPC disclosed plans for expanding to East Africa.[233] Except for the mishandling of the geopolitical issue of Niger Delta agitation that has impeded the development of gas, events have now shown that the Nigerian project and the determination to overcome the massive capital outlay were visionary.

Renewable Energy

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holds 49.5 percent stake, Shell and Chevron 18.5 each, and British natural gas giant BG 13.5.

[231] *The Guardian*, September 21, 2006, www.ngrguardiannews.com/news/article07.

[232] Kupolokun, *Nigeria and the Future Global Gas Market*, 10-11

[233] *The Independent*, November 30, 2006, www.independentngonline.com/news/44/ARTICLE/16276/2006-11-30.html.

The renewable energy program was established to develop biofuel, ethanol and biodiesel. Nigeria is a signatory to the Kyoto Protocol but currently does not have bio-content in its diesel. Buses are currently powered by diesel, which is expensive, has a high level of pollution to the environment, and constitutes a health hazard. At the same time, LPG in Nigeria currently costs about half the price of diesel. It will continue to be cheaper. Through the Renewable Energy Division established in July 2005, the program aims to achieving intersectoral linkages by producing these fuels in collaboration with the agricultural sector. The program is expected to expand the country's energy base and to create commercial opportunities for the corporation through partnerships with the private sector, mostly in the form of JVs, and agencies with the requisite expertise, such as the various agricultural research institutes in the country. The 14-staff strength division had a budget of $5m and 1b naira in 2006. The program is expected to improve the agricultural sector's ability to create jobs in the rural areas, maximize the country's carbon credits, and attract grant funds to the corporation, while creating an opportunity for earning foreign exchange for the country by exporting surplus products and freeing crude oil that would otherwise be used in the country. According to Kupolokun, Nigeria will earn $150m annually from the biofuel initiative after takeoff.[234]

Two kinds of alternative energy fuel are to be produced under the NNPC plan: ethanol fuel and palm oil diesel. Ethanol fuel will be derived from sugarcane and cassava (yuca). Palm oil diesel will be derived from palm oil through a chemical process that removes glycerin, which is then mixed with any concentration of petroleum based diesel to yield palm oil diesel "with little or no modification." NNPC had launched feasibility studies and identified locations for plantations and plants in the various zones of the

[234] *NNPC News* 28, no. 7 (July 2006).

country germane for the growth of the respective crops, with an aim to have at least two JV operated plants running by 2009. NNPC has MOUs in place with two Brazilian companies, Petrobras and Coimex "to leverage their experience and marketing respectively."[235] It was reported in early February 2007 that Nigeria was reviving talks with Venezuela's PDVSA for the transfer of technology for converting cassava to ethanol.[236] Given that the Clean Development Mechanism (CDM) of the Kyoto Protocol obligates 15 rich countries to invest in green energy in developing countries and that Africa has largely missed out in these investments, NNPC's renewable energy program is set to attract grants to the corporation.[237] Already, NNPC had received 70,000 Euros in grants from Germany's Renewable Energy, Energy Efficiency Partnership (REEEP) by May 2006.[238] there is also considerable domestic interest in NNPC's alternative fuels. The corporation's Business Development Unit was in late July 2006 working as a consultant to the Federal Capital Territory (FCT) to develop autogas and to build a LPG plant for the territory. Lagos state government had expressed interest in a similar project.

Anticorruption

NNPC is reported to have started an anticorruption campaign during Gaius-Obaseki's reign, that is, before the repositioning exercise actually took off. But NEITI provides the fulcrum of the anticorruption program. NEITI is the Nigerian branch of the global Extractive Industries Transparency Initiative (EITI) devoted to improving transparency and accountability in extractive industries, which in Nigeria are centered on oil and gas. As already seen with respect to the refineries, for example, the impact of

[235] NNPC, 6.
[236] *The Guardian*, February 1, 2007, www.guardiannewsngr.com/news/article04.
[237] According to a January 2007 Reuters report citing UN Environmental Program senior economist Sami Kamel, only 1.6 percent of such investments had gone to Africa. (http://news.yahoo.com/s/nm/20070130/sc_nm/safrica_cleanenergy_dc.)
[238] *This Day*, May 22, 2006, www.thisdayonline.com/nview.php?id=48762.

NEITI is already being felt in the industry. As a result of NEITI, NNPC's transactions and its accounts are now to be audited and published. In its 2006 reports, NEITI pointed out irregularities in NNPC's conduct, accounts, and reporting practices. The irregularities are troubling, but the very existence of NEITI, having auditors who actually ask questions about hitherto unaccounted practices and which publishes its reports, is the greatest evidence of anticorruption reform on the ground.

Some transparency improvements are already discernible. For example, trading companies Glencore, Trafigura, and Vitol which were constantly associated with shady deals virtually throughout the 1990s seem to have embraced best practice in deals involving Nigeria's equity crude marketed through NNPC. NEITI found only minor discrepancies in the cases of Trafigura and Vitol and none at all with respect to Gelcore.[239] This would have been unimaginable between 1990 and 1998. NNPC itself has set up an anticorruption committee. The corporation's launch 2006 of four internal anticorruption publications, aimed at educating the corporation's staff about the countries anticorruption laws, represented a milestone in the corporation's experience. Corruption has now been officially recognized as a problem, but Kupolokun's apparent assessment that the corporation had rid itself of corruption is misleading. Kupolokun made this assessment on the occasion of launching of publications educating the corporation's staff about the anticorruption laws – and not about corruption per se.[240] How not to run afoul of the anticorruption laws is not one and the same with how not to engage in corruptive

[239] NEITI, "Nigeria Extractive Industries Transparency Initiative Process Audit: The Process for Marketing Federation Equity Crude, 2nd Draft," (presentation, Hart Nurse Ltd in association with S. S. Afemikhe & Co., National Stakeholder Working Group, April 1, 2006a), www.neiti.org/FARProcessCrudeOilMktD.pdf, 38-39

[240] The publications are "The EFCC Establishment Act 2004," "Money Laundering Prohibition Act 2004," "The Code of Conduct Bureau Act," and "NNPC Corporate Policy and Procedure Guide." (*NNPC News*, 28, no. 7, (July 2006).)

practices. The one focuses on the letter of the law; the other embraces the both the letter and spirit of the laws.

The case of the court-marshaled admirals shows not only the depth of the problem, but also of the growing willingness to deal with it. The efforts of EFCC seem to have reduced the incidence of bunkering. EFCC chair Nuhu Ribadu reported at the end of the first quarter of 2005 that pilfering of oil revenues had declined from 70 percent in 2003 to 40 percent in 2005.[241] His most recent estimate shows an absolute decline from 100,000 b/d in 2004 to 10,000 b/d in January 2007. By January 2007, EFCC had intercepted 40 tankers.[242]

Linkages/Local Content

The drive for promoting local content as part of the current reforms appears to be the most determined in the history of the industry. NNPC set up a committee in 1999-2000 to review local content policy and its implementation in the corporation, which coincided with the intersectoral Nigerian Content Consultative Forum (NCCF) set up by the federal government.[243] This was followed in 2004 by the corporation set up a local content unit. The upgrading of the unit to a corporate division -- Nigerian Content -- March 2005 placed it en par with the subsidiaries in the corporate ladder. The 20-staff division has three departments – capacity, monitoring, and planning – and has been working with the various sectoral committees of NCCF, which regularly request progress reports on the implementation of local content in the respective sectors. The proportion of

[241] *Africa Confidential*, March 4, 2005.
[242] *Daily Independent*, January 30, 2007, www.independentngonline.com/news/44/ARTICLE/20045/2007-01-30.html.
[243] The committee had eight Sectoral Working Committees - Well and Drilling, Engineering, Fabrication, Logistics, Shipping and Marine, Manufacturing, Banking, and insurance.

investment funds expected to be spent on Nigerian goods and services by 2006 was 45 percent, rising to 70 percent by 2010. The sum of $12b is now provided annually in pursuit of this objective.[244] In April 2006, Senate passed a bill that give preference to indigenous companies in the award of concessions and requires operators to have a minimum of 50 percent local content in the oil and gas industry. It also provided for the establishment of the Nigeria Content Monitoring Board (NCMB).[245] Nigerian companies are empowered to win any contract if their bids are en par with those of competitors or their bids are within 10 percent below that of the highest bid, according to the privatization policy. While a handful of indigenous companies were granted licenses up to the 1990s to operate as sole risk companies, their number had swollen to 28 by the end of 2005, and counting.[246]

The Nigerian content division pre-qualifies companies bidding for NNPC contracts, using local content criteria, and monitors compliance of successful companies. This task is facilitated by the newly created Joint Qualification System (JQS), which keeps a data bank of firms able to provide services in the industry and forms the baseline data for prequalification. The division goes out to the companies in the industry, partners and non-partners alike, as well as their oil services contractors, and it asks specific questions about their efforts to improve local content, challenges situations where foreign companies place personnel in areas they would not have done in their home countries, and it recommends improvements. The division realizes that successful implementation of the local content policy depends on the availability of skilled domestic manpower base and has embarked on several training and skills acquisition initiatives for the benefit of

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[244] Kupolokun, *Nigeria and the Future Global Gas Market*, 6.
[245] *Independent Online*, April 28, 2006, www.independentngonline.com/?c=44&a=1511.
[246] See NOAGIO "Table 2.2." (2006).

the oil and gas industry as a whole. It works with foreign consultants, quality control, and service companies to train and certify welders. The main source of funding is the Petroleum Trust Development Fund (PTDF). As at August 2006, the program had 4,000 trainees, and 15,000-20,000 were expected to be trained in 2006. In addition to providing practical engineering training for fresh college graduate recruits of NNPC, using the petroleum institutes at Efurum and Warri in the delta, the Nigerian Content Division is also reportedly working with domestic universities through the National Universities Commission (NUC) to develop a curriculum that would facilitate production of suitable graduates for the oil and gas industry.

With the work of the Nigerian Content Division, NNPC's once moribund training scheme seems now to have revived. An authoritative NNPC source estimated, "based on limited data," that local content in the oil and gas industry had risen to 18-21 percent by late 2005, and to about 28 percent by August 2006. This misses by a long shot the 45 percent target for 2006, illustrating the excessive ambitiousness (or unrealistic expectations) of many targets in the reform program. It is significant that NNPC has done a relatively good job of raising awareness of the question of increasing local content. The corporation announced in 2006 a plan to launch a $350m National Content Support Fund.[247] The fact that the guidelines stipulate that all FEED, most fixed platforms (including storage tanks and selected processing units), all seismic data processing and reservoir management studies, etc., were to be domesticated by the end of 2005[248] means that it is difficult for foreign oil companies to avoid the services of NETCO and IDS. The

[247] *NNPC News* 28, no. 7 (July 2006).
[248] NNPC, *Nigerian Content Development in the Oil and Gas Sector*, 7-8.

corporation’s poster subsidiary NETCO thrives on opportunities created by local content guidelines.

Other Upstream Developments

There have been other notable developments in NNPC’s efforts to add capacity in the upstream sector. NNPC’s NPDC, which aspires to become a medium-sized operator, approaches this task by building strategic alliances. The corporation’s desire to build the confidence of JVs that NNPC can produce oil on its own was encouraged by the Obasanjo administration’s recent authorization of NNPC to utilize by any means necessary without ceding the two offshore fields (Okono and Okpoho, OML 119) NPDC discovered. In 1999-2000, NPDC invited experienced E&P IOCs from around the world to explore partnership options to develop the fields. Italian IOC Agip as service contractor was finally selected as a service contractor, the first such arrangement by NNPC. Under this arrangement, NPDC is deemed a joint operator, with Agip contributing the overall project manager. NPDC was to assume sole operatorship of Okono October 2006, a reversal of roles in which Agip would continue to participate in the project, but not as an operator. NPDC was able to prove over 200 million barrels of recoverable reserves under this service contract. An NNPC source claimed in July 2006 that the Okono field was the fastest oil project development in the world, from the first day of drilling in March 2001 to the first barrel of oil produced on December 24th of the same year. A floating production storage and offloading system (FPSO) of 20,000 b/d capacity was used initially on a temporary basis. A larger vessel of 1m barrels storage capacity capable of processing 80,000 b/d was installed in December 2003. The Abura field, purchased while producing 980 b/d was improved, rising to 5,000 b/d as at July

2006. Thus, NNPC is able to procure crude oil for the federation without the government having to invest directly in the project, unlike the JVs. NNPC is talking with JVs to relinquish some fields to the corporation. As at early August 2006 Chevron had agreed to relinquish some fields, and NNPC was talking to Shell about similar concessions under similar service contracts.

NPDC was yet to implement a proposed new organogram in August 2006. The organogram involves multiple asset organs, such as exploration where there was only one manager. The expansion envisages a manager for each E&P asset, which would make it easier to measure key performance indicators (KPIs). This exercise would likely increase its current staff strength of 322 by a significant margin. In an era when NNPC is downsizing its staff strength, this expansion signifies the corporation's shifting emphasis, toward advancing its upstream operations.

Diversification of International Partnership

Diversification of international partnership has emerged as a de facto component of NNPC's repositioning. It is not articulated in official policy as an explicit component of repositioning, but it is occurring alongside it. Moreover, increased cooperation with international companies is happening so quickly, and with ever growing intensity, to be deemed an essential element in the change going on in the industry. NNPC's head of business development Iheanyi Ohiaeri was quoted early 2006 as saying: "I get calls and e-mails daily from Beijing, from people looking to buy oil."[249] Apart from renewable energy partnerships with Brazil and Venezuela as already noted with regard to renewable energy, there have been important developments in the upstream and downstream.

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[249] http://money.cnn.com/2006/02/08/news/international/africa_fortune/index.htm.

China's Sinopec is in a service contract agreement with NNPC to develop two shallow water OMLs 64 and 66, and is in JV with NPDC for OML 110, and with Nigerian company Amni International Petroleum Development Corporation for OML 112. Chinese CNOOC holds 45 percent in the Akpo Field (OML 130), and China National Petroleum Corp (CNPC) affiliate BGD is involved in seismic work.[250] The clearest indication of growing role of non-Western oil companies in the upstream sector, however, came in the May 2006 bid round, where Asian companies won the bulk of blocks on offer. Korean National Oil Company (KNOC) was awarded deepwater oil blocs OPLs 321 and 323 in bid round of 2005.[251] CNPC won four blocs; India's ONGC, in partnership with Indian-owned industrial group Mittal, won three.[252] Significantly, the traditional oil majors did not win any concessions in this round. In January 2007, NNPC and Iranian sources announced an agreement to set up a joint venture between the corporation and Iranian Offshore Engineering and Construction Company (IOEC). Details of the agreement were not released, but they are understood to involve "the design, construction and installation of offshore platforms to service industry needs."[253]

Midstream and downstream investments by these companies are no less significant. NNPC in December 2006 formed a JV with Korean giant Daewoo Shipping and Marine Engineering (DSME) to establish a shipping company, Nigerian Daewoo Shipping Limited, on an equity structure of 51 percent and 49 percent respectively. The JV is to transport crude oil and other petroleum products on a commercial basis.[254] The sagging refining sub-sector has been of special interest to non-Western downstream

[250] Mohamedi, (2006): 14, 16, 17.
[251] *Daily Independent*, June 7, 2006, www.independentngonline.com/?c=44&a=4122.
[252] *This Day*, May 20, 2006, www.thisdayonline.com/nview.php?id=48568.
[253] *Vanguard*, January 4, 2007.
[254] *ThisDay*, December 27, 2006, www.thisdayonline.com/nview.php?id=66648.

investors. A Nigerian company, Petroleum Projects International (PPI) bidding for NNPC's subsidiary Port Harcourt Refinery Company (PHRC) in 2004 announced it had arranged Sinopec as partner.[255] In late January 2007, Nigerian ambassador to Venezuela Ayo Adeniran reportedly announced plans by two unidentified Venezuelan companies to invest a total of $7b in refineries in Nigeria, apart from revival of talks for PDVSA's supply of Orimulsion for Nigeria's thermal station.[256] DPR averred that eleven largely Asian companies had been pre-qualified for the 2006 bid apparently based on their downstream investment proposals, rather than the customary higher face-value bids. On this basis, for example, Indian ONGC-Mittal secured right of refusal on three blocs and CNPC four.[257] Each of the successful firms apparently undertook to develop strategic proposals for investment of a minimum of $2b. CNPC was to invest $2b in refurbishing the Kaduna Refinery; Natural Resources Inc, which won two blocs, had "already embarked on an ethanol blending project in Jigawa State." Other investors among the successful bidders were reportedly set to invest in refineries, a gas-gathering and pipeline system, a rural power project, and a railway line.[258] In June 2006, Nigeria and South Korea agreed to a $6b downstream oriented "energy pact."[259]

Why have non-Western IOCs been able to make such deep inroad into the Nigerian oil and gas industry? Answers to this question evoke a combination of supply and demand factors, grounded in the context of consumption patterns and security of supply concerns in the emerging economies of Asia, changing trends in wider international trade, geopolitical calculations, compatibility of business cultures, resource

[255] *African Business*, Feb. 2004.
[256] *The Guardian*, February 1, 2007, www.guardiannewsngr.com/news/article04.
[257] *This Day*, May 20, 2006, www.thisdayonline.com/nview.php?id=48568.
[258] *The Guardian*, May 23, 2006, www.guardiannewsngr.com/news/article01.
[259] *Daily Independent*, June 7, 2006, www.independentngonline.com/?c=44&a=4122.

owners' experience with Western IOCs and reappraisal of growth and development options, changing nature of corporate responsibility, and attitudes of home governments and home publics of investing oil companies. It is trite to rehash the energy security concerns of the emerging Asian countries as this has been a frequent subject in recent literature and especially news reports.[260] But the methods and factors that enable these companies, especially the Chinese, to secure entry into Third World resource owning countries should be carefully underlined.

These companies enjoy certain advantages over Western IOCs. Chinese energy companies engage is "aggressive overbidding" in Nigeria largely because their main goal is steady supply rather than profitability.[261] The Chinese model of doing business—"How do we procure this license?" as opposed to American concern for governance, efficiency, security and the environment—has greater appeal to developing countries.[262] Chinese service companies, which invariably follow the NOCs, are competitive in terms of labor, costs, manufacturing and, increasingly, in know-how, and their methods complement host states' drive for local content, as in Nigeria.

Chinese success is also partly a function of resource holders' dissatisfaction with Western IOCs' approaches to social infrastructural development.[263] Western IOCs' extractive mentality/tendencies, risk-averse investment approaches, extreme mechanization, and preference for the ease and comfort of working with Western manufactured materials and equipment, make investment in long-term infrastructural and social development seem wasteful. In this respect, non-Western companies are not

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[260] For scholarly work, see Mohamedi (2005), and for new reports, see http://money.cnn.com/2006/02/08/news/international/africa_fortune/index.htm.
[261] Mohamedi, (2006):16
[262] http://money.cnn.com/2006/02/08/news/international/africa_fortune/index.htm.
[263] Mohamedi, (2006): 17, 21

necessarily displacing Western IOCs; they are also moving into areas that Western IOC's have ignored or shunned. Non-Western companies seem more willing to invest in high-risk, potentially less-yielding ventures than Western IOCs. For example, CNPC's concessions in Nigeria include acreages in the Lake Chad trough, where Western IOCs have historically refused to prospect, leaving NNPC's management arm NAPIMS to do the spadework. The same can be said of refining, an area Western IOC have shown little interest. Non-Western NOCs,' particularly the Chinese, enjoy undiluted national state support, and, unlike Western IOCs, they are mostly unencumbered by domestic pressure groups monitoring their activities in foreign countries.

Some symbiotic dimensions of the relationship between non-Western oil companies and resource owning developing countries are already evident in the foregoing. From one perspective, there is an element of inexorability in the new partnerships. There has been a longstanding disposition on the part of Nigerian policy makers toward greater partnership with the better performing Third World economies, and trade with these countries has grown phenomenally in the past thirty years or so. The oil and gas industry simply cannot be insulated from Nigeria's growing trading and technical partnerships with the emerging economies of the South. The growing energy needs of the emerging Asian economies ensure that oil and gas are at the center of these partnerships. A related factor is the internationalizing strategies of resource bearing countries' NOCs, such as NNPC. The three panelists whose recommendation in 1976 gave rise to the folding of NNOC and creation of NNPC 1977 specifically recommended technical partnerships with non-Western NOCs, in preference to Western IOCs.

> The oil companies and other multinational corporations and their home Governments are generally reluctant to establish oil related enterprises in the developing countries because they do not, understandably, want to create new

> rivals to their established undertakings in the industrialized countries.…In seeking foreign technical assistance, Government should recognize and challenge our more technologically advanced but developing countries such as Algeria, Iran, Venezuela, India, etc. and the smaller Western countries who have no vested interest in our underdevelopment and who are therefore likely to "open up" more than developed countries like Britain, U.S. or the Soviet Union.

The panelists had visited and were "highly impressed by…Venezuela, Algeria and Iran."[264]

With Obasanjo having inaugurated this panel in late 1975 as deputy head of a military junta, and received its report as president 1976, it is perhaps not a surprise that relationships with non-traditional partners would blossom under an Obasanjo administration. Obviously, Obasanjo did not go far in implementing the panel's recommendation before he left office in 1979, but with the continuing backwardness of the Nigerian oil and gas industry when he returned to office 30 years later, the recommendation of the 1976 panel could have given him food for thought. He declared October 2006 that the reason for Indorama's takeover of long-underperforming erstwhile NNPC subsidiary, Eleme Petrochemicals Company Ltd (EPCL), with capacity to manufacture 126,000 tons of propane and 300,000 ethylene annually, was the quest for competence and sensitivity to the environment.[265] There is an opinion within the NNPC hierarchy that the influx of Oriental operators now makes it possible for NNPC to call the bluff of Western IOCs.

In the new millennium, resource bearing countries' quest for partnerships with non-Western countries is matched by growing desires in many of these countries, which in recent years have received strong impetus from Venezuela's Hugo Chavez and Iran's Mahmoud Ahmadinejad. Given the widespread grumbling that Western IOCs enjoyed

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[264] Federal Republic of Nigeria, *Report of the Panel*, 8/33, 9/9, 9/11.
[265] *Daily Independent*, October 13, 2006: www.independentngonline.com/news/44/ARTICLE/13046/2006-10-13.html.

financial and political clout that Third World producer states could not ordinarily match, in spite of OPEC,[266] the entry of players from the emerging economies holds an immediate allure to these countries. These partnerships do not, however, necessarily signify the withdrawal or eclipse of Western IOCs. U.S. IOCs alone invested more than $40b in Gulf of Guinea oil during the decade that ended 2005, and plan to invest another $30b between 2005 and 2010.[267]

It is sometimes argued that Western IOCs like Shell, ExxonMobil, Chevron-Texaco, and others have high-tech capabilities their non-Western counterparts do not, and that partnership with the latter would compromise quality. The prevailing opinion within NNPC seems to be that emerging countries' oil companies have done well in their own countries and that nothing stops them from hiring service companies just like Western IOCs do. The influx of non-Western oil companies is, however, not entirely positive for resource owning countries like Nigeria.

It is possible that reduced tolerance of international corruption in the post-Cold War West discourages officials from resource owning countries calculating on the personal fortune to be made from oil deals with Western IOCs. Such standards of anticorruption do not usually apply outside Western countries. If sleaze funds have become more difficult to manage in Western countries, a phenomenon that can potentially reduce the incidence of corruption in resource owning countries, the opening up of new havens for such funds cannot be a positive development. The 2006 Transparency International Corruption Perceptions Index shows that Nigeria's new partners are some of the world's poor performers.

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[266] Ikein, *The Impact of Oil*, 5-6.
[267] Watts, "Empire of Oil."

TABLE 2. INTERNATIONAL CORRUPTION RANKING OF NIGERIA'S MAJOR NEW PARTNERS

Country	Ranking	CPI Score
Malaysia	40	5
South Korea	42	5.1
Brazil, China, and India	70	3.3
Iran	105	2.7
Indonesia	130	2.4
Venezuela	138	2.3

(Source: www.infoplease.com/ipa/A0781359.html)

The lowest ranking among Nigeria's traditional partners is Italy, which is ranked 45th with a corruption perception index (CPI) score of 4.9, is behind only Malaysia and South Korea. Interestingly, the biggest players China and India are tied with a potential big player, Brazil at 70th, with an unimpressive CPI score of 3.3. Iran, Indonesia, and Venezuela score even less.

Also, the brand of pragmatism attributed to Chinese companies in particular—"How do we procure this license?"—can potentially lead to a relapse to the Cold War-era mentality where issues of human rights and transparency in resource owning countries are relegated to insignificance.

With respect to the reform of the industry, the Obasanjo administration (1999-2007) has gone farthest than any regime in Nigerian history. The only other regime than can be compared to it is Babangida's (1985-93), which went far in restructuring the oil industry, although many of the reforms were reversed during Abacha years. The restructuring of the Babangida years included creating the institutions to separate the commercial operator from regulatory and policy making agencies, awarding concessions to Nigerian owned companies, and creating structures for commercialization. More than Obasanjo's, the Babangida regime actually removed the minister from chairing NNPC's board, in an avowed effort to pave way for privatization. This level of commitment is not always discernible in Obasanjo's administration. On the other hand, however, while the Obasanjo regime espouses a policy of anticorruption, the Babangida regime is widely seen to have carefully nurtured and institutionalized corruption in all facets if society. The regime's privatization measures became stultified, and attempts to strengthen the independence of NNPC literally collapsed under the weight of corruption.

OBSTACLES TO REFORM

The reforms designed for the Nigerian oil and gas industry in general and NNPC in particular are near impeccable, excitement is in the air within the corporation, and improvements are already in the horizon, but these are being run in a manner that sometimes mocks the letter and spirit of the reforms.

One major problem of the reforms is that the targets seem overambitious. One official admitted that NNPC targets "are too high. Much is required of [this subsidiary] in a short time. We have growth plans but we want to grow in a controlled manner. Unfortunately, the country lost growth opportunities in the past, which it is now trying to make up for in undue haste." The reforms aimed to achieve local content of 45 percent in two years, even though it had been below 10 percent in the previous 45 years of commercial quantity oil production. It is not a surprise that the target did not materialize.

Despite the modest gains made in the area of local content, there are discernible obstacles. Nigerians form "engineering" companies with skeletal technical staff to secure contracts, which their foreign partners then execute. These local companies also impinge on NNPC's program of capacity addition by luring its technical staff with more attractive offers. Although these personnel often return to NNPC due mainly to the general instability of these firms, NNPC officials view it as a major problem for the corporation.

Similarly, continuing duplication of functions among NNPC's units depletes the pool of technical personnel the companies need to effectively execute their respective core responsibilities. For example, NAPIMS's dabbling into exploration depletes NNPC's pool of technical experts, who are better utilized for adding capacity to NPDC. It is true that NAPIMS does exploration in areas commercial operators hesitate to work in, but if NNPC can bankroll this work, it can channel such funds to pay NPDC for the same work on a service contract basis. The virtues of the latter approach are several. The addition of NAPIM E&P technical personnel to NPDC would strengthen NPDC's technical manpower base, increase its exposure in upstream operations, and bolster its business base and revenues. At the same time, NAPIMS would better focus on its own designated roles and provide a long-sought opportunity for streamlining the responsibilities of this division. No less destabilizing is that the managements of the corporate divisions and subsidiaries change too frequently, so that head officers are forced on before they can truly make their mark on their companies.

Regime murkiness remains an obstacle to reforms. Oil industry administration is largely done on an ad hoc basis. The principal law governing the Nigerian industry, the Petroleum Act 1969, is outdated. It reckons only with crude oil and not with gas, and it did not anticipate PSC as the form of agreement DPR favors as well as competitive bidding for concessions. This latter deficiency leaves room for discretionary award of concessions.[268] The Petroleum (Amendment) Decree No. 23 of 1996 (the so-called Marginal Fields Decree) provided for the recovery from production companies of undeveloped marginal oil fields and their reallocation to Nigerian owned companies undermined IOCs' claim that the development of marginal fields was unprofitable, and facilitated the participation of indigenous and small foreign companies in the upstream sector.[269] However, the decree did not define "marginal fields." Since it took retroactive effect, it effectively violated existing agreements. Partly because of its inbuilt ambiguity and partly because of its potential of alienating IOCs, the law quickly went moribund.[270] This law would have better benefited Nigeria's interest if it operationalized "marginal fields." The fact that operating IOCs control the basic infrastructures in the fields, such as flow lines, needed by winners of marginal fields to exploit their acreages, makes it nigh impossible for concessionaires of marginal fields to exploit them economically without the cooperation of the original operators. An unwilling IOC, for example, can frustrate a marginal field owner by pricing the tariffs too high. Realizing the complicated nature of the matter, the Obasanjo administration introduced a cautious application of the law. DPR now try to carry the IOCs along in the award of marginal fields. This is a reasonable tack, but the exploitation of marginal fields remains a problem area.

The administration has, however, fared worse with other problematic laws. The Deep Offshore and Inland Basin Production Sharing Contracts Decree 1999 (henceforth Decree 9 1999), with retroactive effect from January 1, 1993, is essentially in abeyance because of inherent deficiencies.[271] In mid-2006, the government acknowledged failure

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[268] NEITI, "Licensing Process Review," 7-9.
[269] NPDC and some unidentified indigenous companies were reported to have won a total of 24 marginal fields in 2003. (*Africa Energy Intelligence*, September 3, 2003; *Africa Energy Intelligence*, December 10, 2003.)
[270] Jedrzej, (2000):37-38
[271] NOGIO, (2006): 47.

to enforce the rule that production companies must relinquish 50 percent ownership of oil blocs not developed after ten years.[272] This seems an indication of continuing DPR's low capacity to regulate. The government was cited in June 2006 to have devised a new formula for calculating royalties in operators' cost recovery claims, to be based on market prices for crude rather than quantity of oil produced. Under the new formula too, government royalties would be calculated on the basis of average water depth, expected to yield higher royalties. The government reportedly asked Shell to cease lifting its 225,000 barrels per day crude from the deepwater Bonga field until the company complied with the new directive.[273] Unless these modifications are provided for in specific contracts, they could strain relationships between the Federation and IOCs. In 2002, the administration and allocation of upstream acreage were transferred from DPR to NNPC.[274] This was reversed in early 2004.

Appropriate new legislation has been slow in coming. The renewable energy program currently operates in the absence of relevant legislation. Delays in passing new legislation have resulted from a combination of factors, delays by the presidency and ministry, retention of antireform provisions in proposed legislation, and disagreements between the executive and legislative branches of government over appropriate safeguards. For example, the Senate summoned Daukoru late January 2007 to explain why the proposed Downstream Gas Bill vested enormous powers in his office, including going above the head of the proposed Gas Regulatory Commission (GRC) to be the final approving authority for issuing and withdrawing operating licenses.[275]

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272 *Vanguard*, June 19, 2006, www.vanguardngr.com/articles/2002/cover/june06/19062006/f419062006.html.
273 *Vanguard*, May 19, 2006, www.vanguardngr.com/articles/2002/cover/june06/19062006/f419062006.html.
274 *African Business*, December 2003.
275 *Punch*, February 1, 2007, www.punchontheweb.com/Articl.aspx?theartic=Art200702012204378.

In discussions with NNPC officials, one could decipher echoes of leveraging the corporation's influence in regulatory matters for the benefit of the corporation. In the midst of ongoing reforms, there are still puzzling trends. As at July-August 2006, the Technical Assistant to the minister, whose regular position is a deputy director at DPR, had his office inside NNPC's Abuja corporate headquarters. As incongruent as this arrangement sounds at first sight, it was consistent with the murky structure of the Nigerian oil industry. Junior minister Daukoru was entitled to an office in NNPC's headquarters in the first instance because he was the alternate chair (now as substantive minister and substantive chair) of the NNPC board. In like manner, the head of NNPC's Public Affairs Department and official spokesperson of the corporation is also the official spokesperson of the minister. This kind of muddling is still seen in many aspects of NNPC operations. Asked if NNPC policing the entire industry with regard to local content was not dabbling into regulation and impinging upon the work of DPR, a well-informed corporation source denied that NNPC's role constitutes regulation. To this source, NNPC is merely playing "a capacity-building role." The source also denied that NNPC's local content policing constituted imposition or conflict of interest. "We are not imposing targets on [oil companies] that will compromise standards—environmentally, technologically and otherwise. I would like to emphasize NNPC's role as participation rather than regulatory. NNPC uses its position to leverage local content in the entire industry."

The question arises as to whether NNPC's devotion to blanket training of personnel for the industry at large would not overstretch the corporation's resources and impinge upon its viability as a commercial company. The source argues that NNPC engages in this program toward the fulfillment of its corporate responsibility, and that the Nigerian content division would consider charging fees for training services to non-NNPC companies if the cost becomes a burden. Since NETCO is also involved in providing training on a commercial basis, however, the Nigerian Content division will be duplicating the function of the subsidiary. Some of these programs are well-intentioned, but they lose value if they add to confusion in the industry, duplicate roles of other agencies, and sometimes split the resources the appropriate agencies need to do their work, thereby reducing their effectiveness.

Nor has there been an overarching willingness to comply with reform guidelines. It is particularly puzzling when the reforms are seemingly undermined by those orchestrating them. Despite having capable people at his disposal and in disregard of the recommendation of consultants Nexant, President Obasanjo only appointed a minister in January 2007. Even then, whether this appointment means reduced presidential grip on the larger industry remains to be seen; it has done nothing obvious to affect presidential control of the present NNPC leadership. Despite the impression Obasanjo would like to create to the contrary, his late appointment of a substantive minister does not appear altruistic and would not likely boost minister Daukoru's authority in the industry and over NNPC. An attempt to preempt his presidential successor from maintaining the practice of subsuming the ministry to the presidency – a practice likely to harm the reforms—may be one rationale for the belated appointment of a substantive minister.

The measure also seems to be an effort to assuage the fears of the domestic and international communities in the face of the embarrassing revelations of his estranged deputy Atiku Abubakar during the second half of 2006. For example, Abubakar's spokesman declared in early October: "…the Petroleum Ministry has, and continues to be in the firm grip of the President, all by himself, these last seven and half years. Every Nigerian is literate to the fact that all enquiries on oil and related matters go to the President's desk."[276] In early January 2007, Abubakar himself claimed that Obasanjo had never tabled any petroleum related matter in the federal cabinet until "a few months" previously when the president brought large sacks of documents relating to oil related decisions he had unilaterally taken over the years and directed council members' retroactive approval.[277] Until very recently, Obasanjo had ignored all criticisms over his retention of the petroleum portfolio and did not seem to intend to appoint a minister, despite having such capable and experience people at his service. Presidential control of the industry can boost the GMD's influence in relation to the minister, but it does not necessarily result in greater autonomy for the corporation. This control limits NNPC chiefs' ability to initiate and implement internal reorganization or hire or dismiss executive officers.

Kupolokun's NNPC affirmed late 2003 that the reforms include the privatization of the four NNPC refineries.[278] But Kupolokun and junior minister Daukoru were seen on television late July 2006 arguing in a public forum for NNPC retention of majority stake in the Port Harcourt Refinery. Given that the refineries have so flagrantly underperformed under NNPC control and that sabotage of crude and refined products pipelines has been on the increase, this refinery seems set to continue gulping money in endless and fruitless maintenance. Continuing fuel scarcity occasioned by dysfunctional

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[276] Atiku Abubakar Campaign Organization, October 3, 2006. See *Punch*, October 4, 2006: www.punchng.com/Articl.aspx?theartic=Art200610042544329.
[277] *Sahara Reporters*, January 9, 2007, http://saharareporters.com/di001.php?diid=33.
[278] *This Day*, November 27, 2003.

refineries and a corrupt and inefficient importation and distribution network give little hope in the corporation's ability to revive the sub-sector in the foreseeable future. Besides, the refineries are costing the Nigerian economy dearly in a manner that is counterproductive to the general reforms program. NNPC wants to go into JVs with IOCs in running the refineries, but the latter have been reluctant to work under JV arrangements; instead, they want to operate the refineries as managing contractors. Kupolokun and Daukoru's insistence on keeping a subsidiary that has little business value to the corporation is baffling.

Equally baffling is NNPC's importation of ethanol fuel announcement early September 2006. Kupolokun was quoted to have unveiled the award of contracts for two major product reception and distribution facilities in the Lagos to facilitate the distribution of the imported product to other parts of the country. The justification for the project was to provide structures and experience necessary to "firm up" the distribution and marketing of ethanol fuel.[279] The corporation may be misplacing its priorities by importing ethanol. NNPC has an elaborate biofuel production program and one would have expected every effort to be channeled toward it, than to imported product. Decades of gasoline, diesel, and kerosene imports have not firmed up the markets and have done local refining little good, while fueling massive corruption and waste at the same time.

Paucity of transparency remains a problem in NNPC. A 2004 IMF study of industry transparency among seven Sub-Saharan African producers found Nigeria to be among the two countries where data availability is insufficient and the only one experiencing "inadequate allocation and collection of revenue for the government," and where "frequency of audits of the sector is inadequate" and "tax audits of oil companies

[279] *This Day*, September 6, 2006, www.thisdayonline.com/nview.php?id=57705.

… ineffective."[280] As at the first quarter of 2005, NNPC accounts had still not been published, despite NEITI having pushed for them. Obasanjo was quoted at the time to have revealed: "NNPC has always fought due process, but I have given them an order to obey."[281] NEITI prefaced its second draft of its process audit on the marketing of the Federation's equity crude with the following: "Certain transparency issues remain to be clarified with GMD and Minister. We wish to meet with NNPC GMD to review: The manner in which Government - to - Government contracts are concluded[;] The criteria by which applicants for crude lifting are accepted /rejected[;] The criteria for allowing concessionary (extended) settlement terms for Attock, Duke Oil."[282] NEITI has not published its findings on these questions as at mid-February 2007.

The size of remittances from NNPC and the Central Bank toward an elaborate Nigerian buy-back deal between 1988 and 1993 is unknown because the Obasanjo administration has steadfastly refused to probe the $6b deal.[283] In 2006, diversion to the international market of 445,000 b/d crude allocated to domestic refining was reported to fuel graft, just as some proceeds from Nigerian crude apparently went to accounts in Cayman Islands, partly as "vehicles for channeling funds to politicians and cronies."[284] NNPC was mentioned in early 2005 among the quarters resisting the fiscal transparency and procurement bill. The federal legislature complained that NNPC did not furnish it with pertinent figures on crude liftings. The Federation Accounts Allocation Committee

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[280] See Tables 3 and 8 in Katz, et al. (2004).
[281] *Africa Confidential*, March 4, 2005.
[282] NEITI, "Audit: Process for Marketing Crude," Preface.
[283] *Africa Confidential*, March 31, 2000.
[284] *Energy Compass*, October 20, 2006.

(FAAC) in May 2006 determined NNPC owed the Federation Account N310b (about $2.2b) in crude oil receipts.[285]

Continuing corruption in NNPC reflects wider, systemic challenges. As part of the Obasanjo reforms, the system of open bidding for oil blocks was instituted in 2005. Criticisms still becloud the award of oil concessions, despite the government's protestations about improving transparency. A lot of this abuse derives from the wide latitude Nigerian petroleum laws have given to the supervising minister since 1968. There is widespread belief that the system has enable people in power share oil blocs to their cronies. Announcing the "return of grand corruption" in the Nigerian oil and gas sector, *Africa Confidential* reported April 2000: "We hear reports of abuses similar to the worst under the late General Sani Abacha: the sabotage of refineries to create shortages, together with more sophisticated attempts to rig the trade – both imports and exports – in petroleum products."[286] Reports of cronyism have trailed exploration and drilling concessions, up to the end of 2006, with the president's aides, associates and acolytes fingered as beneficiaries.[287] The lucrative offshore deepwater OPL 291 privately awarded to Emeka Offor's hurriedly incorporated Starcrest reportedly sold at half the price of its going rate.[288]

Speculations that heads would roll in the oil industry, up to the junior minister, turned out to be inaccurate. DRP director Chukwueke was suspended mid-November, in an apparent prelude to being sacked. The prevailing view among observers was that Chukwueke was turned into a fall guy. As a former aid in the presidency told the present

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[285] *The Guardian*, May 22, 2006; www.guardiannewsngr.com/news/article01.
[286] *Africa Confidential*, April 14, 2000.
[287] *Africa Confidential*, June 10, 2005; *Africa Confidential*, August 26, 2005.
[288] *Times of Nigeria*, Nov. 15, 2006: www.thetimesofnigeria.com/index.php?option=com_content&task=view&id=1422; *Africa Confidential*, November 3, 2006.

writer in late November 2006, "Everybody knows that only one man can award oil blocks in this country." Chukwueke was, however, surreptitiously reinstated less than four weeks later, apparently because he acted in compliance to "directives he received from his superiors in the ministry and the clearance of The Presidency."[289] Bids for term contracts for Nigerian crude through NNPC are no more transparent. The criteria for selecting winners are unknown, but they "are in fact determined by the circle around President Olusegun Obasanjo."[290]

Significant opposition to elements of the reforms comes from certain key stakeholders and a cross section of the Nigerian public. Opposition is particularly strong against the removal of subsidies from fuel, but it not always short of constructive ideas. Following PPRA's October 2003 announcement of a fuel price increase, opponents of the increase (including numerous state governors) argued that price liberalization had little meaning without liberalizing the fuel import market. Obasanjo reversed the increase and, instead, reduced by one third the volume of crude allocated to NNPC for local refining.[291] Fuel marketers have long been part of the problem. They hoarded fuel during the last weeks of December 2006 to take advantage of anticipated price increases in early January 2007. When NNPC (along with DPR) insisted there was adequate stock of fuel and threatened to close gas stations that did not sell fuel, fuel started flowing again at the stations. This is an indication of renewed zeal for improvement of oil administration because NNPC had been more passive in previous occasions.[292]

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289 *Saturday Independent*, December 10, 2006, www.independentngonline.com/news/183/ARTICLE/16942/2006-12-10.html.
290 *Energy Compass*, October 20, 2006.
291 *Africa Confidential*, October 24, 2003.
292 *This Day*, January 3, 2007, www.thisdayonline.com/nview.php?id=67136.

The labor unions, particularly those of oil workers NUPENG and PENGASSEN, have resisted both staff retrenchments toward rightsizing and reduction of subsidies on refined products. They oppose reduction or removal of fuel subsidies on the basis that access to fuel at affordable prices is positive for the economy, arguing that reduction of corruption in the industry would save NNPC money and reduce the urgency of subsidy reduction. It should be noted that these unions are not opposed to the principle of reforms, but their grouse more often than not revolves around the mode of implementation. They resist retrenchment partly out of concerns of the possible role of nepotism and vindictiveness, and partly because of disagreement with the corporation over severance packages. In some areas, the unions appear to be ahead of officialdom. For example, they have been the most strident advocates for the independence of DPR, stopping vandalism of pipelines, and insecurity of oil workers.

But perhaps the most urgent problem facing the industry is the crisis in the Niger Delta. The Nigerian oil and gas industry and NNPC are unlikely to realize the reform program until the political elite wake up to this problem. Although increased agitation in the Niger Delta has brought the region to the center stage of Nigerian politics,[293] the notion that the mere infusion of money in the delta is the panacea to the problem is rife among Abuja politicians. The 20 trillion naira Obasanjo initiative is a knee-jerk measure which betrays a lack of focus and mocks the government's fiscal policy. The project was announced in April 2006, but it had not been part of the year's budget. It appears that other unbudgeted funds ($2 billion) were by January 2007 being earmarked for the purchase of arms for the suppression of Niger Delta militancy, which Niger Delta groups

[293] Watts, "Empire of Oil," 2006.

have not taken lightly.[294] The issue has gone beyond the boilerplate "stick and carrot," and warrants restructuring of Nigerian federalism.

Beyond policy failures and other externalities, one great obstacle to reforms is that NNPC seems to have embraced the letter of the reforms but hardly their spirit. Evidence of serious impediments to reforms was found in NNPC's corporate culture. Sycophancy is a major issue. A managers' progress may hinge on such demonstration of subservience even if it comes at the expense of productivity. Nobody mentions this in interviews, but it is sometimes all too obvious to escape notice. But the situation would not have degenerated to this level if successive NNPC GMDs have not rewarded it. The ongoing reform exercise should incorporate a campaign against sycophancy because only a top-down approach can end the malady speedily enough.

CONCLUSIONS

NNPC has failed to fulfill its mission due to a variety of factors. Many of these have been outside the corporation's control and many others have been self-inflicted. The rationale for the formation of the NOC in the early 1970s appeared sound at the time, but it is unclear that the creation of a NOC to drive this change was inexorable, except in the context of OPEC membership. One alternative to the NOC route would have been the strengthening of the regulator and strategic state support for endogenous capacity in the context of private indigenous oil companies. The industry would have developed in another way. Whether the development would have been better or worse is open to speculation.

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294 This allegation was made by Obasanjo's estranged deputy Abubakar, but the administration's response seems to confirm rather than deny the claim, with emphasis being placed on alleged treasonous nature of Abubakar's revelation (www.nigeriaprotocols.com/article.php/20070131200840652; http://odili.net/news/source/2007/feb/6/316.html). For the presidency's response, see *BusinessDay*, February 1, 2007, www.businessdayonline.com/?c=45&a=10962.

The NOC was formed to marshal and lead technological and managerial progress of the Nigerian oil and gas industry, and to act as an operator in all spheres of the business, rather than be a mere rent-collecting partner. However, the economic and technological benefits of an indigenous industry driven by the NOC have hardly materialized, and NNPC's poor performance has sometimes undermined the government's leveraging ability in dealings with IOCs. There is a tendency to see the problems of NNPC and difficulties in reforming the corporation as essentially beneficial to IOCs.[295] If this was ever true, it can no longer be stated without qualifications. With the emerging Asian economies placing pressures on global reserves and increased instability in the Middle East, the operative words are more like future market reliability and predictability of supplies than mere leverage. The IOCs would like to see a reformed NNPC, one that can keep reliable records, perform tasks with minimal red tape, better facilitate the flow of oil, and fulfill its partnership obligations, including timely payment of cash calls (wherever they may still exist), not the tottering bureaucratic morass that it has been. Even if IOCs continue to benefit from corruption in the Nigerian industry, as they have long done, and even if they want the corrupt system to remain, they most certainly want to see an efficient NOC in place. If IOCs must choose between predictability of supplies and leverage, they would probably prefer the former. The quest for more transparency appears to be gathering steam, with some international players beginning to express weariness with shadiness in the global industry.[296] The question is not whether IOCs would want to see NNPC reformed; it is the level of influence they would like to wield over a stable and reliable NNPC.

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[295] See for example, Jedrzej, (2000):41.
[296] *Energy Compass*, October 20, 2006.

The reforms taking place in the corporation are done both in recognition of past failures and underperformance, and to bring this key institution fully in sync with the reforms program of the Obasanjo administration, including anti-corruption and an ambitious national energy plan, in which oil and gas are to play a central role. NNPC has an impressive and ambitious plan and, for the first time in its history, the corporation seems to have correctly identified the problem areas and has set about with greater zeal in improving its operations. As part of its strategy, the corporation has been successful in persuading highly qualified Nigerian expatriate professionals to take up key positions in the organization, ensuring that the corporation is light years ahead of the sordid organization that was exposed in the early 1980s.

In recent months, efficient accounting methods have been promised, as has been a mega refinery, in conjunction with its partners to refine 50 percent of it all produced crude oil for both the domestic market and for export. Nobody can fault NNPC's ambition to develop to the level of Brazil's Petrobras and Malaysia's Petronas, but the manner of pursuing this objective will be watched closely.

As the reforms progress, the corporation is in dire need of rescue from political interference. Political interference can be positive under certain circumstances, such as when needed to drive reforms, but the actual Nigerian experience has largely been problematic, to the extent that it competes with corruption (insofar as the two can be separated) in impeding the corporation's progress. Whether strident presidential grip is necessary to clean, reform, reposition, and strengthen the corporation for future greater independence and better performance will become clear only in coming years.

As much as a political leader desires to keep close control of the oil industry in an attempt to midwife reforms, it should be borne in mind that the autonomy of the NOC and the regulator is essential to the success of the reforms. Indeed, the future autonomy of NNPC will depend, at least in part, on an understanding presidency's committed noninterference. The corporation will certainly need increased autonomy under a committed leadership, in line with the experience of the NOCs it seeks to emulate.

NOC professionals need freedom to plan and execute their programs without fear of undue intervention from "above." It is important to recall that NNPC's predecessor NNOC collapsed in the mid-1970s because of the overarching influence of a powerful government official who lorded it over the NOC's experts. This resulted in massive, avoidable losses to the Federation and loss of developmental opportunity to the NOC.

The structures being put in place must be robust enough to overcome the increased subservience of NNPC to the presidency that has developed since 1999. Kupolokun's unusual closeness and subservience to Obasanjo virtually guarantees his ouster by a new administration in 2007. Still, Kupolokun may survive longer than expected, if Obasanjo's handpicked candidate Yar'adua wins the presidency 2007. Every Nigerian president has shown interest in who is appointed to the corporation's top post, and every GMD has embarked on speedy "reorganization" of the corporation, which invariably involved changes in senior personnel and in direction. Another urgent issue to be sorted out, which again is beyond the power of the corporation, is the Niger Delta crisis. Community relations of NNPC or any other oil company, no matter how big and well-managed, no longer suffice to resolve the problem.

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