

Understanding Sudan

A Teaching and Learning Resource



Fact Sheet Six: Nigeria



Country overview

Population: 149,229,090 (July 2009 est.)

GDP: \$338.1 billion (2008 est.)

Area: 923,768 sq km

Nigeria first struck oil in June of 1956, only a few years before it became independent from Great Britain, which had ruled it as a colony since the late 1800s.

Structure of the oil sector

Nigeria created the Nigerian National Petroleum Corporation (NNPC) in 1977. During this period, the NNPC oversaw the regulation of the Nigerian oil industry and was responsible for upstream and downstream developments. In 1988, NNPC was divided into a series of twelve subsidiary companies intended to manage the oil industry in Nigeria more efficiently.

Most oil and gas projects in Nigeria are funded through joint ventures between oil companies and the NNPC. The largest such joint venture is between the NNPC and Shell Petroleum Development Company

(SPDC). Other foreign companies working in Nigeria include ExxonMobil, Chevron, ConocoPhillips and Total.

Other than joint ventures, Nigeria also has a number of product sharing contracts. These are agreements which state that after costs and expenses, the product – in this case oil – is shared between the company and the host government. The product sharing contracts are largely concerned with deepwater oil drilling located off the coast.

Such projects are likely to grow in importance for Nigeria. There has been considerable instability and conflict in the Niger Delta region where much of Nigeria's onshore oil is located, so deepwater projects have become more appealing to multinational corporations. Beginning in 2007, the Nigerian government began offering licenses to private oil companies for 44 deepwater blocks (demarcated areas for oil extraction).

In 2005, Shell's deepwater Bonga field began producing oil, with a production level of 225,000 bbl/d (barrels per day) achieved by April 2006. The Bonga field is estimated to have recoverable reserves of at least 600 million barrels. Shell also intended to bring another field, called Gbaran/Ubie, online in 2008. Construction, however, is running behind, and Shell currently estimate it will only be online by the end of 2009. The Bonga field has been subject to disruption from attacks from local groups fighting for their share of the oil profits this year, however, casting doubt on whether deep water fields are as secure as the international oil companies thought.

ExxonMobil is also investing heavily in Nigeria, particularly in offshore developments. In 2006, the Erha development was brought online, with a peak production of 200,000 bbl/d achieved by July 2006. Furthermore, ExxonMobil has the Yoho field online, which is estimated to contain around 400 million barrels of oil. ExxonMobil plans to use natural gas to maintain the pressure at that field once the natural pressure starts to disperse. Last year, the offshore Bosi field was brought online, with an estimated daily output of 110,000 bbl/d.

Finally, there is also a Joint Development Zone, which is the property of both Nigeria and a small nearby country, Sao Tome and Principe. This area could hold up to 14 billion barrels of oil reserves. According to the International Monetary Fund, Sao Tome and Principe could earn more than \$700 million a year if 80,000 bbl/d could be achieved before 2013. This would be based on the 40:60 split arrangement they have agreed with Nigeria. The controlling private oil company interest in the block is from Chevron (51%), with ExxonMobil also having a large share (40%).

Oil production and processing

Production levels: Nigeria is the largest oil producer in Africa, and the twelfth largest in the world. It is a member of OPEC. Current total production is 2.352 million bbl/day (in 2007). This figure does not fully reflect Nigeria's current capacity, however, as many oilfields are offline due to disruptions and conflict in the Niger Delta (see below), where many onshore oil fields are located. The Energy Information Administration of the United States Department of Energy estimates that if all the oil currently shut off came back online, Nigeria would have a capacity of around three million bbl/d. Given the new projects coming online, the Nigerian government hopes to increase oil production capacity to four million bbl/d by 2010.

Oil Reserves: According to Oil and Gas Journal (OGJ), Nigeria had 36.2 billion barrels of proven oil reserves as of January 2007. The Nigerian government plans to expand its proven reserves to 40 billion barrels by 2010. At present, the vast majority of reserves are found in the Niger River Delta, and offshore in the Bight of Benin, Gulf of Guinea and Bight of Bonny.

Major Oil-ports: Nigeria has six export terminals: Forcados and Bonny (operated by Shell); Escravos and Pennington (Chevron); Qua Iboe (ExxonMobil) and Brass (Agip).

Major Oil Fields: Cawthorn Channel, Edop, Ekulama, Escravos Beach, Forcados Yoriki, Jones Creek, Meren, Nembe, Okan, Oso, and Ubit.

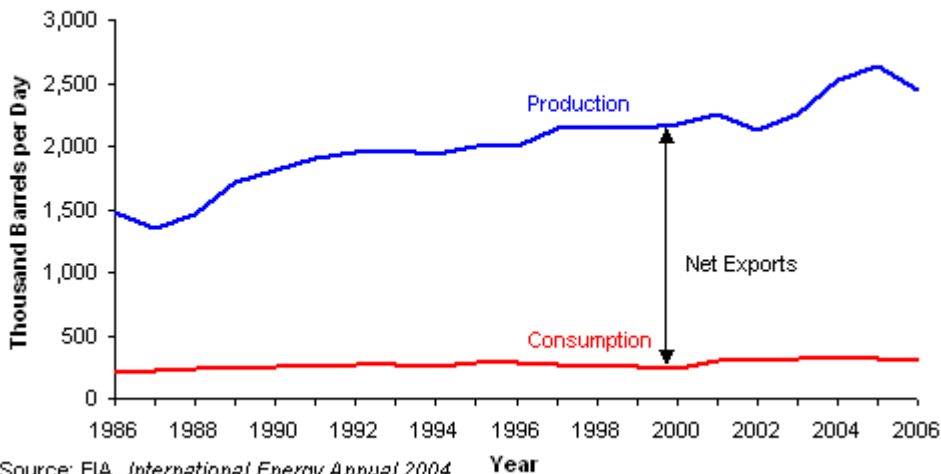
Refining Capacities: The refining capacity in Nigeria is insufficient to fully meet domestic demand – thus Nigeria actually imports petroleum products. In theory, according to the Oil and Gas Journal (OGJ), the four state-owned refineries of Port Harcourt (one and two), Warri, and Kaduna, should have a capacity of 438,750 bbl/d, but, given sabotage and a lack of maintenance, they are currently refining closer to 214,000 bbl/d. This means that Nigeria sells its crude oil to be processed into useable oil elsewhere, and then buys it back afterwards.

Oil Exports: Nigeria is one of the world’s main exporters of crude oil. In 2006, total oil exports reached 2.15 million bbl/d. 42% of this oil went to the United States. Export levels have not shrunk, despite the violence in the Niger Delta, indicating that the new productive capacity has offset losses in production caused by the conflict. Oil is Nigeria’s main source of income, providing 95% of foreign exchange earnings and 80% of the total budget.

Oil Imports: 154,300 bbl/day (2005)

Oil Consumption: 312,000 bbl/day (2006 est.)

Nigeria’s Oil Production and Consumption, 1986-2006



Source: EIA, *International Energy Annual 2004*
Short Term Energy Outlook March 2007

The politics of oil in Nigeria: revenue distribution

Since the early 1970's, Nigeria has earned close to \$400 billion in oil revenue. Despite this, Nigeria's GDP per capita is only \$1049 as of 2007, and Nigeria ranks 159 out of 177 on the UN Human Development Index. This means that the country's citizens have seen little of its oil wealth. Accessing a larger share of the profits from oil revenues and compensation for environmental degradation to online farms have been the major motivators for conflict, violence and disruption in oil-producing parts of the country.

Government revenue in Nigeria, including monies from taxes and oil profits, is distributed in accordance with a formula. This formula is frequently revised because of internal political considerations. In 2000, the formula allocated 48.5% of the revenue to the federal government, 24% to states, 20% to local governments and 3.5% to special funds. The remaining 4% has been apportioned to the three government levels as well. While this may sound equitable on paper, the federal governments under the presidential administrations of Sani Abacha (1993-1998), Olusegun Obasanjo (1999-2007) and now Umaru Yar'Adua (2007 to present) have all been accused of widespread corruption and mismanagement of oil revenues as well as extremely unequal distributions of state disbursements.

Niger Delta Development Commission is responsible for the improvement of the Niger Delta areas where oil is produced, yet development efforts are still lagging. A recent principle stipulated that 13 percent of oil revenues should be returned to the states where the oil was produced, promising a greater share of federal revenues to deprived states. The federal government, however, is now challenging the right of coastal states to offshore revenue under this derivation formula in order to retain a centralized stronghold on revenues. At the same time, most state governments have not effectively spent the derived revenues to improve human development.

The politics of oil in Nigeria: conflict and human rights issues

As stated above, Nigeria has experienced periodic and severe disruption to its oil supply, as some local groups have waged a sort of guerrilla war against the oil companies and government. Oil workers have been kidnapped, oil facilities taken over, and pipelines have been frequently vandalized in the Niger Delta. As of April 2007, an estimated 587,000 bbl/d had gone offline, as oil workers left the conflict areas and domestic refining capabilities were crippled by attacks on the oil infrastructure.

One of the organizations responsible for the attacks, the Movement for the Emancipation of the Niger Delta (MEND), claims the people of the Niger Delta have been exploited by the oil companies, and the environment in the area where oil is drilled has been massively degraded. As the International Crisis Group (ICG) notes: "Land and water pollution from spills played havoc with the ecosystem. Villagers lived with gas flares burning 24 hours a day, and air pollution that produced acid rain and respiratory problems." The ICG further notes that, "The root causes of the Delta insurgency are well known. Violence, underdevelopment, environmental damage and failure to establish credible state and local government institutions have contributed to mounting public frustration at the slow pace of change under the country's nascent democracy, which is dogged by endemic corruption and misadministration inherited from its military predecessors." MEND has kept up a campaign of attacks on oil facilities since 2006.

The most well known case of conflict in Nigeria is that of the Ogoni people and their leader Ken Saro-Wiwa. Through the Movement for the Survival of Ogoni People, Saro-Wiwa and others protested what they saw as Shell's environmental and human rights violations in Ogoniland, in the Niger Delta region.

The government regime of Sani Abacha responded by raiding villages, arresting activists and executing ten leaders, including Saro-Wiwa, in 1995. Hundreds or even thousands of Ogoni have been killed in these conflicts. The issues in Ogoni areas are often similar to complaints elsewhere in the Niger delta.