

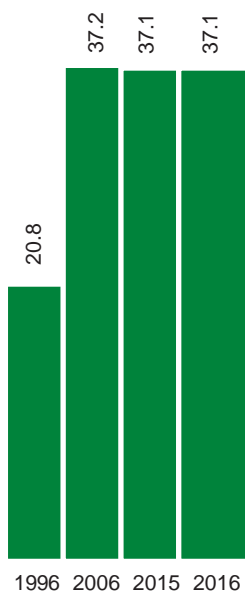
ENERGY COUNTRY REVIEW

# Nigeria

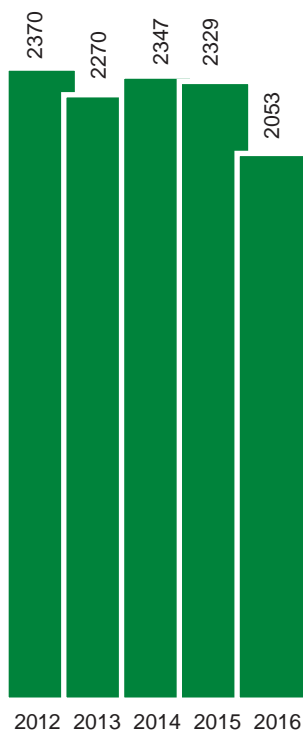
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# Country Review Nigeria

**Nigeria year end oil reserves**  
Billion barrels



**Nigeria Oil Production**  
Thousand barrels per day



Source: BP Statistical Review

Nigeria (the Federal Republic of Nigeria) borders Benin in the west, Chad and Cameroon in the east, and Niger in the north. Its southern coastline abuts the Gulf of Guinea of the Atlantic Ocean.

Many empires have ruled Nigeria. The Nok ruled the north from 500 BC to 200 AD, the Kanem-Bomu were powerful from the 9th century, and Hausa kingdoms established trade routes in the 14th century. In the south Nri (Igbo) ruled from the 10th century, Yoruba were prominent in the 12th century, and Oyo tribes peaked in the 17th century in the southwest. In the 19th century the Fulani (Sokoto) empire controlled the northern region which was broken up into European colonies in 1903.

In 1472 Portugal began trading slaves from Lagos, turning to agriculture when the slave trade was banned by Britain in 1807, who went on to annex Lagos as a Crown Colony in 1861. The UK expanded inland and in 1901 Nigeria became a British protectorate which united in 1914. The federation achieved independence in 1960 but fell into civil war until 1970 as tribal regions fought for autonomy. After repeated military coups, Nigeria became a semi-stable democracy in 1999 although the northeast is under attack from the Islamist Boko Haram and unrest continues in the delta as locals demand more control of oil revenue.

## Overview

Nigeria is the largest oil producer in Africa, holds the largest natural gas reserves on the continent, and is among the world's top five exporters of liquefied natural gas (LNG). Nigeria became a member of the Organization of the Petroleum Exporting Countries (OPEC) in 1971, more than a decade after oil production began in the oil-

## Country Key Facts

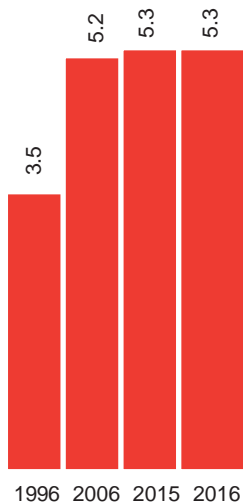
Official name:	The Federal Republic of Nigeria
Capital:	Abuja
Population:	191,774,313 (2017)
Area:	923,768 sq km (356,669 square miles).
Form of government:	Federal Republic
Language:	English, Hausa, Igbo, Yoruba
Religions:	Muslim 50%, Christian 40%, and indigenous beliefs 10%
Currency:	Naira
Calling code:	+234

## Operational Key Facts

2015 year end oil reserves:	37.1 billion barrels
2015 oil production:	2053 thousand bbls per day
2015 year end gas reserves:	44.9 Bcm
2015 gas production:	5.3 Tcm

# Country Review Nigeria

**Nigeria year end oil reserves**  
Trillion cubic metres



**Nigeria Gas Production**  
Billion cubic metres



Source: BP Statistical Review

rich Bayelsa State in the 1950s. Although Nigeria is the leading oil producer in Africa, production suffers from supply disruptions, which have resulted in unplanned outages as high as 500,000 barrels per day (bbl/d).

Nigeria's oil and natural gas industry is primarily located in the southern Niger Delta area, where it has been a source of conflict. Local groups seeking a share of the wealth often attack the oil infrastructure, forcing companies to declare force majeure on oil shipments (a legal clause that allows a party to not satisfy contractual agreements because of circumstances that are beyond their control). At the same time, oil theft leads to pipeline damage that is often severe, causing loss of production, pollution, and forcing companies to shut in production.

Aging infrastructure and poor maintenance have also resulted in oil spills. Natural gas flaring, the burning of associated natural gas that is produced with oil, has contributed to environmental pollution. Protest from local groups over environmental damages from oil spills and natural gas flaring have exacerbated tensions between some local communities and international oil companies (IOCs). The industry has been blamed for pollution that has damaged air, soil, and water, leading to losses in arable land and decreases in fish stocks.

Nigeria's oil and natural gas resources are the mainstay of the country's economy. The country's oil and natural gas industry typically accounts for 75% of government revenue and 95% of total export revenue.

## Marginal Fields Initiative

The Nigerian Government has ambitiously been implementing two strategic energy initiatives for the country's vast oil and gas resources. These include the indigenous company allocation programs for conventional exploration licenses as well as for proven undeveloped fields. These initiatives will allow local companies and communities to participate and benefit in the development of Nigeria's vast hydrocarbon potential and to realize the enormous economic potential locked in the country's proven, but still under-developed oil fields in the Niger Delta. The second initiative is the recently enacted Nigerian Oil and Gas Industry Content Development Bill, which stipulates that preference will be given to local companies to provide goods and services within the oil and gas industry. This initiative will create significant jobs and stimulate local industry growth and training for the national workforce.

As a result of the adoption of an aggressive government reallocation initiative, 116 oil and gas fields in the Niger Delta have been

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## Government

Nigeria is a Federal Republic with the president as head of state and government elected to a maximum of two 4-year terms. The president's power is checked by a 109-seat Senate and a 360-seat House of Representatives combined in a bicameral body called the National Assembly.

There are active secessionist movements and there has been a long history of corruption driven by oil money. The oil and gas industry is overseen by the Federal Ministry of Petroleum Resources. The Department of Petroleum Resources (DPR) established in 1970 before the Ministry is the technical Department that regulates and monitors activities of the industry.

The state-owned Nigerian National Petroleum Corporation (NNPC) established in 1977 undertakes commercial ventures in the industry on behalf of the Federal Government.

characterized as “marginal fields”, meaning that they are proven but remain undeveloped for over 10 years. These fields, which are owned by major oil and gas producers in joint venture with the Nigerian National Oil Company, have been dormant for many years as they typically fell below the economic thresholds of the multinational operators. To smaller independent companies, such as Mart and Nigerian oil and gas companies, with streamlined operations and a low cost base, these fields create significant opportunities.

Under the marginal field initiative, these fields are allocated to indigenous Nigerian companies that are then at liberty to bring in financial and technical partners to jointly develop and place the fields on production. Published reports indicate that these fields may hold an estimated two billion barrels of oil.

To date, 25 of the designated fields have been allocated competitively to indigenous companies that were approved under the stringent qualification rules. As an additional stimulus to the development of these dormant fields the government has granted a number of fiscal incentives, including lower sliding scale royalties and substantially reduced petroleum profit taxes.

## Regulation of oil and natural gas industry

The Petroleum Industry Bill (PIB), which was initially proposed in 2008, is expected to change the organizational structure and fiscal terms governing the oil and natural gas industry if it becomes law. IOCs are concerned that proposed changes to fiscal terms may make some projects commercially unviable, particularly deepwater projects that involve greater capital spending.

The Nigerian National Petroleum Corporation (NNPC) was created in 1977 to oversee the regulation of the oil and natural gas industry, with secondary responsibilities for upstream and downstream developments. In 1988, the NNPC was divided into 12 subsidiary companies to regulate the subsectors within the industry.<sup>5</sup> The Department of Petroleum Resources, within the Ministry of Petroleum Resources, is another key regulator, focused on general compliance, leases and permits, and environmental standards.<sup>6</sup>

Currently, most of Nigeria's major oil and natural gas projects are funded through joint ventures (JV) between IOCs and NNPC, where NNPC is the majority shareholder. The rest of the projects are managed through production-sharing contracts (PSCs) with IOCs. PSCs are the fiscal regime typically, but not always, governing deepwater projects and contain more attractive terms than those in JV arrangements, which is the fiscal regime typically governing onshore/shallow water projects. PSC terms on deepwater projects tend to be more favorable to incentivize the development of deepwater projects.

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## **The Department of Petroleum Resources (DPR)**

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## **Department of Petroleum Resources**

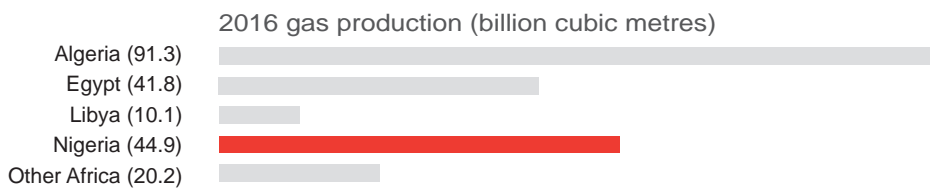
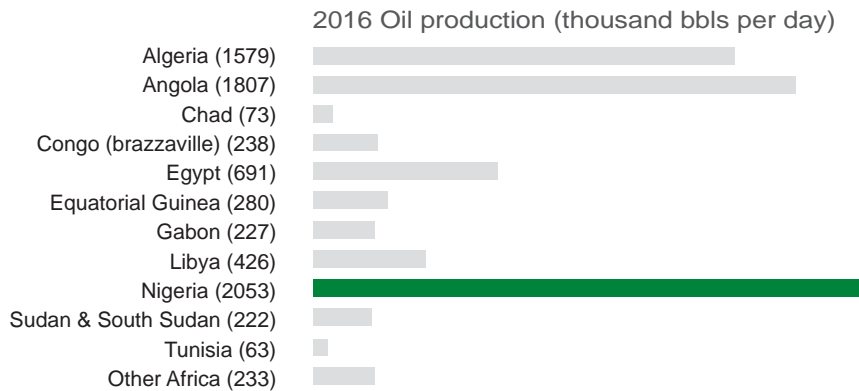
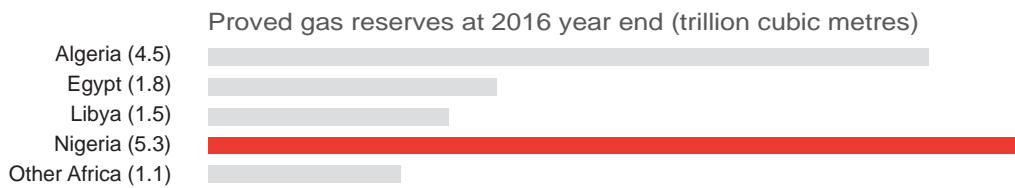
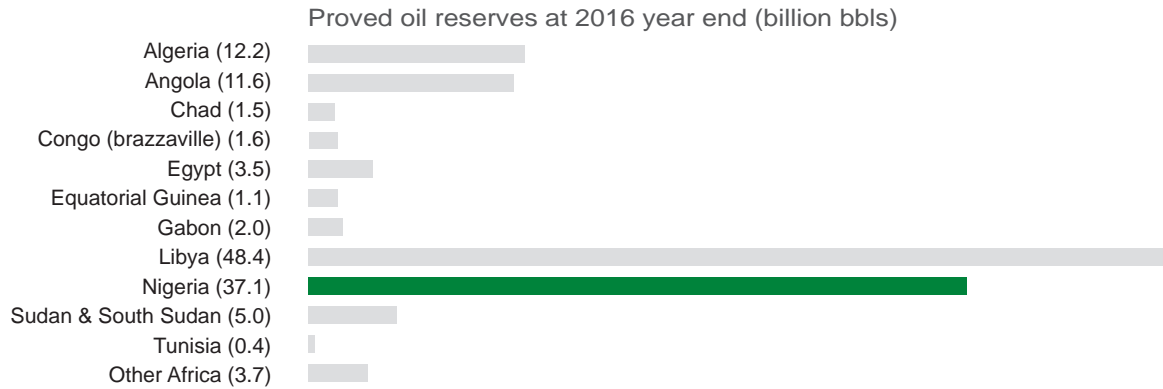
7, Kofo Abayomi Street,  
Victoria Island,  
Lagos, Nigeria

Tel: +234 (1) 2790000,  
+234 (1) 9037150

NNPC has JV arrangements and/or PSCs with Shell, ExxonMobil, Chevron, Total, and Eni. Other companies active in Nigeria's oil and natural gas industry are Addax Petroleum, Statoil, and several Nigerian companies. IOCs participating in onshore and shallow water oil projects in the Niger Delta region have been affected by the instability in the region. As a result, there has been a general trend for IOCs, particularly Shell, Total, Eni, Chevron, and ConocoPhillips, to sell their interests in marginal onshore and shallow water oil fields, mostly to Nigerian companies and smaller IOCs, and to focus their investments on deepwater projects and onshore natural gas projects.

The Petroleum Industry Bill (PIB), which was initially proposed in 2008, is expected to change the organizational structure and fiscal terms governing the oil and natural gas industry if it becomes law. IOCs are concerned that proposed changes to fiscal terms may make some projects commercially unviable, particularly deepwater projects that involve greater capital spending. Some of the most contentious areas of the PIB include the potential renegotiation of contracts with IOCs, changes in tax and royalty structures, deregulation of the downstream sector, restructuring of NNPC, a concentration of oversight authority in the Minister of Petroleum Resources, and a mandatory contribution by IOCs of 10% of monthly net profits to the Petroleum Host Communities Fund.

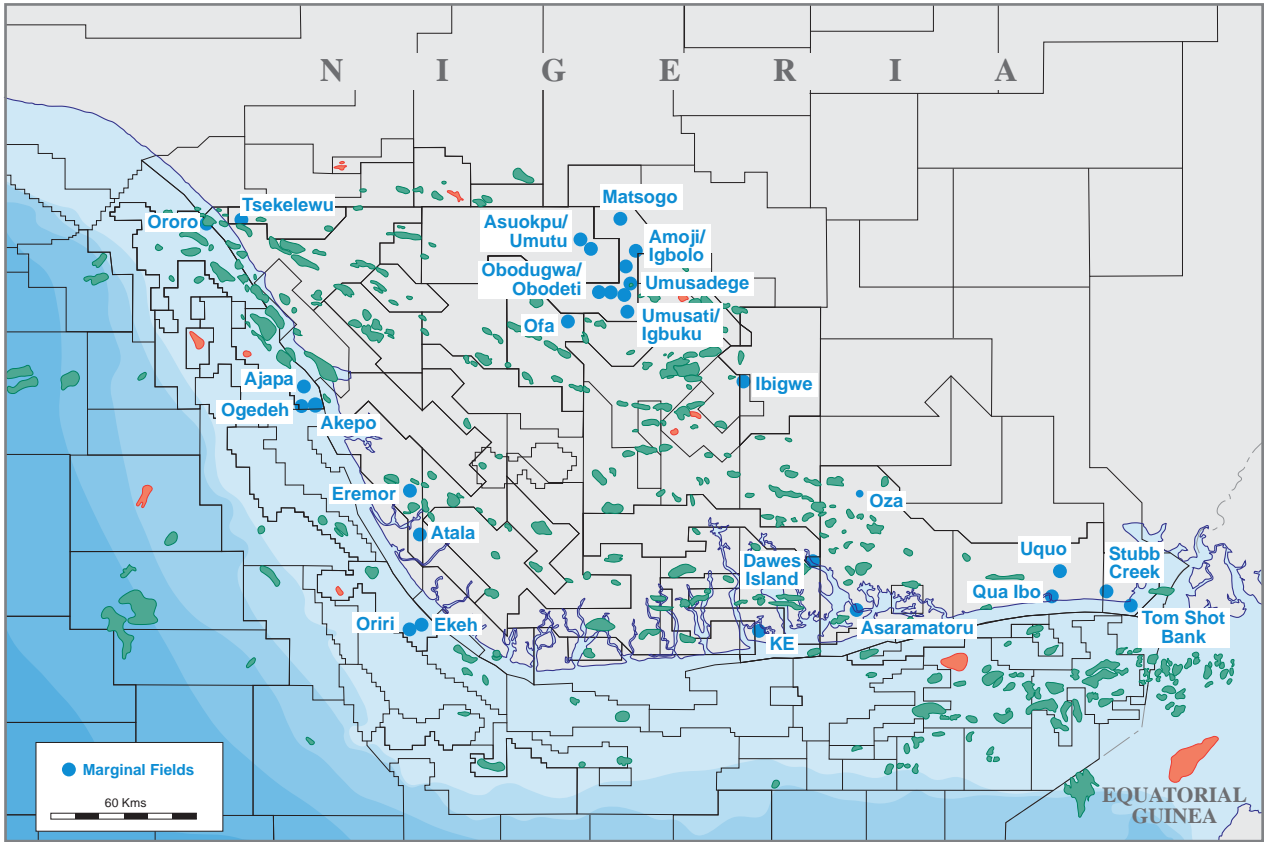
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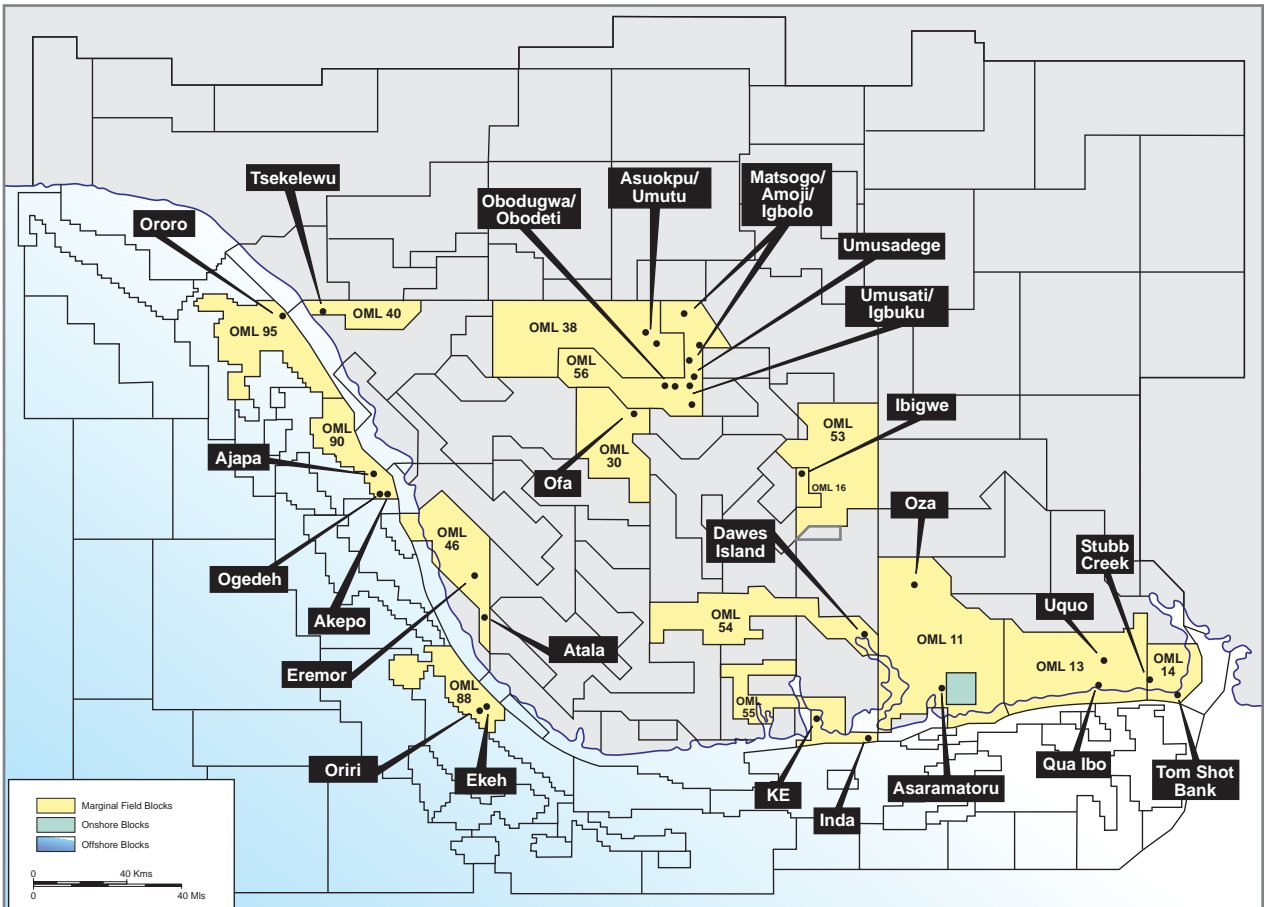
Source: BP Statistical Review

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## Marginal Fields

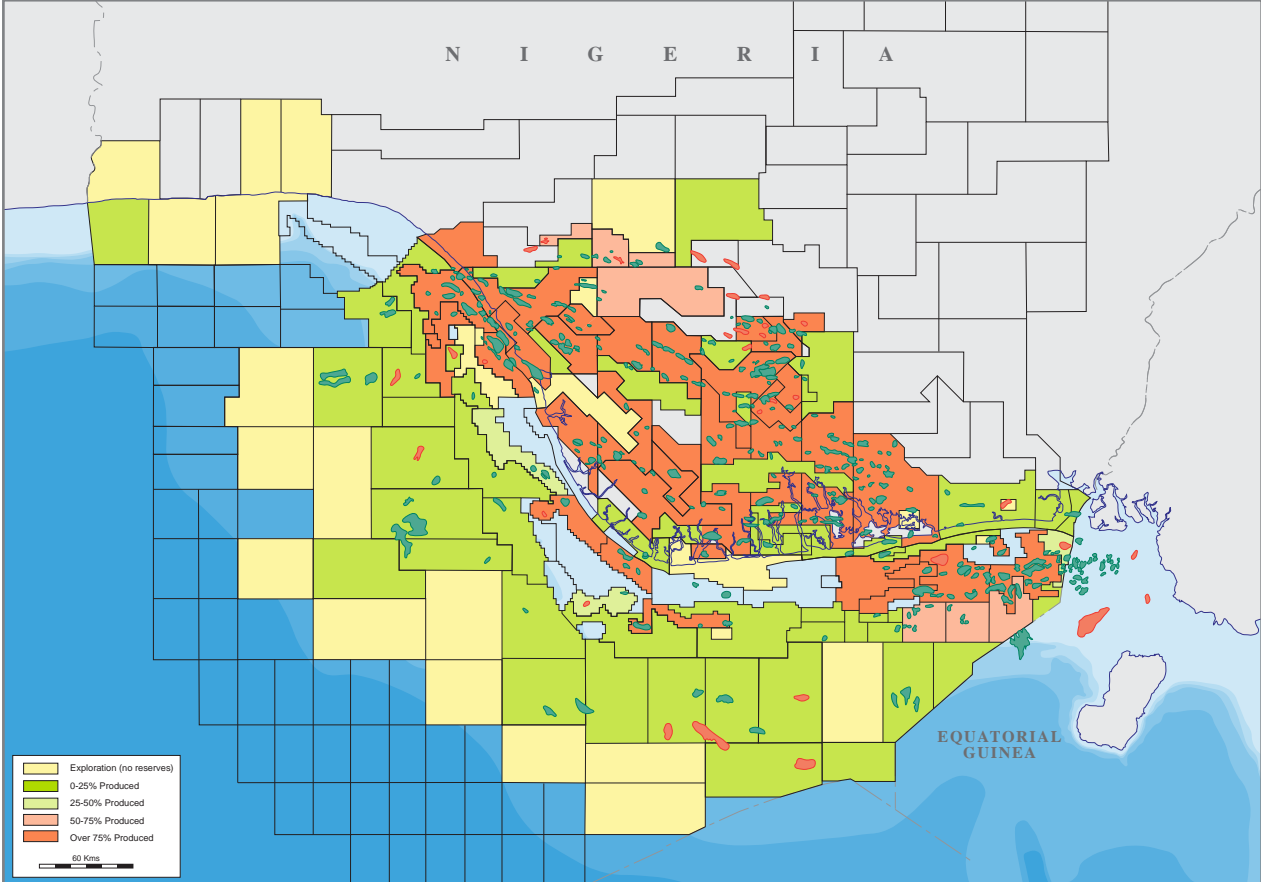


## Niger Delta



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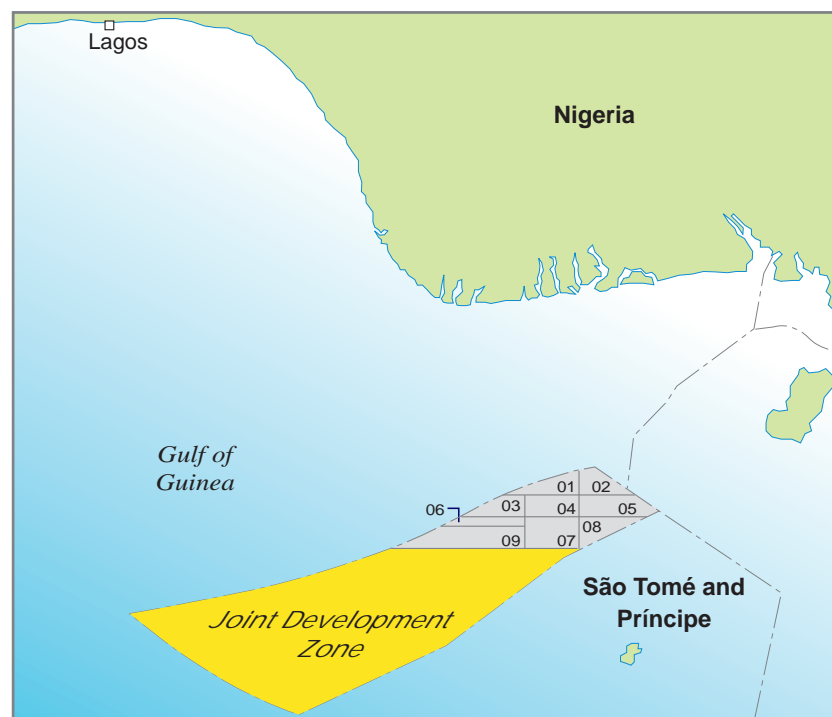
Field Maturity Map



# Country Review Nigeria

## São Tomé and Príncipe JDZ

In the spring of 2001, the governments of São Tomé & Príncipe and Nigeria reached an agreement over a long-standing maritime border dispute. Under the terms of the agreement, the two established the Joint Development Zone to govern commercial activities within the disputed boundaries. The treaty established the Joint Development Zone (JDZ) and an administrative body, the Joint Development Authority, (JDA), to oversee the implementation of the treaty and underlying licence areas.



The JDZ is administered by a Joint Development Authority (JDA) which oversees all future exploration and development activities in the JDZ. The remaining claimed territorial waters of São Tomé & Príncipe are known as the Exclusive Economic Zone (EEZ).

### Revenue Split

Revenues derived from the JDZ are shared 60/40 between the governments of Nigeria and São Tomé & Príncipe, respectively.

The JDZ lies approximately 180 km south of Nigeria in the Gulf of Guinea, one of the most prolific hydrocarbon regions in the world. Intensive exploration efforts over the last 35 years in and around the Niger Delta Basin, in particular, have led to a succession of large discoveries, notably the Bonga, Agbami and Akpo discoveries in Nigeria and the Zafiro and Alba discoveries in Equatorial Guinea.