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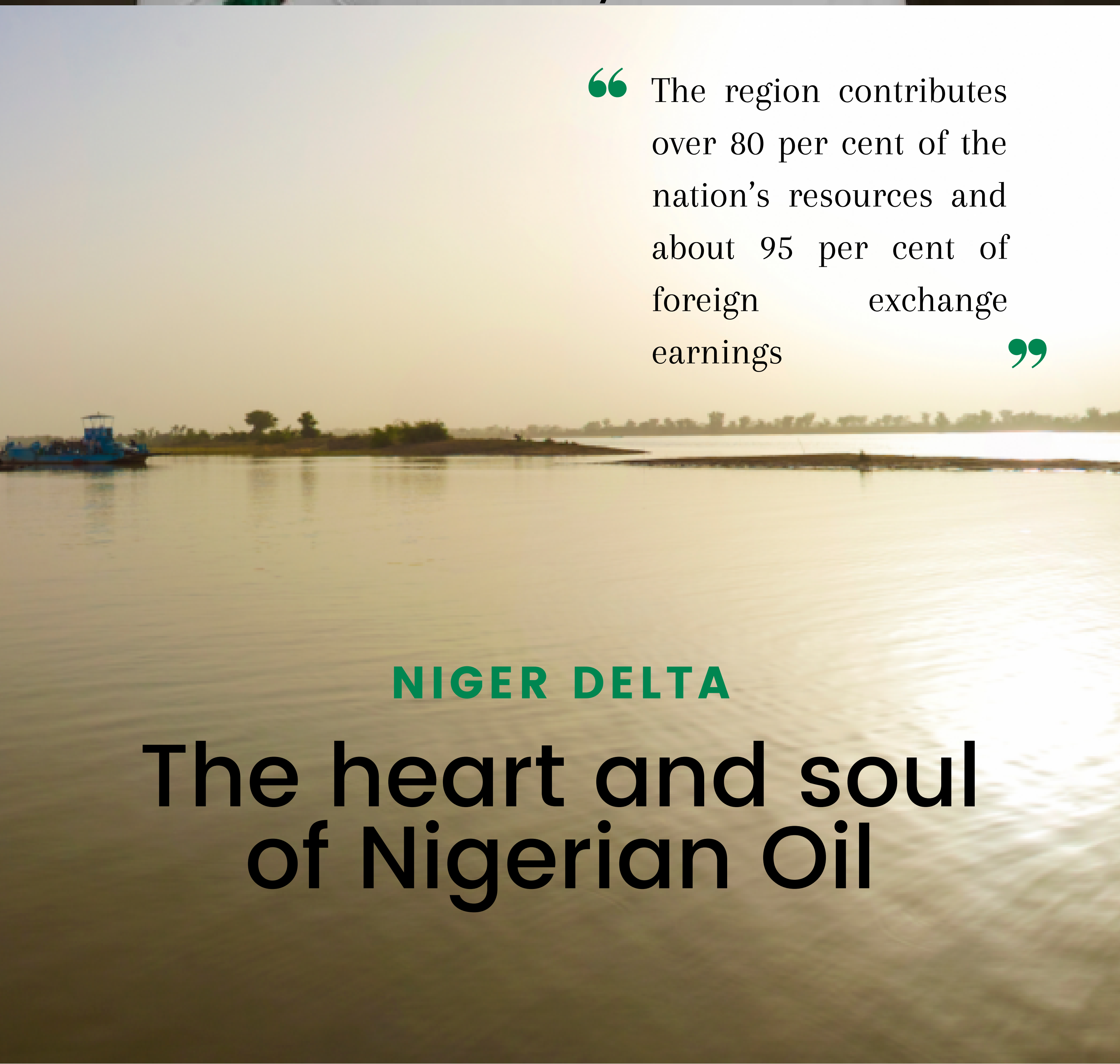

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NIGER DELTA

The heart and soul of Nigerian Oil

SUMMARY

Niger Delta the heart and soul of Nigerian Oil

The Minister of State for Niger Delta Affairs, Sen. Omotayo Alasoadura, stated recently in Texas while speaking on investment opportunities in the Niger Delta Region: “the region contributes over 80 per cent of the nation’s resources and about 95 per cent of foreign exchange earnings.

This same region is home to three refineries, a liquefied natural gas plant, a petrochemical complex, a steel plant and an aluminum smelting company and a large fertilizer company, Niger Delta hosts a number of oil-servicing companies and several oil majors are operating in the area. It also has an Export Processing Zone and an Oil and Gas Free Zone”.

Niger Delta is also the home of massive oil and gas deposits with average productivity of about 2.5 million barrels per day

The total recoverable reserves of oil and gas are estimated at about 34.5 billion barrels and 93.8 trillion cubic meters. All of this means only one thing this region is extremely important in Nigeria and for Africa. The economic stability of the country largely driven by the O/G industry is largely based in this region.

It's important to forge international economic cooperation for investment in the Niger Delta, build institutional exchanges and promote foreign direct investments.

However, it's becoming more and more evident that Nigeria should diversify its economy and promote private and public partnership. Networking effort by its officials in order to stand a greater chance to attract investors should be a priority.

Investments in fossil fuels

Climate change is raising global awareness that prompts government officials to take countless initiatives to combat it. Globally, the goal is to achieve a fully sustainable energy landscape in 2050. Overall, 99.7% of CO_2 emissions are accounted for by the countries.

In the long run, the goal is to switch to 100% renewable wind, water, and solar power by 2050, with at least 80% by 2030. Global warming would be mitigated and the energy sector would be stabilized if the planet were powered completely by sustainable energy.

Many nations around the world have enacted anti-oil policies that emphasize the need to transition to clean energy. However, this dramatic transformation cannot be achieved without the full support of global stakeholders (policymakers, businesses, and other relevant organizations)

In that context, environmentalists and climate change activists advocate Wall Street and banks around the world should shun fossil fuels. Efforts are being made to limit global emissions.

Even with societal pressure, banks worldwide continue to lend money and issue bonds from oil, gas, and coal companies, with fossil fuel bond deals arranged by banks at nearly $250 billion in 2021.

JP Morgan, Wells Fargo, Citi, RBC, and Mitsubishi UFS are the biggest lenders to fossil-fuel projects. So far this year, JP Morgan has financed the most loans and bonds combined. For oil and gas companies, the bank has underwritten bond deals totaling $2.5 billion. Another big lender is Wells Fargo, which has provided mostly loans to the companies in that sector.

The largest change in fossil fuel financing is reported by the Postal Savings Bank of China from 2016 to 2020. The increase from $168 million in 2016 to $2.2 billion in 2020, was over 1200%.

The second-largest change between 2016 and 2020 in fossil fuel change finance was seen by China Minsheng Bank, as its financing reached $ 10.8 billion, a 550 % increase from $1.7 billion.

These investments show a real contradiction. Even though the finance industry has committed to fighting climate change, the biggest banks in the world are funding the fossil fuel industry substantially.

Divestment from coal or curtaining of lending to coal companies is not the solution to mitigate climate change, according to financial institutions. They believe oil and gas will still be needed in the near future. Governments should stop discouraging investments in fossil fuels.

They propose to raise spending by the end of this decade to $523 a year. An uncontrollable increase in energy prices and economic unrest would be prevented with this step.

During the recent World Petroleum Congress in Houston (Texas), OPEC Secretary-General Mohammad Barkindo stated: “A halt in investment in oil and gas is misguided. Almost $12 trillion in spending is made between now and 2045 to ensure adequate crude and gas supplies, without which the world will see long-term scars on energy security, affecting not only producers but also consumers.”

Nigeria increased its oil production in November

The latest monthly Reuters survey shows the Organization of Petroleum Exporting Countries (OPEC) increased its oil production in November. In spite of that, the cartel produced less crude than its share of the monthly increase. Meanwhile, Nigeria increased its production.

Nigeria's crude oil production has been challenged in recent months, with issues at the Qua Iboe, Forcados, Erha, and Brass River terminals, among others.

Last month Shell Petroleum Development Company of Nigeria (SPDC) lifted force majeure on crude exports from Bonny Light terminal following repairs to a leaking pipeline.

In the last few months, Nigeria's production has been below its budgetary benchmark dropping to 1.37 million barrels a day in October, 261,000 barrels a day below its OPEC+ quota.

"Ten OPEC members bound by the OPEC+ pact should be raising their combined production by 254,000 barrels per day (BPD) each month out of the total OPEC+ monthly supply addition of 400,000 BPD".

We realized that not all OPEC members have the capacity to fulfill their full potential, so even though crude oil production increased in November, it wasn't sufficient. The increase of 254,000 BPD was not achieved as planned. Saudi Arabia, and Iraq, OPEC's two leaders, met the target in November, and Nigeria's production recovered during the same period, but other African producers continued to struggle.

At a time when many believe that African countries should increase their oil production rather than follow OPEC, we realized that it's not always easy to do so based on the realities of the continent. Having oil in abundance does not guarantee we will be able to take full advantage of it.

The federal government hopeful the DANGOTE refinery, and others will meet local fuel demand

Dangote Petroleum Refinery, Nigerian National Petroleum Corporation (NNPC), and other modular refineries, are expected to be the major drivers, of Nigeria's demand for petroleum products which is expected to grow significantly in the near future.

Speaking at the Oil Trading and Logistics (OTL) Africa, the Group Managing Director of NNPC, Mallam Mele Kyari, said NNPC refineries 445,000 barrels per day, Dangote refineries, 650,000 and another 250,000 bpd are expected to come from the condensate refineries, through the private sector and partnership.

This should be enough, to meet the requirement of Premium Motor Spirit (PMS) needs in Nigeria.

Kyari, and the President of the Dangote Group, are in line. Mr. Dangote stated, he was dissatisfied, with the fact that Nigeria is a leading oil producer, but imports, most of its petroleum needs. This abnormal situation, made him take the challenge, to embark on the construction of the gigantic refinery project. According to Mr. Aliko Dangote, some 29,000 Nigerians, would be employed in the refinery, when completed. This, would help in the employment generation drive, of the federal government.

Mr. Adeyemi Adetunji Executive Director downstream of (NNPC) explained, that the diversification of NNPC's portfolio through the acceptance of 20 percent equity in Dangotes' refinery project, is valued at $2.6 billion.

The free trade zone would ensure national energy security, and guarantee market for Nigeria at 300,000 bpd. He stated that, "NNPC is adding 215,000 bpd of refining capacity, through the private sector, driven towards co-location, at the existing facilities in Warri Refining Petrochemical Company (WRPC), and Port Harcourt Refining (PHRC) respectively. Modular refineries, are also adding capacities around 50,000 bpd".

Meanwhile, an additional 250,000 bpd is expected to come from the condensate refineries, through the private sector, and partnership. The co-location and condensate refineries, will close the PMS supply-demand gap, and create positive returns for investors.

The NNPC helmsman, said “the Corporation has progressed, with the refineries rehabilitation Program, to boost its participation in the oil & gas value chain. By simply awarding the $1.5 billion Port Harcourt rehabilitation contract, with the commitment to deliver, on the Warri and Kaduna refineries.”

As for the gas spreading efforts, Mr. Kyari said the federal government has declared 2021-2030 as the decade of gas development in Nigeria. Kyari also mentioned, that the demand for natural gas, could grow, about four times over the next decade. Increasing from, 4.8 billion cubic feet per day in 2020, and could reach 23 bcf/d in 2030.

Gaz a strategic commodity

The world is witnessing the importance of gas as a key game changer. It is clean and viable substitution to oil. Recently Algeria did not renew the twenty-five-year contract it had with Morocco to furnish Spain with this valuable commodity.

Instead, it is going to go exclusively through a direct pipeline. A strong Spanish delegation came to Alger to make sure the new change will not affect the flow of supplies it enjoyed in the past. Algeria was able to prove it will meet the Spanish need.

On the other hand, we are witnessing an increase of gas flow to Europe from Russia via Ukraine and Poland.

Many analysts predicted a tight winter supply as a result, the price of gas plunged when Dutch natural gas futures, the European benchmark, dropped as much as 12% to € 64.14 per megawatt-hour.

The Nigerian project gas pipeline as well as other important projects for the supply of the European market will be very important in the years to come. Will gas price go down because of the abondance of natural gas suppliers? What would be the position of Russia as a key supplier?

Energy as always is remaining as one of the most strategic resource and a formidable tool for strategic decisions in the world.

Cooking gas price on the verge of being lowered

Recently, Timipre Sylva, Minister of State for Petroleum Resources, announced that President Buhari assured that cooking gas prices would be stabilized in the country. Even though gas prices are determined internationally, this will be done. The Nigerian government does not set the price of gas since it's determined by the international market, and cooking gas is not subsidized, it is a deregulated commodity. Mr. Sylva stated, "But, I want to assure you that we are quite concerned and the president also is very concerned; he is aware that the price of gas is high in the market and we are doing everything to see how we can bring down the price of gas, especially as the yuletide approaches."

Mr. Sylva said they will utilize internal mechanisms such as value-added tax (VAT) to lower gas prices. Additionally, the minister declared that the government needs N6billion for the purchase of kits to convert the first million cars and for the procurement of equipment to make gas pump stations operational.

The end of the oil era, Nigerias' position

At Seplat Energy Summit in Abuja Minister of State for Petroleum Resources, Chief Timipre Sylva stated that oil will be in high demand till 2045. His position is aligned with the recent World Oil Outlook released by OPEC forecasts that oil would still be in high demand by at least 2045.

This is why every effort must be made to urgently develop our oil resources optimally and importantly, to source for alternative sources of investments.

The nation will not support any concept that promotes a single pathway to energy transition. This statement is particularly important knowing the efforts being made specially by the developed countries to force the transition to cleaner sources of energies.

In order to achieve net zero by 2050, TS prefers the concept of "just energy transition" which is based on the reality of each country while respecting environmental, political, economic and social issues.

It's high time for African countries to redefine the path they take which should be based the continent realities.

If countries like Nigeria follow the trend without taking into consideration that factor, at the least, they will be exposed to pricing and fiscal crisis. Making the right choices for a brighter future should be the message. For Nigeria, it's clear, gas is and will remain at the heart of the energy transition and should lead to other form of cleaner energies by 2050.

The Petroleum Industry Act (PIA) will be determinant by driving the country's National Gas Expansion Program domestically.

Chief Timipre Sylva proved that gas is a valuable and viable transformational fuel for industry development because Nigerian gas reserves not only are sufficient to cover the current demand but the country can construct nine gas fire power plants.

With the rest of Africa facing the same challenge it will be interesting to see how Nigeria is going to adapt to a continental demand as we know is growing rapidly. More nations are getting industrialized.

Sylva said that “the process has commenced for full deregulation of the downstream petroleum sector which would end subsidies and free up funds for national development. Deregulation of the downstream petroleum sector was another strategy proposed to enable the just energy transition in Nigeria”.

A big step was taken to declare the end of fossil, petroleum and gas resources

About twenty countries throughout the glob have decided to get rid of fossil energy. The decade ahead (2030 – 2040) is set to be the exit time from the so-called polluting energies including oil & gas. An alliance named “Beyond Oil and Gas Alliance” composed of several countries (Costa Rica, France, Greenland, Ireland, Wales, Denmark, Quebec, Sweden...) is working very hard for the transition. In Paris, the decade 2040 – 2050 was first announced but it looks like they are pressing their members to move quickly.

Meanwhile, it is important to note more O/G discoveries are being made in the African continent and with the industrialization of African countries at stake what will be the answer of our leaders. Globally, we have polluted the least but were very much affected with climate changes. As a continent we have to be aligned on a unique strategy and defend one position regarding the exploitation of our energetic resources for the years to come.

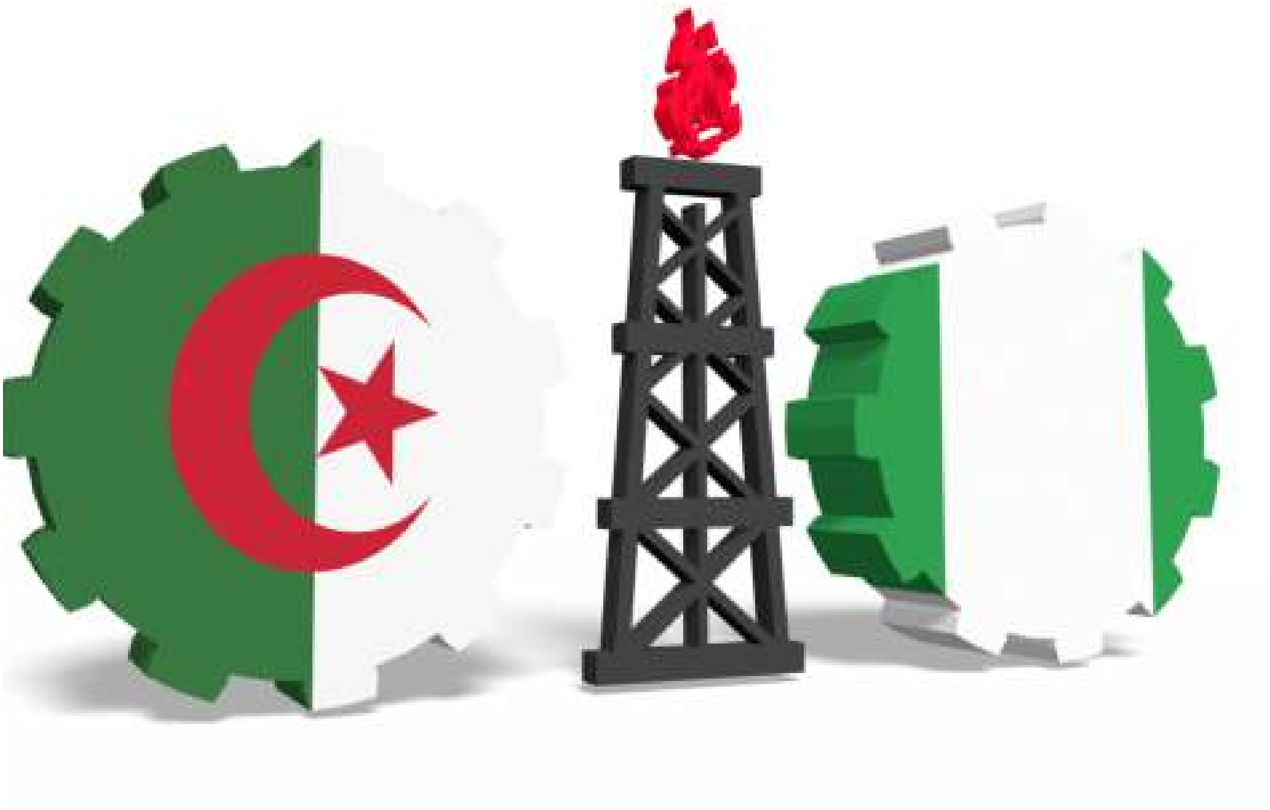
A GREAT PROJECT IN THE MAKING

Following up on the Gastech conference in Dubai, the Nigerian Minister of Petroleum Resources, Chief Timipre Sylva said in an interview with CNBC Arabia television channel that his country has started to implement the construction of a gas pipeline to transport gas to Algeria and Europe, this was mentioned while attending the conference.

He reminded his audience that during oil exploration, 256 billion cubic meters of gas have been explored. Chief Tmipre Sylva also pointed out the era of fossil fuel is coming to an end.

The CEO of the Algerian public oil group, Sonatrach, Toufik Hakkar, recently announced that the feasibility study of the Trans-Saharan Gas Pipeline (TSGP) project, connecting Nigeria to Europe through the Algeria is completed.

Recently, the Algerian Minister of Energy and Mines, Mohamed Arkab said that its country gives a special interest to this very strategic project.



The Nigeria Government is also conscious of the new reality and is working on a smooth transition by exploiting its enormous gas potential. This means it will be a formidable example of how African countries can put their resources together in order to achieve greatness, The development of the continent will necessarily be done through this innovative type of partnership.

Impact of Biden's release of oil reserves

High inflation and rising gas prices have prompted the Biden administration to release 50 million barrels of oil from the Strategic Petroleum Reserve. It is the largest intervention into energy markets in a decade. The initiative was coordinated jointly with China, Japan, India, South Korea, and the United Kingdom.

These countries are also releasing oil supplies to the market. Biden enacted this measure as part of his ongoing efforts to relieve the American consumers from staggering inflation (which hit a 31-year high in October).

During this difficult time, the US president has faced mounting political pressure to reduce costs. Oil price spikes are causing Americans significant hardship

For this reason, the American government had to step in. There were mixed reactions to this initiative. Some economists believe that the 50 million barrels release will not relieve prices immediately. Since refineries have already ordered oil supplies for December, the effects of the oil release may be felt in 2022. The action is perceived as a form of price management.

It has a short-term impact, as suggested by Seth Blumsack, the director of the University's Center for Energy Law and Policy, who stated "I don't think that this 50 million barrels release is the cure to $4, $5 gas prices. It's not enough and what you would need is a sustained supply increase over a longer period of time."

However, the US president doesn't seem to be discouraged by these reactions. In his ongoing quest to lower oil costs, he also wrote to the chair of the Federal Trade Commission Lisa Khan, encouraging her to look into the allegations of anti-consumer behavior by oil companies.

He wants the federal regulators to investigate the oil companies that may engage in illegal conduct by profiting from the gas price hike.

JP Morgan's oil price forecast

Over the last 18 months, the world has been plagued by an unprecedented health crisis. The Covid-19 pandemic has caused the global economy to stall. As a result, countries around the world are facing severe economic challenges and consumer demand outpaces supply largely.

Several industries have been negatively affected by this unforeseen situation: airlines, leisure facilities, casinos and gaming, auto parts and equipment, and oil and gas drilling.

In this ongoing pandemic, the oil supply has not kept up with demand, so consumers throughout the world are feeling the effects of elevated gas prices. There is no doubt that supply plays a major role in driving oil prices. Currently, the oil supply imbalance needs to be resolved. For years to come, JP Morgan predicts steady oil demand, while the supply will remain the major driving force behind oil prices.

The emergence of Omicron Covid-19 is not expected to slow down holiday travels. Analysts at JP Morgan forecast that recent gas price increases are overreactions by investors worried about falling demand for oil as a direct result of a potential country lockdown.

The firm said the market may overestimate the impact of the Omicron variant of Covid-19 on the oil price. In their opinion, despite the recent release of $50 million barrels from the Strategic Petroleum Reserve by the Biden administration, oil prices will remain high.US efforts to lower oil prices will have little impact on the current oil crisis. JP Morgan believes that “with OPEC+ being firmly in the driver's seat for oil prices, Brent will hit $120/bl in 2022 and could even overshoot to $150/bl in 2023”.

With increased supply from US oil producers and an increase of investments in the oil industry after a lapse since the beginning of the pandemic, JP Morgan’s oil price forecast can be reversed.

The economic potential of Mauritania

In 2020, the deterioration of the global economy caused by the Covid -19 pandemic has left Mauritania in a vulnerable position. Its GDP has decreased from 5.9% in 2019 to 3.6% in 2020. Multiple factors contributed to the economic slowdown, including a decline in export revenues, a significant reduction in tax revenues, and an increase in health expenditures to cope with the global pandemic. Foreign trade and direct investment have been heavily impacted.

Mauritania is preparing an ambitious financial development plan to resolve its macroeconomic challenges. A post-pandemic revival of the global economy will lead to a surge in demand of iron, which is Mauritania's main growth engine. Despite their heavy reliance on mining and agriculture, the Mauritanians want to become a gas powerhouse. The country has teamed up with Senegal, BP, and Kosmos Energy to create an ambitious gas field project.

With a budget of $4,8 bn, the Grand Tortue Ahmeyim (GTA) project is anticipated to generate 2.5 million tons of liquefied natural gas per year and 70 million cubic feet of natural gas daily in its first phase. It's expected to start production in 2023.

Ousmane Mamadou Kane, Mauritanian Minister of Economic Affairs and Promotion of Productive Sectors is enthusiastic about the project. In his view, the gas exploitation will mean significant funds for the Treasury and Central Bank, providing the country with basic needs such as education, road infrastructure, water, sanitation, and energy.

However, Mauritania must overcome some serious challenges to achieve its ambitious economic goal: lack of investor attraction, lack of financing mechanisms to support small and medium-sized enterprises (SME), a growing concern of local stakeholders about the impact of oil exploitation on fisheries.

Still, Mauritania has a lot to do to become more attractive. According to the World Bank, this country is ranked 152nd out of 190 when it comes to ease of doing business. A new investment promotion agency has been recently established in Nouakchott. The head of the agency, Aissata Lam, stressed the importance of the legal framework of the country to attract investors. In her opinion, it's crucial to reassure investors by maintaining legal and fiscal stability.

Mauritania has shown increased receptivity to foreign direct investment (FDI). Government officials have stressed the importance of improving the business climate to attract more investors. Nevertheless, they emphasize the importance of local content when dealing with foreign companies.

Mauritania intends to actively involve local companies in the gas exploration project. The majority of petroleum-related operators and service providers tend to be foreign-owned companies in many instances. The country wishes to see national operators involved in all aspects of the value chain.

The lack of financing mechanisms for SMEs is yet another challenge facing the nation. Its development credit system does not quite meet SMEs' needs. The banking system is solid, but short-term resources do not match long-term investment needs. Private equity investment may be a good option for SMEs in this situation.

Although the Mauritanians are quite excited about the upcoming gas exploitation and its potential economic impact, some people are also bothered by certain threats that the offshore oil project may cause. Mauritania's coast has one of the most abundant fisheries in the world.

The local stakeholders are concerned about the sustainability of the fishery with the emergence of the Grand Tortue Ahmeyin. There are environmental issues related to offshore oil development: pollution, oil spill, leakages. A valid question on their minds is whether Mauritania has prepared contingency plans in cases of emergency and if the oil exploration won't impede fishing activities.

Nigeria-Morocco Gas Pipeline Project (NMGP)

Morocco is trying to recover from the blow that it endured after the non-renewal of its 25-year contract with Algeria to send gas to Spain via its gas pipeline. The Nigeria-Morocco gas pipeline has been proposed between the Nigerian National Petroleum Corporation (NNPC) and the Moroccan National Office for Hydrocarbons and Mines (ONHYM) since 2016. This ambitious project will link Nigeria with Morocco via pipeline onshore and offshore, bringing natural gas resources through West and North Africa.

This project will benefit thirteen countries in West and North Africa directly. This will replace the lost gas from Algeria to Spain. Moroccan gas resources are estimated to be around 300 Tcf.

It is clear that gas is one of the most important energy sources in Africa, and it is becoming a game-changer. More and more countries are recognizing that it can be a viable alternative to oil, in addition to assisting in energy consolidation. Gas is a cleaner and cheaper energy available in abundance to African countries. Africa has abundant access to gas, a cleaner, and cheaper energy source.

Discovered Oil & Gas in Senegal! An opportunity paired with some serious challenges

As more and more countries discover oil and gas, the number of potential producers in Africa is growing. Senegal is among those lucky ones that will start producing oil and gas in a couple of years and is seriously preparing. Its potential is enormous with onshore and offshore discoveries.

In the Northern part, Mauritania and Senegal will jointly exploit an important oil reserve. The leaders of both countries have acted maturely to preserve peace and keep the new oil resources from creating discord which would cause a “malediction”.

In addition, the Senegalese government utilized its human resources and acted wisely by hiring a few Senegalese heavyweights who have extensive experience working for multinational oil firms to promote the industry.

They also reorganized the industry by specializing in each phase, such as exploration, exploitation, and distribution. PETROSEN , for example, was divided into downstream and upstream units with a management entity on top. SAR, on the other end, is still performing its traditional activities with a refinery even though the country has the ambition to build another one.

Local content is of paramount importance and domestic businesses intend to play a significant role.

Senegal also opens itself up to the world to benefit from the experience of other countries. A few months ago, an important delegation headed by the Minister of Oil and Energy, Sophie Gladima, went to Nigeria and met with the Minister of Petroleum Resources Chief Timipre Sylva and his team to exchange on the challenges ahead and establish partnerships. The country is also organizing an energy "SUMMIT" in a near future and is expecting record attendance.

The Senegalese authorities have a clear vision of how they plan to develop the sector and realize that gas is the future and luckily, the country has more gas than oil. Diamnadio international conference center hosted the Presidential Council on December 21, 2021, which was chaired by President Macky Sall. On this occasion, a bill regarding the distribution and supervision of revenues from the exploitation of hydrocarbons was validated. This was presented by the Minister of Finance and Budget, Abdoulaye Daouda Diallo.

The bill included 23 articles in five chapters. It centered on four major principles: the prohibition of the early transfer of hydrocarbon resources, the budgeting of revenues derived from hydrocarbon exploitation, the establishment of an intergenerational fund, and the creation of a stabilization fund. The 700 billion CFA in annual revenues expected by the State will be fully budgeted and allocated as follow: 90% of the revenues will go to the General Budget and 10% to the Intergenerational Fund.

General Budget funds will be used to cover investment expenditures exclusively for the benefit of all Senegalese populations, current, and future generations. Additionally, these revenues will be used to invest in key areas such as education, infrastructure, health, and agriculture. The Intergenerational Fund is intended to be a source of savings for future generations.

The funds will be invested for long-term projects. The stabilization fund portion will be defined later.
All these proactive actions illustrate that the Senegalese leaders are well aware of what lies ahead, and they want to play a significant role in exploiting their resources.

Meanwhile, there are numerous debates in the media about improving legislation for the O/G sector. Leaders should not overlook this issue. Nigeria is a perfect example, as the Minister of Petroleum Resources recently said: “ Nigeria lost an estimated $235 bn worth of investments in the oil and gas sector for delaying the passage of the Petroleum Industry Bill by about two decades”.

Our leaders have to ensure that contracts are awarded transparently and that communication is accessible to all to manage the HOPE of the Senegalese people.

KEEP IN TOUCH

- website : www.nigeria-one.com
- E-mail : contact@nigeria-one.com
- Address : Cité Keur Gorgui Lot 71 suite # 2G Dakar, Sénégal
- Join us on social networks :