



NIGERIA ONE

NEWSLETTER

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NIGERIA IN DIRE NEED OF HIGHER OIL REVENUES

KPMG Nigeria, a tax advisory firm has recently advised the Nigerian government to explore ways of increasing its oil revenues; however the loss of its top African oil producer status to Angola in April 2023 has cast doubt on the oil sector's performance in the second quarter of 2023 and beyond.

In 2022, many oil and gas companies as well as crude producing countries benefited from higher oil prices resulting from the Russian- Ukraine war. Unfortunately Nigeria was unable to capitalize on the price surge due to rampant crude oil theft which was unacceptably high in 2022 and resulted in the loss of 700,000 barrels per day according to the Nigerian National Petroleum Company Limited. Government was advised to look beyond creating more burden on business margins and work to increase oil revenue.

“With inflation already over 21%, consumers have already rationalizing expenditures and this is showing up in the earnings of various Nigerian consumer product companies”

According to an analysis by THISDAY, Nigeria's crude oil production when compared to its projected output of 1.88 million barrels per day in 2022 fell short by a significant 283 million barrels equivalent to approximately \$24.56 billion. To arrive at this figure, the 283 million barrels deficit recorded during the period was multiplied by a conservative estimated price of \$85 per barrel at which the commodity was sold in the year 2022.

KPMG also suggested ways that the government of Nigeria can increase oil revenues- to increase revenues for development, Nigeria should consider either renegotiating or reconsidering its relationship with the Organization of Petroleum Exporting Countries (OPEC) similar to what Qatar and Indonesia have done. This will help Nigeria to avoid being capped. One way to increase revenue is to develop collaborations in the form of joint ventures between the National Petroleum Company Limited (NNPCL) and companies building modular refineries as this could significantly increase revenues generated from selling crude oil as a raw commodity being that the crude oil can be processed to other derivatives.

In addition the government should consider adopting an independent joint venture model for its production-sharing contract and encourage NNPCL to raise cash calls independently amongst other suggestions.

ANGOLA OVERTAKES NIGERIA IN CRUDE OIL PRODUCTION



The Organization of Petroleum Exporting Countries (OPEC) has released a new data which reveals that Angola has overtaken Nigeria as Africa's top crude oil producer of the month of April. The April 2023 Monthly Oil Market Report (MOMR) published by OPEC shows that Angola's oil production in April was 1.06 million barrels per day (bpd) compared to 972,000 bpd in March 2023. In contrast, Nigeria's output went down to 999,000 bpd in April from 1.3 million bpd in March, which was indeed the country's lowest production rate in 2023.

The above output level also represented a yearly decline of 16.7% from 1.2 million bpd in April 2022. Nigeria's economy has been going through difficult times and has encountered difficulties in gaining momentum in the first quarter of 2023, with business activity and consumer spending remaining subsidized, coupled with high input-cost inflation and lower employment levels compared the previous year.

In the previous month, the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) reported that the country produced an average of 998,602 barrels of crude oil per day in April indicating a reduction from the 1.2 bpd recorded in March.

OPEC's report revealed that oil production of the 13 member countries of the cartel amounted to an average of 28.60 million per day. The report disclosed that OPEC's Gulf producers –Saudi Arabia, Kuwait and the United Arab Emirates maintained steady production to meet the output targets under the OPEC deal. Also, three producers were excluded from the supply cuts, namely Libya, Iran and Venezuela recording varying output levels.

The group's MOMR report was released on May 11 in which it was stated that the total world oil demand is expected to reach 101.9 million barrels per day in 2023. They believe that it is still dependent on rising global tensions as part of the report states:

"However, this forecast is subject to many uncertainties, including global economic developments and ongoing political tensions."

In April, OPEC had agreed to reduce output by about 1.27 million bpd as part of a total of 2 million bpd reduction OPEC pledged in 2022.

NIGERIA LOSES AS SUPREME COURT RULES IN SHELL OIL DISPUTE



The recent ruling by the UK Supreme Court means that the Nigerian claimants were unable to seek compensation from Shell for the offshore oil spill that occurred in 2011. The court upheld the two previous rulings by the lower courts that found the claimants had brought the case against the oil giant after the six year deadline for taking action after an incident had passed. The claimants lawyers argued that the ongoing damage caused by oil and gas activity in the region represented a “continuing nuisance” which should have nullified the deadline. The court however rejected this argument unanimously.

“While the Bonga spill was highly regrettable, it was swiftly contained and cleaned up offshore’

In December 2022, approximately 40,000 barrels of crude oil leaked during the transfer of oil from a floating offshore platform to a tanker 75 miles off the coast of the Niger Delta. This incident was said to be the worse in the area for over a decade. Hence it prompted a group of 27,800 individuals and 457 coastal communities to sue Shell.

The claimants argue that the spill has negatively impacted on their coastal area for the long term- causing pollution of lands and waterways, damage to fishing activities and farms, and contaminating drinking water as well as mangrove forests.

Legal proceedings can be quite complex and lengthy and the outcome of the case will depend on numerous factors, including the evidence presented and the interpretation of relevant laws and regulations. On the flipside, Shell has a history of losing lawsuits concerning oil spills in the Niger Delta but despite having a positive outcome on this case Shell has often been criticized for taking too long to acknowledge the magnitude of the environmental damage caused by spills and the impact it has on the livelihoods of those who depend on the environment.

Just days after Shell was ordered to pay more than 80.4 million pounds in compensation to communities in southern Nigeria for oil spills that originated in the 1970s, this ruling was issued.



During the Nigerian Oil and Gas Opportunity Fair (NOGOF) 2023, Miele Kyari, CEO of the Nigerian National Petroleum Company Limited (NNPC), stated that crude oil production in the oil-rich Niger Delta region has been hindered by insecurity, resulting in a decrease in overall outputs.

The challenges notwithstanding, Kyari noted that NNPC, in collaboration with government security agencies, has made efforts to address the issue and these efforts have yielded some positive outcomes. Kyari further stated that production levels have increased from a low of 1.1 million barrels to 1.6 to 1.7 million barrels in March, with the expectation of achieving full operation capacity.

On the existing ports in Nigeria, “the Brass Island Shipyard will play a crucial role in supporting the maritime industry by making way for world class repair and maintenance services for various types of vessel”, said Kesiye Simbi Wabote, Executive Secretary of the Nigerian Content Development and Monitoring Board (NCDMB).

The Front-End design of the ship yard has already begun and upon completion, it will be able to handle marine vessels of different sizes, including container ships, oil tankers and LNG carriers. The ship yard project will feature a 310m graving dock and a 650m fitting out quay for vessels of up to 150,000DWT.

Wabote stated that the shipyard will enable the maintenance and repair of seven LNG vessels, 21 container ships, 8 Jack- ups and 30 other vessels annually. The establishment of the shipyard will increase Nigeria’s ship building, maintenance and service capacity, generating much needed revenue and foreign exchange for the country. With the Lekki Deep Seaport set to become operational, the Brass Island Shipyard will provide essential support to Nigeria’s maritime industry.

NIGERIAN GOVERNMENT REITERATES NEED FOR SUBSIDY REMOVAL AS OIL AND GAS OPPORTUNITY FAIR HOLDS



According to the Nigerian National Petroleum Company Limited (NNPLC) the federal government can no longer afford to provide fuel subsidies, as the subsidy regime has become unsustainable and mainly benefits wealthy Nigerians.

During the “Gas opportunities” session of the Nigerian Oil and Gas Opportunity Fair 2023, which is a biennial event organized to showcase the various opportunities that exist in the Nigerian Oil and Gas industry, Mohammed Ahmed, the Executive Vice- President for Gas, Power and New Energy at NNPC, announced that the federal government can no longer afford to provide fuel subsidies. The fair which has the theme “The Oil and Gas Industry: Catalyst and fuel for the Industrialization of Nigeria,” took place at the Nigerian Content Development and Monitoring Board Conference Center in Bayelsa State.

The last of its kind was held virtually in May 2021 in a bid to curtail the spread of Covid-19 pandemic. This year’s event which was managed by Jake Riley Ltd was highly impactful and the agenda was focused on industry linkages as well as opportunities within the African continent. Hence opportunities that exist in the industry over the next three to five years and presentations were made by over 20 international and indigenous oil and gas companies.

Some of the topics discussed include: Upstream opportunities, linkage industry opportunities, financing and investments, environmental, social and government (ESG) and sustainable and regional opportunities with members of the African Petroleum Producers Organization (APPO). Others topics include topical and challenging issues currently facing the oil and gas industry which had the goal of finding lasting solutions in the industry. The event was attended by both government and private organizations from international and indigenous oil and gas companies, federal government agencies, financial sector and linkage industries.

Similarly, the Secretary to the Government of the Federation, Boss Mustafa, disclosed that Nigeria had spent over N13 trillion subsidizing petrol from the year 2005-2021. This however raises concerns that Nigerians may face hardship due to withdrawal of fuel subsidies, which could lead to increase in the price of fuel and other consumer products.

MAJOR OIL COMPANIES IN NIGERIA DISAGREE WITH BAYELSA OIL AND ENVIRONMENTAL COMMISSION REPORT.



ExxonMobil



Major oil companies operating in Bayelsa State have rejected and disputed the claims made in the final report of the Bayelsa Oil and Environmental Commission (BSOEC).

The report which was titled “An Environmental Genocide: Counting the Human Cost of Oil in Bayelsa, Nigeria”, covers over 60 years of oil exploration and pollution in the region. While Agip criticized the commission for excluding the oil companies and questioned its credibility, stating that the report lacked institutional character which insinuates that the report is sentimental in approach.

BSOEC which was established in March 2019 by the previous administration led by Sen. Henry Seriake Dickson found an abnormally high concentration of toxic heavy metals in soil and water in Bayelsa oil communities. The report recommended remedial action to address the massive pollution attributed to the activities of oil and gas exploration and production by oil firms.

According to Eni, around 97% of the associated gas produced by NOAC is either processed as Liquefied Natural Gas (LNG) or utilized to supply local power plants. The gas from NOAC is used to power the Okpai power plant which is part of the “United Nation Framework on Climate Change’s clean Development (CDM)” initiative aimed at reducing green house gases emissions. Saying Eni has been recognized for its effort in gathering gas which has contributed to the reduction of flaring. The Okpai plant generated approximately 2,000 GWh of electricity in 2022, making an important source of energy for local communities. Eni emphasized that it conducts its activities in accordance with international best practices without discrimination based on country of operation; denying all forms of accusations of environmental racism as it is fundamentally against the company’s culture. Shell Petroleum Development Company of Nigeria (SPDC) has also responded to the allegations of complicity of widespread pollution saying

“SPDC operates to the same technical standard as other Shell companies globally. Illegal actions by third parties cause the vast majority of oil spills in the Niger Delta, such as crude oil theft and sabotage”.

Chevron Nigeria Limited however refused to comment on the said allegations.

DANGOTE REFINERY COMES ONBOARD, WELCOMED WITH OPTIMISM



Former Nigerian President Muhammadu Buhari on the 22nd of May, 2023 inaugurated the Dangote Refinery and Petrochemical Company in Lagos, Nigeria, marking a significant milestone in Nigeria's efforts to end the fuel scarcity crises. The commissioning of the multi-billion dollar facility was a long-awaited dream come true for many Nigerians who had been plagued by fuel import challenges.

The Dangote Refinery and Petrochemical Company is unique in many ways, including being the largest single refinery-train the world. It is also one of Nigeria's largest investments, boasting a 435 megawatt power station, deep sea port as well as a fertilizer unit. The complex is expected to meet 100% of the country's domestic needs and even have surplus for export.

The refinery has been designed to process Nigerian Crude, as well as other types of crude oil. The Dangote Refinery and Petrochemical Company is expected to have a significant impact on the Nigerian economy. It has the ability to process up to 650,000 barrels of crude oil per day. It has the potential to reduce the Country's reliance on imported petroleum products, create job opportunities and boast the nation's export revenue.

In addition to its refining capabilities the Dangote complex also houses a fertilizer unit that will produce urea and ammonia for the country's agricultural sector. The deep sea port will provide the much-needed boost to Nigeria's shipping industry and the power station will also help address the country's chronic power shortages. Overall, the commissioning of the Dangote Refinery and Petrochemical Company marks a significant step for Nigeria's energy sector.

This is very much needed for growth and development as the refinery is poised to play a critical role in meeting the energy needs of the county while also driving economic growth and development.

According to the company:

"The refinery is designed to use the latest technology to comply with the stringent guidelines and regulations to protect the local government and at the same time produce the latest environmentally friendly petroleum products for worldwide markets"

The Nigerian fuel requirements and the refinery supply indicate a daily excess production of 38 million liters of petrol, kerosene, aviation fuel and diesel. The refinery's estimated daily surplus production consists of 20 million liters of petrol, 1 million liter of kerosene, 1 million liter of Jet A1 and 16 million liters of diesel.

The project is particularly complex, featuring engineering, procurement, construction, pre-commissioning and related storage facilities all located in the Dangote Industries Free Zone Area of Ibeju-Lekki, Lagos.



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