

**Key Features of Oil & Gas Industry Reforms presented by Dr. Emmanuel O. Egbogah, P.Eng, OON
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I thank the organisers for inviting me and for giving me the opportunity to make this presentation. I also want to appreciate your efforts at further promoting India - Africa relation and cooperation through this conference.

I would like to spend a few minutes to share with you the key features of the ongoing oil and gas industry reforms in Nigeria. Before I do that, please permit me to provide some background and the reasons we are embarking on the reforms.

Oil exploration and production activities in Nigeria in its over fifty years of operation is yet to operate at standards and levels of efficiency expected of a twenty first century oil and gas industry. The operating landscape, business and competitive environments, both locally in Nigeria and internationally have continued to change rapidly in the last few years in such a manner that the Nigeria's oil and gas industry as it is currently set up, can no longer operate in a sustainable manner.

The oil and gas industry in Nigeria has continued to evolve since its inception in the fifties. However, despite the evolution, reforms and internal restructuring, the public sector of the industry has yet to fully meet the aspirations of the Federal Government and key stakeholders. The existing structure of the industry and enabling legislation were no longer consistent with global standards. In parallel the private sector of the upstream sector of the industry, dominated and operated by the international oil and gas companies (in joint ventures with NNPC) equally continued to face new challenges mainly with funding and cash call problems, as well as challenges in the Niger Delta region.

It is for these and many other reasons that the Federal Government of Nigeria embarked on a journey of a comprehensive reform aimed at re-positioning Nigeria's oil and gas industry to foster a long-term sustainability of the sector, ensuring greater efficiency and effectiveness to meet the aspirations of Nigerians and all the stakeholders, and also ensuring global competitiveness.

The oil and gas sector accounts for about 30-40% of GDP, 80% of government revenues and 95% of foreign exchanges earnings, and is also the backbone of Nigeria's national development plan. Efficient management of the industry will therefore have a significant impact not only on the well being and future prospects of the Nigerian economy, but also on the security and stability of global energy supply and the growth of global economy.

The reform sets out legal and structural framework for the operation of the Nigeria's oil and gas industry. The Petroleum Industry Bill (PIB) currently before the National Assembly was based on the report of the Oil and Gas Reform Implementation Committee (OGIC) set up by the Federal Government of Nigeria in year 2000 to carry out a comprehensive reform of the oil industry. I will therefore go on to outline some of the key features of the reforms

Over the years, the laws regulating Nigeria's oil industry have not been comprehensively reviewed. The main laws are the Petroleum Act 1969 (as amended), the Petroleum Profits Tax Act 1959 (as amended), and the Nigerian National Petroleum Corporation Act of 1977 (as amended). There are also a number of other laws, mostly decrees which have become obsolete and proven to be impotent in regulating the country's petroleum industry. The PIB coalesces all the existing 16 laws

into one comprehensive, all encompassing legislation, which captures all the experience of past more than 50 years in addressing all institutional matters: policy, structure, legal and governance.

The reform clearly defines three different sectors of the industry, to facilitate the governance processes and regulatory functions. These sectors are:

1. Upstream Sector: covering Oil and Gas exploration & development
2. Midstream Sector: covering Oil transportation & Gas transmission; Gas processing; LNG/CNG/GTL; Derivative processing/production; and Oil refining.
3. Downstream Sector: covering Gas distribution and sale; Petroleum product distribution & storage; and Petroleum product retail.

The PIB will serve to promote transparency in the operation of the oil and gas industry in Nigeria. Transparency, good governance and accountability will be promoted through the removal of confidentiality, which encourages corruption. With the passage of the PIB, Petroleum Prospecting Licenses (PPLs) and Petroleum Mining Leases (PMLs) can only be granted by the Minister through a truly competitive bid process. Such process will be open and accessible to all qualified companies. The details of all licenses, leases and contracts, and any of the changes to such documents will no longer be confidential.

It is therefore the expectation of Government that the new law will transform the industry from "the most opaque" to "one of the most open and transparent in the world". To that extent, PIB has the prospects of bringing to an end the age-long decadence and orgy of exploitation and corruption in the industry.

Another key feature of the reforms is separation of policy, regulatory and commercial roles of the public sector entities. The separated roles will be assigned to appropriate agencies to ensure clear delineation of responsibilities. The new structure will comprise of the following:

- One Policy Body - National Petroleum Directorate, that will be responsible for detailed policy initiation, formulation and development for optimum resource utilisation.
- Three Regulatory Bodies:
 1. National Petroleum Inspectorate; will be an autonomous stand-alone technical and cost regulator of the upstream petroleum industry. The inspectorate will also ensure the efficient, safe, effective and "sustainable infrastructural development of upstream petroleum operations.
 2. Petroleum Products Regulatory Authority, will regulate the downstream sector of the industry, and promote implementation of national technical and commercial policies for the downstream operations.
 3. National Midstream Regulatory Agency, will regulate the midstream petroleum operations, and promote the implementation of national technical and commercial policies of the midstream sector of petroleum operations in Nigeria.
- One Commercial Centre, Nigerian National Petroleum Company Ltd; will have strict commercial orientation and focus, vertically integrated and capable of competing both locally and internationally in all relevant segments of the oil and gas industry

- The National Frontier Exploration Agency, will be responsible for regulating and stimulating petroleum exploration activities in the unassigned frontier acreages.
- One Research & Development Centre, will be responsible for research and development, promoting capacity building and maximising local value addition.
- Two Fund Organisations:
 1. Petroleum Equalisation Fund - for management of reimbursement of losses by companies and the management of surplus revenue of marketing companies, and
 2. Petroleum Technology Development Fund - for capacity building and training of Nigerians in oil & gas related activities.

One of the biggest challenges of Nigeria's oil and gas industry has been that of funding. The International Oil Companies in the existing Joint Venture arrangements have consistently complained that Government's budgetary allocations for cash call purposes have often and chronically fallen short of requirements over the years. This is claimed to have negatively impacted capital expenditure requirements for increasing production levels from the existing Joint Venture fields.

Joint Venture funding therefore became an immediate challenge for which a long-term solution had to be sought. A long-term solution involves conversion of all Joint Ventures to Incorporated Joint Ventures (IJVs), which can obtain loans and/or go the capital market for funding. Each IJV will be a corporate entity to be incorporated under the laws of Federal Republic of Nigeria.

Apart from immediately eliminating problems of cash call constraints, the IJV concept will free up funds, which will be available to the Federal Government to invest in other areas of social and economic development of the country.

The PIB also introduces a number of changes to the existing fiscal system governing oil and gas operation in Nigeria. The key changes include the fact that all companies engaged in upstream petroleum operation, including the National Oil Company will be required to pay Company Income Tax, as well as the introduction of Nigerian Hydrocarbon Tax (NHT), which is a simplified version of Petroleum Profit Tax.

These changes will give the government a higher government-take for deep offshore fields and marginally higher government-take for onshore and shallow waters, but will still leave the industry with very competitive terms compared to other parts of the world.

The reform introduces a modern acreage management system with strict relinquishment guidelines, that will provide a platform for new investors, both local and foreign, to enter and contribute to the growth of the industry.

Companies currently operating in Nigeria will be required to give back acreage from existing oil prospecting licenses and oil mining leases, except acreages from which there are production, or acreages that will be developed in the near future. This will prevent companies from just sitting on acreages that otherwise will be available to new investors.

These are the key features of the reform and I hope that they have provided you sufficient insight. The Petroleum Industry Bill is currently with the National Assembly and barring any unforeseen circumstances, will be passed into law before the end of this year.

The gas sector reform is anchored on the Nigerian Gas Master Plan which is currently being implemented. The plan aims to address some of the challenges confronting the Nigeria gas sector, notably that of inadequate infrastructure and commercial framework, which have had a strong impact on the ability of the sector to supply as rapidly as the market opportunity dictates.

The gas master plan provides for an Infrastructure blueprint for the development of an extensive backbone for the Nigerian gas grid. The fundamental strategy is the creation of a gas infrastructure that concurrently supports the supply of gas to the domestic, regional and export markets. This approach provides for flexibility and scalability of supply, and cost effectiveness.

At the core of the proposed infrastructure are 3 gas gathering and processing systems each of which will gather gas across a delineated area, process the gas into a national specification and export the dry gas into the network of gas transmission systems. The processing facilities will enhance the LPG capacity in the country and hopefully address the issue of LPG availability within Nigeria. Three transmission systems are also proposed, one of which will ultimately progress to be the Trans-Saharan pipeline to deliver gas to Europe through North Africa and the Mediterranean Sea.

With the proposed network of infrastructure, it is expected that the ability to supply will increase rapidly and flexibly, and Nigeria will be better positioned to respond to growth in demand both domestically, regionally and for export.

The Gas Master Plan also addresses the issue of commerciality. A gas pricing framework has been developed and it introduces a sector based pricing and the gradual movement towards export parity in domestic gas pricing. The pricing structure requires the establishment of the Strategic Aggregator that should essentially serve as the engine for the implementation of the domestic gas pricing and the realisation of commercial pricing and export parity for the suppliers. The framework divides the domestic market into 3 categories comprising Power, Strategic Gas Based Industries (i.e. industries that use gas as feedstock e.g. fertilizer, methanol etc.), and wholesale gas marketers who purchase wholesale gas for onward distribution to low pressure commercial buyers such as manufacturing industries who typically require much smaller volumes for fuelling their plants.

A pricing approach has been developed for each of these categories as follows: cost-plus for the power sector; netback for gas based industries; and alternative fuels pricing for the wholesale buyers. With the pricing approach, it is expected that the strategic intent of economic growth will be realized.

In conclusion, Nigeria's oil & gas industry reform programme is about harnessing opportunities and addressing the challenges. It is a very comprehensive and radical transformation aimed at ensuring that Nigeria gets the maximum benefits, directly and indirectly, across oil and gas value chains. It opens up horizons for wider participation of stakeholders. In particular, the proposed acreage management system will provide significant opportunities for big and small companies in India or any other part of the world to participate in the development of Nigeria's oil & gas industry.

Nigeria is therefore entering a new phase in the exploration and exploitation of its vast hydrocarbon resources. An era in which the oil and gas resources will play a key role in shaping the economic future of Nigeria, as we aspire to become one of the top 20 economies of the world by the year 2020. An era in which Nigeria's oil and gas industry will be a key player in the global energy supply and demand mix for now and in the future.

Thank you.