

Case Study From



Nigerian National Petroleum Corporation (NNPC) ¹

The role of the Nigerian Government in the oil industry has progressed from regulatory supervision to direct involvement in oil exploration and exploitation. Government's initial interest was mainly in the collection of royalties and other dues from the oil companies, and in the making of statutory laws that regulated the activities of the oil industry. This position was due to the insignificant contribution of oil to the economy before the late sixties, and the absence of locally trained personnel and expertise. By 1971, oil had become very important to the economy. To establish government control in the industry, the NNOC was established as an integrated oil company and Nigeria joined OPEC as the 11th member. In 1977, a merger between the NNOC and the MPR created the NNPC, which combined the commercial functions of the NNOC with the regulatory functions of the MPR.

- *What were the factors impacting the Nigerian government's increasing involvement in the oil industry?*
- *How is the role of state companies/entities evolve?*
- *What have been the costs and benefits of the dominance of the industry by these entities?*

Background

The role of the Nigerian Government in the oil industry has, over time, evolved from regulatory and supervisory nature to direct involvement in oil exploration and development. Government's initial interest was mainly in the collection of royalties and other dues from the oil companies, and in the making of statutory laws that regulated the activities of the oil industry. The lack of direct involvement in the early days can be attributed to the relatively insignificant contribution of oil revenues played within the overall economy before the late sixties. The absence of locally trained personnel and expertise was another factor preventing the government's direct participation in oil industry activities.



By 1971, however, oil revenues had become very important to the economy. To strengthen and establish government control in the industry, the Nigerian National Oil Corporation

¹ This case study was prepared using publicly available information.



(NNOC) was established by decree in 1971 as an integrated oil company. It was also in that year that Nigeria joined the Organization of Petroleum Exporting Countries (OPEC) as the 11th member. The NNOC had responsibility for both upstream and downstream activities in the industry.

It was believed that if government had more say in the running of the oil industry, it could achieve its goals of rapid industrial and commercial development. Today, government participation stands at 55% in Shell and 60% in ChevronTexaco, ExxonMobil, Agip, Elf, and Pan Ocean.

On April 1, 1977, a merger between the NNOC and the Ministry of Petroleum Resources created the Nigerian National Petroleum Corporation (NNPC). NNPC combined the commercial functions of the former NNOC with the regulatory functions of the former Ministry of Petroleum Resources and was thereby vested with exclusive responsibility for upstream and downstream development as well as regulating and supervising the oil industry on behalf of the Nigerian government.

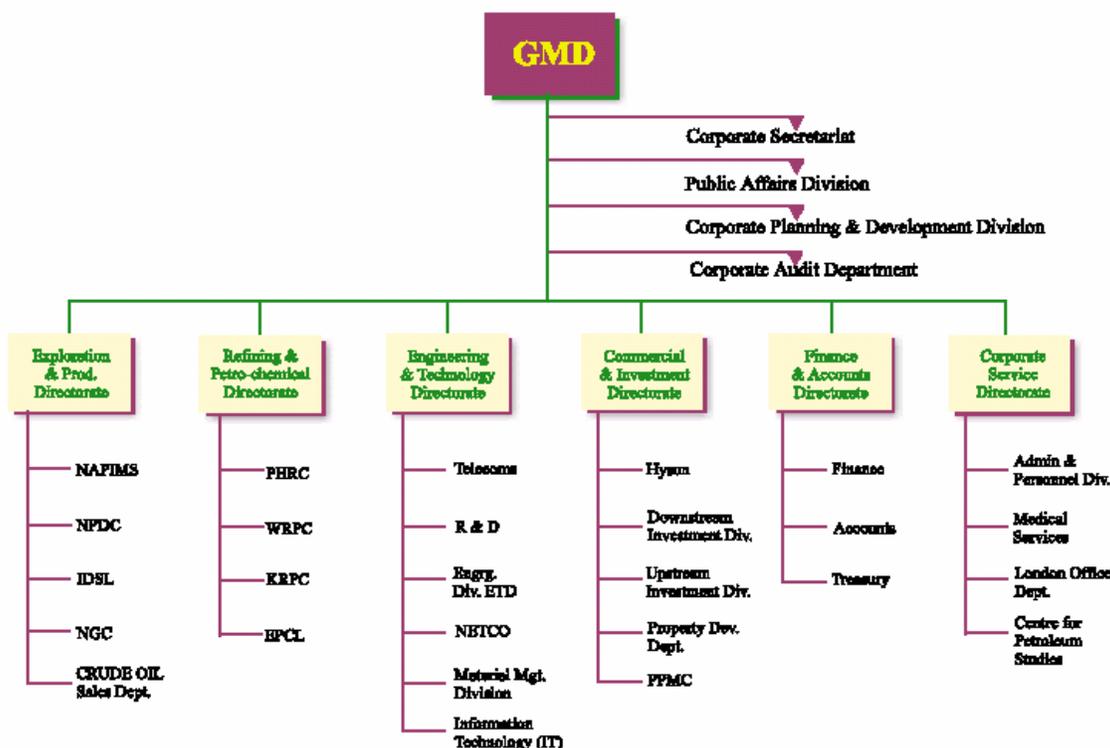
In 1985, the government restructured the NNPC into a parastatal, to cope with its intended commercialization in 1988 with five semi-autonomous sectors. It comprised a corporate head office and twelve strategic business units (SBUs) with responsibility for exploration and production, gas development, refining, distribution, and petrochemicals, engineering, commerce and investments. The National Petroleum Investment Management Services (NAPIMS) oversees the country's investment in joint venture operations as well as engage in direct exploration services. The vision of the government is for NNPC to be in a position to compete favorably in the international business environment by translating into an efficient, profitable and financially autonomous organization.

The NNPC subsidiaries involved in E & P include the following (also see chart below):

1. *Nigerian Petroleum Development Company (NPDC)*

The Nigerian Petroleum Development Company Limited, a wholly owned commercial subsidiary of the NNPC, was set up in June 1988. The NPDC is to profitably operate a Petroleum Exploration and Production business both nationally and internationally. The NPDC has a vision to become a medium size Exploration and Production Company by the year 2003.

NNPC ORGANOGRAM



The NPDC has five oil prospecting, concessions (blocks) covering a total area of 2,673.44 square kilometers and traversing onshore, swamp and offshore terrain of the Niger Delta Producing region of Nigeria. Over the years, the strategic focus of the company had been to explore and appraise these concessions with a view to establishing their oil and gas reserves potential. While current oil production output stands at about 7,000 b/d, from the two fields at Abura and Oredo, these explored concessions are estimated to contain total proven oil reserves of 283 million barrels and additional possible oil reserves of nearly 900 million barrels. Oil production is expected to double to about 15,000 b/d by the end of year 2001 through drilling and completion, expansion of production capacity and gas conversion projects in its producing Oredo field.

In December 2001, the NPDC and Nigeria Agip Exploration linked up to explore deep offshore Block 244 off the Nigerian coast. A seismic campaign and the drilling of two exploration wells are planned. Nigeria Agip Exploration holds a 90% stake in the block and is also the operator. The NPDC holds the remaining 10%.

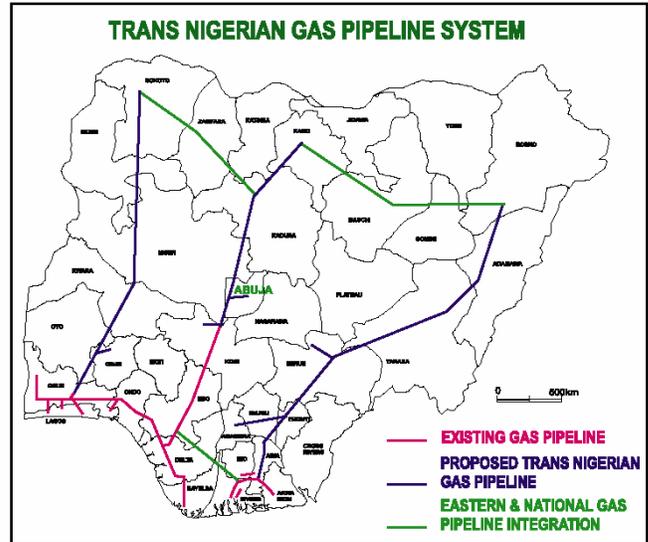
2. National Petroleum Investment Management Service (NAPIMS)

NAPIMS is a subsidiary of the NNPC set up to optimize the benefits accruing to the Federation from its investments in the upstream sector of the petroleum industry. NAPIMS has a vision of being a world-class oil operating company. NAPIMS' major role is to protect the nation's strategic interests in the upstream sector of the industry, and in performing this task, it earns a margin on investments made in the sector. This is achieved through cost reduction strategies to maximize Petroleum Profit Tax (PPT) and also enhance margin; promote local content input by developing in-country technological capability and use of local supplies and materials; encourage gas utilization and commercialization; promote

maximum co-operation in communities of oil and gas producing areas as well as ensure that environmental protection standards are maintained.

NAPIMS has been undertaking the following tasks:

- i. Growing national reserve base from 24.1 billion barrels (with the JV/PSC companies only contributing 22.5 billion barrels) as of January 1, 1998 to 40 billion barrels target by 2010 and increase production capacity from 2.5 million barrels per day to 4.0 million barrels per day over the same period.
- ii. Diversifying the revenue base in the hydrocarbon sector by actively commercializing natural gas and thereby ensuring gas flare-out by the year 2008.
- iii. Stimulating the (exploration) interest of indigenous and foreign companies in frontier areas.
- iv. Conducting our operations in compliance with the environmental and safety standards in all JV/PSC upstream operations.
- v. Managing Federation hydrocarbon resources efficiently and effectively as well as ensuring that JV operations are in line with the various operating arrangements (Joint Operating Agreement, Production Sharing Contract and Service Contract).



NAPIMS is at the moment engaged in seven Joint Operating Agreements, ten Production Sharing Contracts, and one Service Contract.

3. *Integrated Data Services Limited (IDSL)*

The Integrated Data Services Limited (IDSL) is one of the subsidiary companies of the NNPC. It is the foremost indigenous service company operating in the Nigerian oil industry. The head office is in Benin City, a town located about 250 kilometers east of Lagos while its Seismic Data Processing Centre is in Port Harcourt, a city which hosts most of the oil companies.

IDSL markets Geophysical and Petroleum Engineering Services. It maintains joint venture relationships with several international service companies operating in Nigeria in the different areas of its services. These relationships have put IDSL on a competitive edge. Services offered by IDSL are:

- Seismic Data Acquisition
- Seismic Data Processing
- Seismic/Engineering Services
- Data Storage and Management

The company enjoys the patronage of most oil companies operating in Nigeria.

4. *The Nigerian Gas Company Limited (NGC)*

The Nigerian Gas Company Limited (NGC) was established in 1988 as one of the 11 subsidiaries of the NNPC. It is charged with the development of an efficient gas industry to fully serve Nigeria's energy and industrial feedstock needs through an integrated gas pipeline network and also export gas and its derivatives abroad, particularly to the West African sub-region.

Today NGC is a profit-oriented gas transmission company committed to effectively and efficiently providing its customers' requirements and promoting gas utilization.

5. *National Engineering and Technical Company Limited (NETCO)*

The NETCO, an engineering company, is a wholly owned subsidiary of the NNPC. The NETCO was established in 1989 to provide an effective and reliable engineering base for the NNPC Group and the entire oil and gas industry. Its services, however, extend to the rest of the national economy and beyond.

The NETCO provides an innovative and effective engineering, procurement and project management service with technical excellence and highest business ethics. The NETCO has a vision of being the preferred engineering company.

NETCO's services include:

- Feasibility Studies
- Conceptual Engineering Design
- Basic and Detailed Engineering
- Project Planning and Scheduling
- Cost Estimation and Cost Engineering
- Computerized Project Management
- Procurement of Engineering Equipment and Material
- Construction Management and Supervision
- Commissioning and Start-up
- Management of the Maintenance of Operating Plants

The Ministry of Petroleum Resources

In 1962, a Petroleum Division was created out of the Federal Ministry of Mines and Power, but was up-graded in 1970 to become the Department of Petroleum Resources of the same Ministry. However, in 1975, it was transformed into a full-fledged Ministry of Petroleum and Energy, and later renamed the Ministry of Petroleum Resources. Its primary responsibility was for advising the government on policy matters affecting the management of the petroleum resources.

The Ministry of Petroleum Resources controls and supervises the activities of all actors in the oil industry through its Department of Petroleum Resources, which regulates the collection of royalties, taxes and rents from oil companies. Federal Inland Revenue Services (FIRS), a department of Ministry of Finance, collects taxes, including Petroleum Profit Taxes (PPT). The role of the government in the oil industry has gradually progressed from that of regulation to direct involvement in exploration and exploitation.

The Department Of Petroleum Resources (DPR)

The DPR is responsible for supervision of all operations being carried out under licenses and leases in the petroleum industry in the country (see chart below). The DPR sets standards for the effective control and operations in overall industry activities stretching from exploration through to production and marketing of crude oil and refined petroleum products.

DEPARTMENT OF PETROLEUM RESOURCES ORGANISATION CHART

