

Stakeholders engagement in the Oil and Gas Industry in Nigeria.

by

Chizoba Chinweze (FLEAD Int'l, MNES, MIAIA, MSEH), Chiny Kennedy-Echetebu and Ijeoma Onyeri

e-mail: ud2001ng@yahoo.com; tel: +234 803 301 5717.

Chemtek Associates, 97 Itire Road, Lawanson, Surulere, Lagos. Nigeria.

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Abstract

Crude oil exploration in Nigeria dates back to 1908, but it was not until 1956 that oil was discovered in commercial quantities. The majority of reserves are found along the country's Niger River Delta and offshore in the Bight of Benin, the Gulf of Guinea, and the Bight of Bonny. Current exploration activities are mostly focused in the deep and ultra-deep offshore with some activities in the Chad basin, located in the northeast of the country.

The oil and gas industry delivers an estimate 80% of government revenue, contributes about 95% of total foreign exchange earnings, accounts for more than 40% of the nation's GDP, employs about 10% of the working population and is clearly the most developed economic sector. The petroleum sector is also the principal source of foreign direct investment (FDI). Nigeria's FDI stock stood at \$60.327 billion in 2010, with an inflow of \$6.009 Billion for that year alone. This represented about 54% of total FDI flow into West Africa and 11% of the total in Africa. Most of the investment was in the petroleum sector!

The stakeholders involved in oil and gas development in Nigeria can be categorized as; the oil companies, particularly the International Oil Companies (IOCs), organized labour, host communities, regional interests and government. Our point of discuss is the stake of host communities and the general public.

In spite of this staggering wealth accruing from oil sales, 70% of the population still lives below the poverty line. Virtually all the development indices show Nigeria as underperforming at best; and this has resulted in a maze of agitations and restiveness in the country. However government is currently working to bring about a reform in the sector.

Abstract Summary Statement

Judging from the maze of agitations from virtually every quarter in the country, particularly the "host communities" it could be deduced that their stake is grossly marginalized.

1.0 HISTORY OF OIL & GAS DEVELOPMENT IN NIGERIA

Crude oil exploration in Nigeria dates back to 1908 with the discovery of deposits at Araromi area in Ondo State, but was soon interrupted by the outbreak of the First World War. In 1937, the Anglo-Dutch consortium obtained a license to resume exploration which effort was, again, stalled by the outbreak of the Second World War. Later in 1946 Shell D'Aracy the predecessor of Shell Petroleum Development Company (SPDC) of Nigeria discovered oil in Oloibiri and made exploration of oil in commercial quantity in 1956. By 1960 production capacity had grown to 17,000 barrels per day (bpd). By 1961 a host of other multinational oil companies had made their way into the Nigeria Niger Delta region both on-shore and off-shore. These early callers included Gulf Oil (now Chevron), Safrap (now TotalFinaElf), Tenneco and Amoseas (now MobilTexaco) and Agip. By 1970's production had jumped up to 2.1 million bpd, the so-called oil boom of the 1970s had set in, resulting in unprecedented wealth creation for the nation

Presently there are bee-hive? of oil and gas activities in the region with over 400 oil and gas production and storage facilities and the pipelines scattered all over the region, leading to challenges on ecosystem sustainability.

2.0 ECONOMICS OF OIL & GAS INDUSTRY IN NIGERIA

The oil and gas sector in Nigeria accounts for 35% of gross domestic product and petroleum exports revenue represents over 95% of total exports revenue. This sudden primacy of oil immediately diminished relevance of other sectors of the economy, particularly agriculture. Prior to the emergency of oil, agriculture contributed 64% of the GDP in the 1960s while oil, in turn, contributed a paltry 4% income in 1963/64; but this figure jumped to 64% average in the period 1970-1985, and then to 80% in recent times. Earnings from crude oil export have grown steadily since 2001; \$65 billion was reported in 2010, which jumped to \$87.9 billion in 2011, with a projected 2013 figure of \$94 billion.

Apart from petroleum, Nigeria's other natural resources include natural gas. Nigeria is an exporter of natural gas. As of March 2011, the nation's estimated proven gas reserves stood at 187 trillion cubic feet; Nigeria is reputed to hold the seventh-largest gas reserve in the world. In fact, the country's natural gas resources significantly exceed the crude equivalent. Although natural gas contributed to 1.8% of GDP in 2010, Nigeria's economy anticipates natural gas becoming as important, if not more so, as oil with the stoppage? of flaring and building of infrastructure for gas development.

3.0 STAKEHOLDERS ENGAGED IN OIL & GAS ACTIVITIES IN NIGERIA

Oil as an increasing scarce resource continues to fuel the global economy and as the production outputs of traditional reserves are decreasing, its control crucially influences economies and politics worldwide¹. Like most oil and gas export-dependent states in the Middle East and North Africa, Nigeria has an institutional framework of a 'rentier state'. A rentier state is a state reliant not on the surplus production of the domestic population or economy, but on externally generated revenues or 'rents', usually derived from the extractive industry, such as oil². But unlike the rentier state of the Arab Gulf and Maghreb region, the Nigerian state lacks a unifying political structure even as it relates to oil rents. It should be noted that oil is the main stay of Nigeria's economy, with the revenue derived from mining rents, taxes and royalties paid by the OICs.

The groups that have a stake in the Nigeria's oil and gas development can be categorized as; the oil companies, particularly the International Oil Companies (IOCs), organized labour, host communities, regional interests and government. Our point of discuss is the stake of host communities and the general public.

Host Communities

The host communities in this context are those communities 'hosting' the petroleum resource in their land or people resident within the petroleum prospecting license or petroleum mining lease area. In Nigeria most of the oil is found in the Niger Delta region.

A stakeholder is considered as an individual, group or organization potentially affected by a project or which has an interest in or influenced over a project³. And these host communities are the most vulnerable to the impacts (environmental and social) of oil industry development in Nigeria.

The petroleum industry in Nigeria has always been run in a slipshod manner, with inefficient and weak entities, that precipitated monumental waste/grafits which is embedded in social exclusion. As the March 2005, US National Intelligence Council (NIC) report for Africa captures the scenario; 'to date, African oil producers have had very poor development records and much of the oil revenue that the oil producers receive have been wasted. In most petroleum producing countries, the path to wealth for elites is found in greater access to state-controlled oil revenue rather than cynical scenario, that Nigeria could deteriorate to an outright collapsed or failed state in the next 15 years a scenario that could drag down and destabilize a large part of West African

¹ Florian S and Vald.P (2008) Building a 'culture of dialogue' among stakeholders in North-West Russian oil extraction. *Europea-Asia Studies*. Vol.60, No.5, July 2008; 831-849.

² Kuru, A. (2002) The Rentier State Model and Asian Studies: The Turkmen Case. *Turkish Journal of International Relations*. Vol.1, No.1 p.52

³ Freeman R.E (1984) *Strategic Management: A stakeholders approach*. Pitman.

region⁴. This clearly points to the gravity of the deteriorating cycle of oil-related conflicts and instability in the country. The oil-rich Niger Delta area has diverse ethnic militants and community activities which in recent years have waged violent campaigns against the oil companies and the state; protesting among other things against ecological devastation by the former and social exclusion by the state.

The Nigeria's oil and gas industry is state controlled and the legal framework before now did not clearly make provision for stakeholder engagement which provides for aligning business practices with societal needs and expectations, that helps drive long-term sustainability and stakeholders' value. The absence of formal engagement has considerably strained relations between indigenous communities, oil companies and the state. Often the lack of the institution that can resolve the conflicts, lead to the need to bring the activities of this sector in tune with current realities, resulting in the creation of the Oil and Gas Sector Reform Implementation Committee (OGIC) in April 24, 2004; which recommended the restructuring of the oil and gas sector. The 2008 report of this R. Lukman led committee, laid to the foundation of what is now referred to as the Petroleum Industry Bill (PIB); which has the mandate of creating a framework that meets the peculiar needs of oil producing communities and reduce relational frictions in the operating environment and to completely overhaul the fiscal system that hitherto governed revenue sharing from oil and gas operations in the country.

Who Owns the Oil?

The Nigerian constitution vests the ownership of the petroleum resources on the government of the federation, while the host communities from whose land the resource is mined are left out of the equation of ownership; but the issue of resource control is still being debated. Resource control and management are today the most contentious issues in Nigeria, for they pose new fundamental issues such as; the national question?, the operation of the federal systems, problems of governance, the issue of corruption, inter group conflicts and violence and sustainability of democracy and development of the country⁵. Unless there is a proper recognition of communities and their role in the ownership and production spectrum there is likely to be continual issues of conflict in the oil producing region of the country, as denying the host communities of the dividend of oil wealth has been at the heart of militancy in the Niger Delta region.

4.0 OIL & GAS MANAGEMENT TRENDS

In 2014 Nigeria's average oil production was estimated at 2.21 million barrels per day (mbpd) and 2.31 mbpd and 2.18 mbpd in 2012 and 2013 respectively. With a maximum

⁴ NIC (2005); 16

⁵ Resource Control and the Petroleum Industry Bill, p.17.

crude oil production of 2.5 mbpd in 2015⁶, Nigeria ranks as Africa's largest producer of oil and the sixth largest producing country in the world. The exploration and production activities leave inevitable impacts on the environment and humans. Impacts on the environment have debilitating effect on the host communities who depend solely on ecosystem resources and biological diversity of their area for sustenance.

Oil wealth is to be used for development. Development is considered to be sustainable when it "meets the needs of the present without compromising the ability of the future generations to meet their own needs"⁷. In this instance the present needs of the host communities are far from being met. The declaration of the World Summit on Sustainable Development, held in Johannesburg in 2002, assumes a collective responsibility to advance and strengthen "the interdependence and mutually reinforcing pillars of sustainable development – economic development, social development and environmental protection at local, regional and global levels"⁸. Sustainable local development hinges on improving the quality of life of the local population, with a transition towards meeting their basic needs; reducing hunger and poverty. Sustainability issues are becoming more complex and interrelated with other dimensions of human life. The dimensions of the Human Development Index (income, education and health) are used to determine the main outcomes of sustainable development which are now to replace the Millennium Development Goals (MDGs).

In spite of this staggering wealth accruing from oil sales, the host communities and the general public at large remain almost completely untouched by the resources extracted from its land. Development infrastructure in the nation is one of the shabbiest in the world; unemployment grew from 12% in 2006 to 24% in 2011; and 70% of the population still live below the poverty line. Virtually all the development indices show Nigeria as underperforming at best and woeful in some areas. A 2010 World Bank assessment stated that more than 50% of Nigerians did not have access to electricity. Recent global Human Development Index ranking, published by UNDP, placed Nigeria at number 153; 2013 World Bank Ease of Doing Business Index placed Nigeria at 131 out of 183, 67 places behind Ghana, 72 places behind Botswana, 79 places behind Rwanda, 92 places behind South Africa, and 112 places behind Mauritius; Global Competitiveness Index ranks Nigeria 115 out of 144 countries; City Competitiveness ranking placed Lagos at 119 out of 120 cities studied, a ranking that is projected to remain unchanged for the next 10 years; Quality of Life Index in 2005 ranked Nigeria 108 out of 111 countries studied; current Global Hunger Index, a measure of Country's hunger situation, ranks Nigeria 40th; the Economic Intelligence Unit 2012 says Nigeria is the worst place on earth for a baby to be born; the Failed State Index ranks Nigeria 14th

⁶ NNPC. www.nnpcgroup.com/NNPCBusiness (last accessed 9/4/2015)

⁷ United Nations World Commission on Environment and Development. Our Common Future, New York, Oxford University. 1987.

⁸ WSSD: UN General Assembly 'Environment and Sustainable Development: Implementation of Agenda 21 and the Programme for Further Implementation of Agenda 21.

while the Corruption Index says Nigeria is the 8th most corrupt nation on earth. The Niger Delta's human development index shows a paradox even when compared with other oil-bearing zones of the world. The regions human development index- HDI (longevity, knowledge and decent standard of living) score is of low value 0.504; a value far below those of other oil bearing countries or regions such as Saudi Arabia 2000 HDI- 0.800. United Arab Emirates (UAE), Kuwait, Libya, Venezuela and Indonesia 2003 HDI scores were 0.849, 0.844, 0.799 and 0.697 respectively⁹. And the list goes on – in spite of the country's petroleum wealth!

5.0 CONCLUSION

The current government day is aware of the problems that saddled the oil and gas industry and is therefore working hard to bring about profitable reforms in the sector. From inception of oil discovery in commercial quantities from 1956, different legal regimes has governed the sector in the light of weak governance, poor policy implementation and poor regulation; thus making having an efficient petroleum industry difficult.

⁹ Niger Delta Human Development Report. United Nations Development Programme. Abuja, Nigeria. 2006.p.15.