

Nigeria's Reforms

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Nigeria is the latest major oil and gas producer to reform its oil structure and national oil company (NOC) to take advantage of high oil prices and increasingly valuable hydrocarbon resources. Nigeria's new president, Umaru Yar'Adua, took office less than a year ago but has wasted little time trying to revitalize an oil industry that has been plagued in the past by sabotage, worker strikes, and charges of corruption.

Leading the reforms are several prominent industry figures who have lent credibility to the initiative, including Emmanuel Egbogah, an SPE director who was an adviser to Malaysian

state oil company Petronas for several years; Rilwanu Lukman, a past long-term secretary general of OPEC; and Tony Chukwueke, who worked for Shell, the largest international oil company (IOC) producer in the country, for almost 3 decades. In an interview beginning on page 26, Egbogah, special adviser to the Nigerian president on petroleum matters, lays out the reforms and the thinking behind them.

The reforms in Africa's biggest oil exporter will put more pressure on IOCs, which by now are getting used to national oil concerns wresting more control and revenues from oil projects. But these reforms are likely to go over better than the changes that have taken place in Venezuela and Russia, for example, and could benefit IOCs in the long term. Nigerian projects have been hampered by worker unrest and lack of financing on the government's end, which has slowed progress significantly on some major projects.

Nigeria has been producing about 2.2 million BOPD, although its production capacity is anywhere from 2.47 million BOPD (according to the International Energy Agency) to 3 million BOPD (according to the Nigerian government). With reserves of 35 billion bbl, Nigeria accounts for 60% of proven oil reserves in the strategically important Gulf of Guinea.

The renegotiation of contracts will increase the profits of Nigeria at the expense of the IOCs. Many of the existing contracts between the state oil company, the Nigerian National Petroleum Corporation (NNPC), and private companies were signed when oil was valued in the USD 20/bbl range. Six joint ventures between the Nigerian government and Shell, ExxonMobil, Chevron, Eni, and Total account for 90% of the country's production. With the majority stake in each of the projects, Nigeria provided the larger financial contribution, but it sometimes had difficulty making the cash call. Lacking the money to meet its joint-venture requirements for deepwater exploration in the Gulf of Guinea in the 1990s, Nigeria signed agreements that allowed IOCs to invest their capital and recoup their own costs before sharing profits with the government. Several big finds have been made since then, including Shell's Bonga field and Chevron's Agbami field. It is those agreements in particular that the government wants to revisit.

The reforms will also allow NNPC, which was formed in 1977, to operate more nimbly, like other NOCs, such as Petronas. Many NOCs are now negotiating tougher contract terms at home while exploring new areas abroad. The measures could also help the country develop its vast reserves of gas and a liquefied-natural-gas industry.

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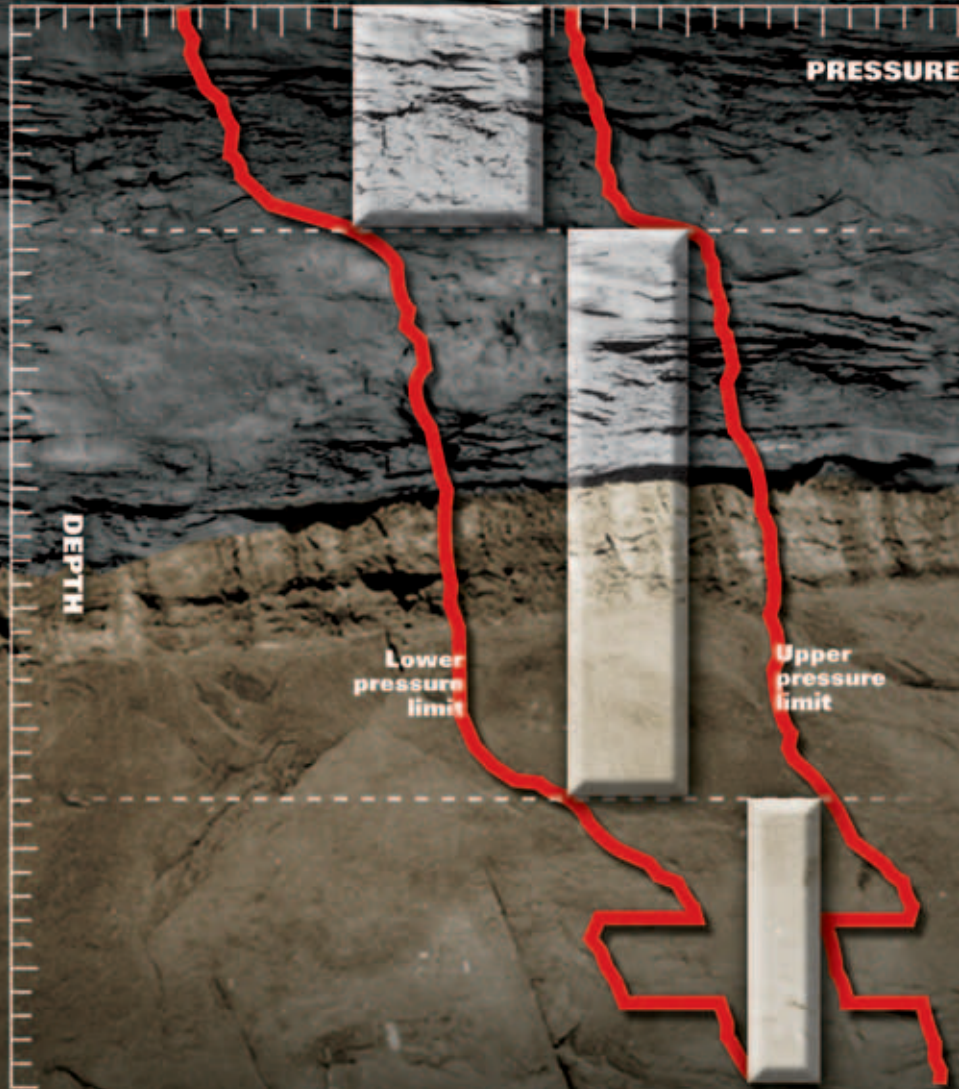
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