

DECEMBER 2017 NEWSLETTER



NEITI RELEASES 2015 OIL AND GAS REPORT; DISCLOSES OUTSTANDING REVENUES OF \$3.7 & N80 BILLION

A new report released by NEITI in the oil and gas Industry revealed that the total outstanding revenue from the sector as at 2015 was \$3.7 billion and N80 billion, while losses incurred stood at \$2.2billion and N60billion. The report which covered the period of 2015 oil & gas audit also put unreconciled revenues at N317billion.

Releasing the report Executive Secretary of NEITI, Mr. Waziri Adio stated that beyond providing a snapshot of what transpired in 2015, the report reveals money to be recovered, leakages to be blocked, and urgent reforms to be undertaken. The most critical take-away is the need to expedite, expand and sustain reforms in this still critical sector of national life.

The report shows that Nigeria suffered a 54.6% decline in oil revenues but only a slight 2.7% fall in oil production. "This was due to drastic reduction in the unit price of crude oil in the global market," states the report. It will be recalled that the yearly average price of crude oil per barrel tumbled from \$101.91 in 2014 to \$52.16 in 2015.

Oil and gas revenues have been declining since 2011 when total revenues peaked at \$68.4b. A five-year analysis in the report reveals that revenues declined by 8%, 7.7% and 6% in 2012, 2013 and 2014 respectively. However, the decline leapt to double digits in 2015 when total revenue dwindled by more than half.

Total oil production also dropped but not by much: from 798 million barrels in 2014 to 776 million barrels in 2015. The report attributed the decline to oil theft and militancy. However, total gas production went up by 20.23% from 2, 593,090 mmscf in 2014 to 3, 250, 667 mmscf in 2015. The jump by a fifth was on account of the combined effect of increase in gas utilisation and decline in gas flaring.

According to the report, the total oil lifted in 2015 was 780 million barrels, about four million barrels higher than the amount produced with the balance drawn from previous years. Of the 780 million barrels, the companies lifted 467 million barrels while NNPC lifted 313 million barrels. NNPC's liftings were split almost evenly between Federation Export and Domestic Crude Allocation, which accounted for 159.4 million barrels and 153.9 million barrels respectively. However, only 8.7 million barrels or 5.6% of crude oil allocated for domestic consumption went to the refineries in 2015 on account of the state of the refineries.

Other major highlights of the report include the following:

- **NLNG Dividends**

In 2015, the Nigeria Liquefied Natural Gas Limited (NLNG) paid \$1.07 billion as dividend, interest and loan repayment to NNPC, broken down as follows: \$1.04 billion as dividends, \$3.1 million as interests, and \$29.1 million as loan repayment. This brings to a total of \$16.8 billion NLNG's payments to NNPC for the period 2000 to 2015. The payments are for the loan grant to NLNG and for the 49% stake that the government holds in the company.

While NNPC has always confirmed receipt of the payments, it has never shown evidence of remittance to either the Federal Government or to the Federation Account. NNPC maintains that it has authorization from the presidency to hold the dividends in trust and utilize as directed by the government. NEITI recommends that NNPC should provide documentary evidence of the authorization to hold the money in trust and to give account of the expenditure from and the status of the \$16.8 billion collected in 16 years.

- **Crude Theft and Product Losses**

The volume of crude oil declared lost to theft by 13 operators in 2015 was 27.1 million barrels. Though this amounted to only 3.5% of total oil production, the loss was valued at \$1.4 billion. PPMC also declared loss of crude worth \$25 million, bringing the total declared losses to \$1.45 billion. This brings the established loss to theft from 2011 to 2015 to a total of 113.1 million barrels valued at \$11 billion. Also, PPMC declared losing products worth N56.4 billion, broken down as follows: N52 billion for losses on petrol, N3.8 billion for losses on diesel, and N123 million for losses on kerosene. Deferred production on account of sabotage or repairs

came to 57 million barrels. NEITI reiterates its call for effective and adequate metering infrastructure and enhanced security of our oil and gas assets.

- **Deductions from Domestic Crude Allocation (DCA)**

The 153.92 million barrels of crude allocated for domestic consumption (at 445,000 barrels per day) was utilised as follows: 56.11 million barrels or 37% to PPMC for export; 89 million barrels or 57% for Offshore Processing Arrangement (OPA) and 8.74 million barrels or 5.6% for local refineries. The total value of the domestic allocation came to \$7.77 billion or N1.5 trillion.

When combined with the closing balance for the previous year and with allowance made for liability acknowledged and upfront deductions by NNPC, there was an un-reconciled sum of N317 billion from the value of crude allocated for domestic consumption. NNPC acknowledges having a liability of N418 billion as at 31st December 2015. Also, NNPC deducted the following upfront from domestic crude account: N60.9 billion for losses; N316.7 billion for subsidy; and N112 billion for repairs and maintenance.

A breakdown of the repairs and maintenance expenses shows that N24.2 billion was spent on crude movements; N22.1 billion on fund releases for salaries; N15.6 billion on demurrage; N13.2 billion on share of upfront; N11.37 billion on product distribution; N10.5 billion on through/marine; N4.12 billion on facility repairs; N3.27 billion on operations; N1.9 billion on security; and N1.3 billion on projects, among others.

NEITI recommends that upfront deductions should be discontinued and that NNPC should settle its liabilities and reconcile the unreconciled amount. NEITI also recommends that detailed records of losses and repairs be kept to ensure transparency and accountability.

- **Non-Cash Call Items**

The total cash calls paid to joint venture operators in 2015 was \$4.37 billion. Out of this, \$597.8m was paid on what the report considers non-cash call items. This included \$307.83 million paid to the National Intelligence Agency (NIA) and Navy for security; \$238 million collected by NAPIMS as administrative charges; \$7.2 million for travelling and accommodation; and \$4.8 million for consultancy, among others. NEITI recommends that non-cash call expenses should be paid from NNPC overhead budget, and payment to NIA and others from cash call account should be discontinued.

- **OPA and Other Losses**

The report shows that in 2015 the country recorded a net loss of \$723 million from getting refined products through Offshore Processing Arrangement (OPA). This

means that the value of refined products that the country received through OPA was less than the value of the crude given by \$723 million, even after allowances had been made for costs and margins. The President Muhammadu Buhari administration cancelled the OPA in November 2015 for being uneconomical. However, there was an outstanding liability of \$498 million by companies contracted under OPA from under-delivery of imported products.

The report shows that \$90m was lost through a practice where NNPC used a revised/lower pricing option at the point of payment instead of the higher price at the point of purchase. The report states that NNPC has stopped the practice of double valuation with the coming of the present administration.

NEITI recommends close monitoring of the Direct Sale Direct Purchase (DSDP) arrangement that replaced the OPA to ensure the country is not being shortchanged. It also calls for government to recover the \$498m OPA liabilities from the affected companies.

- **NPDC's Liabilities**

From the report, NPDC (the upstream arm of NNPC) reduced its legacy liabilities from \$1.45 billion and N80 billion in 2014 to \$757 million and N68 billion in 2015. However, NPDC incurred liabilities of \$822 million and N9.6 billion in 2015, bringing its total liabilities at the end of 2015 to \$1.5 billion and N78 billion.

The report also showed that NPDC promised that by 31st December 2017 it will pay the balance of \$1.7 billion that it owes the Federation from the eight OMLs divested to it from the Shell JV between 2010 and 2011. It will be recalled that the OMLs were valued at \$1.8 billion, which is believed to be discounted and that NPDC paid only \$100m. The report also showed that the valuation for the four OMLs divested to NPDC from the NAOC JV in 2012 was revised down from \$2.25 billion to \$1.55 billion by DPR. NPDC claims that the Federation owes it \$95 million, having lifted oil from the divested assets and received payments from gas proceeds between 2012 and 2015.

NEITI recommends that NPDC should pay its outstanding liabilities and that the basis of the revaluation and mode of payment of the divested assets be examined to ensure that the Federation is not shortchanged.

The NEITI 2015 Oil and Gas Audit Report is the eighth to be produced since the extractive sector transparency regulator came into being in 2004. The report was released, after approval by the National Stakeholders Working Group (NSWG), which is the governing board of NEITI headed by Dr. Kayode Fayemi, the Minister for Mines and Steel Development. The audit was conducted by Haruna Yahaya & Co., a Nigerian accounting and audit firm selected through an international competitive process.

The 2016 audits will commence early next year while the procurement process for the 2017 audits has commenced. “Our goal is to clear the backlog as quickly as possible,” Mr. Adio, the NEITI ES, said. “We are embracing mainstreaming and automation to ensure we speed up our reports to make them as close to real time as possible and to enhance their reform and accountability utility. Resources and process permitting, we will release the 2016 and 2017 reports next year.”



NEITI BOARD SET TO TACKLE DEFAULTING COMPANIES

The Board of the Nigeria Extractive Industries Transparency Initiative (NEITI) says it will henceforth publish the names of extractive companies that fail to comply with its industry audit process and

pursue appropriate legal actions against them in-line with the provisions of the NEITI Act 2007.

Chairman of the NEITI Board Dr. Kayode Fayemi, represented by a member of the Board Alhaji Gana Lantewa made this known at the end of its meeting which took place in December 2017.

The NEITI Board called on all covered entities (companies and government agencies covered by the audit) to ensure compliance with the NEITI audit process as mandated by the Act to avoid prosecution.

Furthermore, Alhaji Lantewa also stated that the Board will from now on publish summary of its decisions and allowances of Board members on the NEITI website.

He explained that the decision is to further promote the spirit of openness and transparency on Board proceedings, maintaining that since NEITI was set up to enthrone transparency, accountability and good governance in the management of extractive revenues, the governing Board has decided to lead by example.



STATE OF OUR REFINERIES SHAMEFUL

-KACHIKWU

The Minister of State for Petroleum Resources, Dr. Ibe Kachikwu, has stressed the need for the country to immediately address the issues of the refineries and infrastructure deficit.

This call was made at the public hearing recently held by the National Assembly's Joint Committee on Petroleum Downstream.

Kachikwu decried the poor state of the refineries over the years, saying: "it was shameful that a country after over 35 years cannot produce sufficient fuel for its citizens,....unless we have operational refineries, there will be no permanent solution to the fuel crisis in the country".

The call by the Minister is consistent with NEITI's position that the refineries should be privatized for more effective and efficient performance.

For instance, NEITI's latest independent oil and gas industry audit report covering the year 2015, noted that the refineries' collective capacity has dropped significantly to 5.6% which is grossly inadequate to meet the national demand.

The report further showed that out of a total 153,918 mbbls Domestic Crude Allocation to PPMC in 2015, a meagre 8,740 mbbls was allocated to the refineries, while Off-shore Processing Allocation (OPA) accounted for 89,067 mbbls, representing 57.87%.

"In 2015, the refineries utilized only 5.68% of the domestic allocation while the rest was either exported or sent for offshore processing", the report revealed.

The four state-owned refineries located in Port Harcourt, Warri, and Kaduna, have a collective capacity to refine 445,000 barrels of crude oil per day for domestic utilization.

Over the years, these refineries have grossly under-performed owing to failure of government to fix them, leading to all kinds of corruption and inefficient arrangements for refined products importation.

NEITI therefore hopes that with the ongoing efforts on the part of government to fix the refineries and encourage private sector participation, the perennial fuel scarcity and its attendant negative impacts on Nigerians will soon be a thing of the past.



EXTRACTIVES HUB: *NEITI STAFF IN U.K*

Two members of staff of NEITI were in the United Kingdom as special nominee for Extractive Hub. The staff members are Jide Arowosaiye and Chinenye Okechukwu all of the NEITI Technical Department.

The Extractives Hub, launched in February 2017, was created to inform public debate. It collates publications from a range of credible sources and institutions to provide a 'one-stop-shop' where policymakers and legislators alike can easily access published materials on natural resource management. The University of Dundee's Centre for Energy, Petroleum and Mineral Law and Policy curates the content of the Hub and assists in sourcing leading research and resources.

Recognising that it will not be enough to merely post documents online, a unique formula has been developed to bring the Extractives Hub to a global audience. This involves the use of Local 'Hub Champions' to work alongside the London-based team to engage local users, understand their needs and enable them to access relevant documents and technical support.

To build further on the contribution that the Extractives Hub can make by connecting policymakers to relevant and up-to-date information, the Local Hub Champions in November attended a meeting of the current cohort of champions, alongside colleagues from Ghana, Zambia, Kenya and Uganda. The group had the opportunity to feedback initial reactions to the platform to the global team, which will be factored into future

plans. They learnt from the experience of others and from the global team, and have returned to Nigeria with greater understanding and knowledge gleaned over the course of a lively and enriching two-day debate.

In addition to enabling access to a comprehensive body of knowledge on the extractives sector, the Hub offers technical support from world-class experts and academics with practical experience in the sector. Expert consultancy services are free of charge for government officials in approximately 30 focus countries and may include access to expert advisory support, tailored training courses or research.

According to a World Bank report released in 2014, “Knowledge is central to development”. About half of all reports written by the World Bank have the objective of informing public debate. The World Bank report however, states that 30% of these policy reports are never downloaded and so do not reach their intended audience.

Since launching in Nigeria in May 2017, uptake has been impressive, with almost 20% of registered users of the Extractives Hub from Nigeria, alongside a growing user base globally. The Hub is working with a few government organisations like NNPC, NILS, National Assembly, NEITI and others who have expressed interest.



The Nigerian Hub Champions, Jide Arowosaiye and Chinenye Okechukwu, with fellow Hub Champions and the global Extractives Hub team

The meeting also provided an opportunity to share plans for the future of the Extractives Hub, which include the potential to move into data visualisation, to upgrade the user experience on the site and to develop targeted ‘packages’ of information for users, based on their areas of interest.



NEITI INSTITUTE PRODUCTIVITY

AWARD: AS AYODEJI WINS MAIDEN EDITION

NEITI's policy analyst, Deji Olowoporoku has emerged winner of the inaugural Executive Secretary's Annual Award for exceptional contributions.

The award is in recognition of exceptional performance by the staff and a motivation for all staff to think beyond their normal day to day schedule.

"I instituted this award to inspire us all to put in more than the normal or the expected shift. I sincerely believe we can do it, if we want to", the Executive Secretary Waziri Adio explained.

Meanwhile the International Secretariat of EITI has congratulated Deji Olowokporoku for the Honour. The Secretariat granted the recipient a rare honour of full appearance on EITI global website as a justification for the award in a question and answer session.

EITI: *Please give us a little bit of background of yourself; tell us who you are and why you are interested in extractives governance in Nigeria?*

Deji: My name is Ayodeji Olowoporoku. I am a Policy Analyst at the Nigeria Extractive Industries Transparency Initiative (NEITI), and I have worked here since 2010. As an undergraduate, I studied Civil Engineering at the University of Ibadan in Nigeria. When I finished my degree, I felt the need to further improve in my educational capacity because I wanted to acquire the requisite knowledge that would enable me to contribute my part towards making Nigeria a better place. I soon realised that I couldn't contribute to the change I wanted in Nigeria as an Engineer, so I pursued a post-graduate study in Economics before my masters in Development Economics at the University of Manchester. I'm currently pursuing a PHD in Policy Analysis.

During the time in the UK, I got a job at an insurance firm which was satisfactory at the time but my heart was with Nigeria and how I could contribute and make a difference. One day I saw an online advert for a position at NEITI which made me read up on NEITI and the EITI process. I realised the ideology of the EITI and NEITI mandate is to achieve transparency and accountability in the extractive sector which will lead to better governance in the extractive sector and ultimately contribute to the development of Nigeria. I knew just then that NEITI would be an avenue for me to contribute my quota. I applied for the job and the rest is history.

EITI: *For the first time, NEITI has handed out an award – the ES Annual Award for Exceptional Contributions – and you won it. Can you tell us about what you have just won and why you won it?*

Deji: As you say, it's the first award of its kind in NEITI. It's an award created as a motivation by the new Executive Secretary, Waziri Adio for staff to think out of the box and go beyond the day-to-day tasks. The Executive Secretary early on shared his vision of what NEITI could be, in becoming the 'power-house of knowledge' in extractives. I realised that we needed innovative ideas to achieve this vision. I immediately saw where I could contribute. My ideas were always largely aligned with this vision, and he gave me the opportunity and support to work on these ideas. We ended up creating three distinct products as a result: a NEITI dashboard, a compliance ranking, and training modules for NEITI staff. Based on this, the management decided to create an award for exceptional contribution to NEITI's overall objectives. The award is meant to motivate staff to go the extra mile – to go beyond the routine.



The front-page of NEITI's prototype dashboard. After publication of their 2015 oil and gas report, this dashboard will be published online for all to use. NEITI also wishes to integrate the use of this data into its website itself.

The first thing was to start developing a dashboard – a repository for NEITI data. I realised that all the data from NEITI reports were in pdf format and were all within the audit report which makes it hard for users to easily access the data or conduct further analysis. The idea struck me that we could make the data from NEITI reports easily accessible and re-useable by all users. The whole line of thinking was to introduce a platform where information/data were easily accessible with graphical representation and where more analysis could be done. Making the information ready at your fingertips is the first step in facilitating analysis – trying to make information and data available for the everyone to use. That's what started it. Also, even if you have information available,

it doesn't help to show people pages and pages of numbers. That's just scary, it even scares me sometimes even though I'm at working with data.

The dashboard contains several sections, and is based on data from NEITI's EITI Reports. It starts with *Quick facts*, which can show you the key revenue-figures for each NEITI Reporting year. At the click of a button you can easily see the exact information you want. This is the key tool for most users where anyone can access quick information about the sector. Under this section we also provide the possibility for time-series analysis, so you can see trends and changes.

After that, for those users that are interested in more information, we provide the same statistics and features for several other parameters, such as production, government's share of production, exports, how much our national oil companies supply our refineries and oil/gas lifting.



After these sections, we introduce the *Analytical function*, which allows you to select multiple parameters, companies and years simultaneously. This is for our advanced users with specific questions. They would benefit from seeing multiple forms of information at a time. This is complemented by a *Company summary* section, which allows you to choose companies, years and revenue streams you wish to compare. As a second reason, we have previously had problems in getting timely information from some oil and gas companies in Nigeria. As a result, we came up with the idea to rank the companies and government agencies which report to NEITI. I immediately saw how I could contribute to this. Together with the team, we created a methodology based on the completeness and timeliness of the data, and created a Compliance report for 2015. This generated a 'buzz' amongst the companies and agencies. Suddenly companies started to become worried about not complying with requests for information. So rather than waiting for legislation and regulation to fix the lack of submissions, we started ranking them and put the results of that in the public space.

Finally, we recognised that more people should be able to do these analyses within NEITI, so we created training modules for NEITI staff. Here in NEITI we work a lot with data, therefore we need to be in a situation where everyone from an analyst to administrator should be able to talk about our data and analysis. This training has become weekly and hold every Monday.

EITI: *Future priorities: What does Nigeria need to do to further improve extractives governance? What are your top three priorities?*

Deji: Wow that's difficult. There are various things Nigeria can do to further improve extractive sector governance but if I had to choose the most important, my top three priorities would be;

1. That recommendation from NEITI reports are implemented and followed through; that they are tracked. We are not just producing reports to comply with the EITI Standard but rather to ensure full Transparency and Accountability in the extractive sector. We need to find ways to inspire political will and make sure that the challenges leading to the recommendations become a thing of the past.
2. Large-scale reform. It is wonderful that the government is working on the PIGB [Petroleum Industry Governance Bill], but we must urgently reform our *fiscal regime* for oil and gas sector.
3. I want to bring it down to more specific issues; Beneficial Ownership and Contract Disclosure. We need to know "who owns what", alongside what they owe Nigerians in return. I believe this will go a long way in solving much larger problems.

EITI: *What plans do you have next? What is NEITI currently doing?*

Deji: Based on our success with the ranking of companies and governments, we are putting together a wider index for the extractive sector – as it relates to NEITI. We will include companies and government agencies in this index. We want to create an index such as Transparency International Index for the Nigerian extractive sector, including mining. We are also working on migrating historical data from the NEITI Solid minerals and Fiscal Allocation and Statutory Disbursement reports to the data dashboard. We want NEITI to be a repository of data for the Nigerian Extractive sector. We are prepared for an exciting future of Nigeria's extractive sector.

*Interview with the winner of the NEITI productivity Award,
Deji Olowokporoku by the EITI International Secretariat, Oslo.*