



# **CURRENT REALITIES IN THE UPSTREAM SECTOR OF THE NIGERIAN OIL & GAS INDUSTRY**

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# Outline

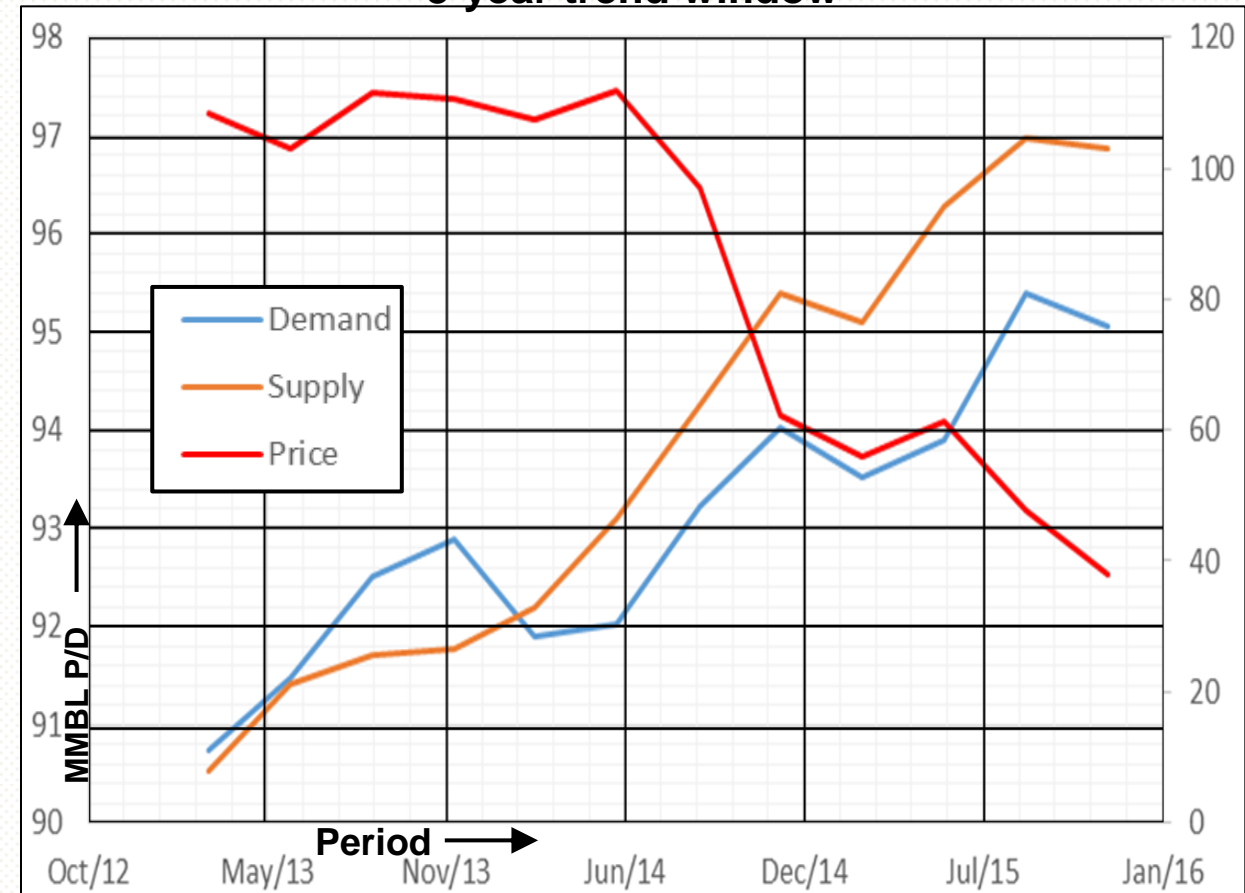
- Introduction
- Current realities in Nigeria
  - *Economic Security*
  - *Labour implications*
  - *Funding Challenges*
  - *Niger Delta Insecurity*
  - *Contracts, Production & Reserves*
- Focus of Oil Operators



# Introduction

- Apart from the falling global oil price trend, Nigeria also has the following issues;
  - *Economic Security*
  - *Funding Challenges*
  - *Renewed Insecurity in the Niger Delta*
  - *Low Reserve Replacement Ratio (RRR)*
  - *Poor Gas Development*
  - *High and Uncompetitive Production cost*

**World Crude Oil Demand/Supply Dynamics**  
**3-year trend window**



# Current Realities in Nigeria ; Economic Security

- Short fall in foreign exchange .
  - *95% of Nigeria's foreign exchange earnings is from crude oil.*
  - *Budget deficit at a crude oil bench mark of \$38 a barrel -2016 budget.*
  - *Nigeria's current national reserve down to &28.2 Billion.*
- Stagnated excess crude account savings and sovereign wealth fund.
  - *Debt spiking in the nation, especially foreign debts. (LASG. Govt. \$200 m loan from World bank)*
- Nigeria has experienced a consistent drop in foreign investments.
  - *\$8.9 billion in 2011 to \$4.9 billion in 2014.*



Source: NNPC



# Current Realities in Nigeria; Economic Security

Nigeria's Leading Economic Indicators (LEIs)	2014	2015	2016
GDP Growth	6.3%	2.8%	3.3%
Exchange Rate (IFEM)	N186.10/\$	N199.35/\$	N220/\$
Oil Price (Average)	\$98.90 per barrel	\$53.70 per barrel	Below \$33 per barrel
Inflation	8%	9.5%	11%
External Reserves (\$)	\$34.47bn	\$29.10bn	\$28.2bn
MPR	13% p.a.	11% p.a.	9% p.a.
Export	\$82.6bn	\$50.9bn	\$51.9bn
Import	\$61.6bn	\$48.7bn	\$47.4bn
Trade Balance	\$21bn	\$2.2bn	\$4.5bn
Net FDI	\$3.1bn	\$1.6bn	\$1.8bn
Stock Mkt Cap	N11.48trn	N9.85trn	N11trn

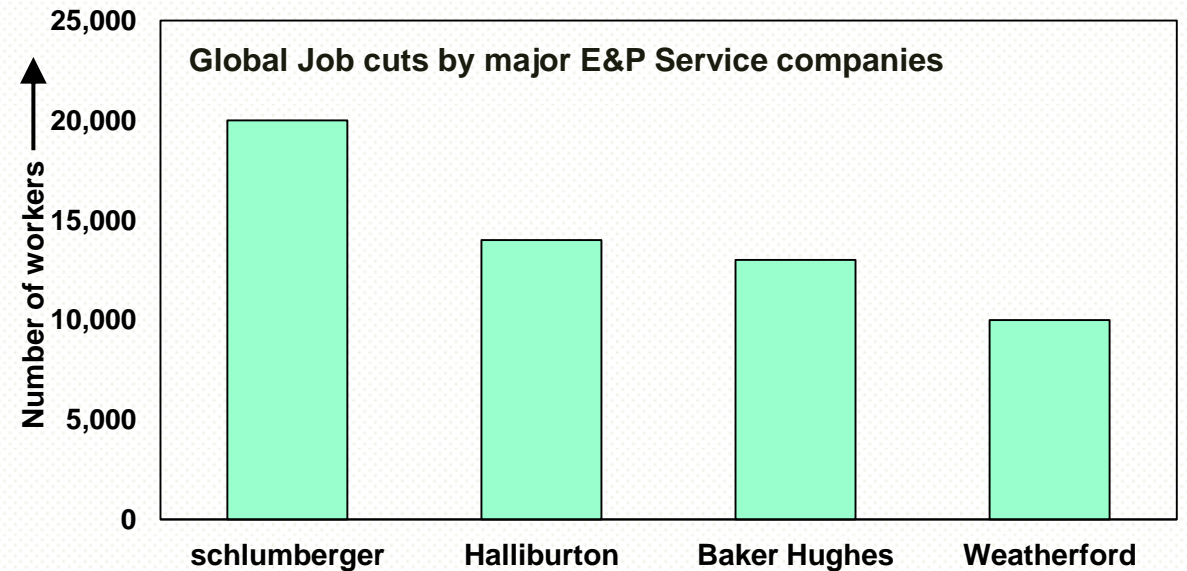
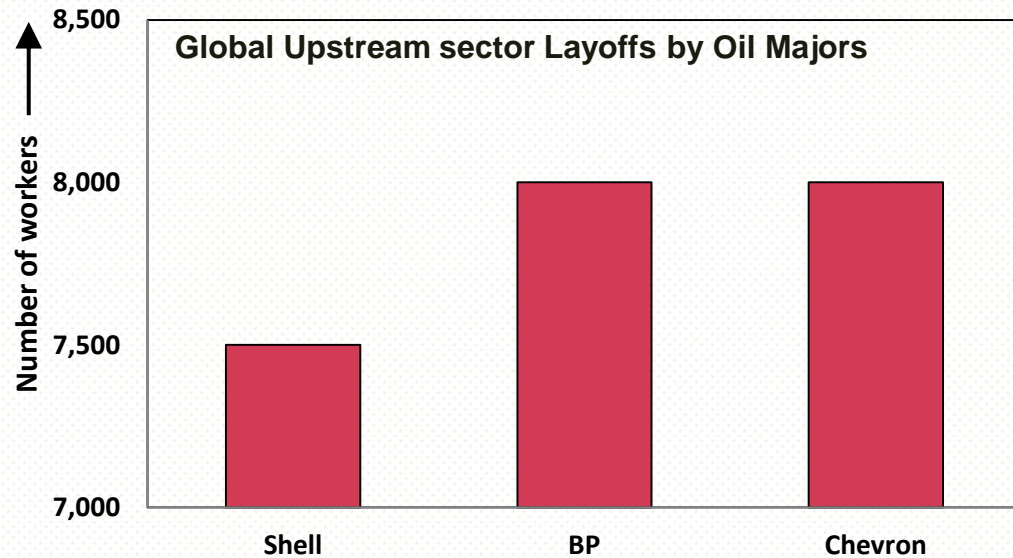
- Falling oil price has an instant, direct and major impact on Nigeria's Economy



Source: Financial Derivatives Company Research, EIU, NBS, CBN, Bloomberg, Oil Price.com

# Current Realities in Nigeria; Employment/Labour Implications

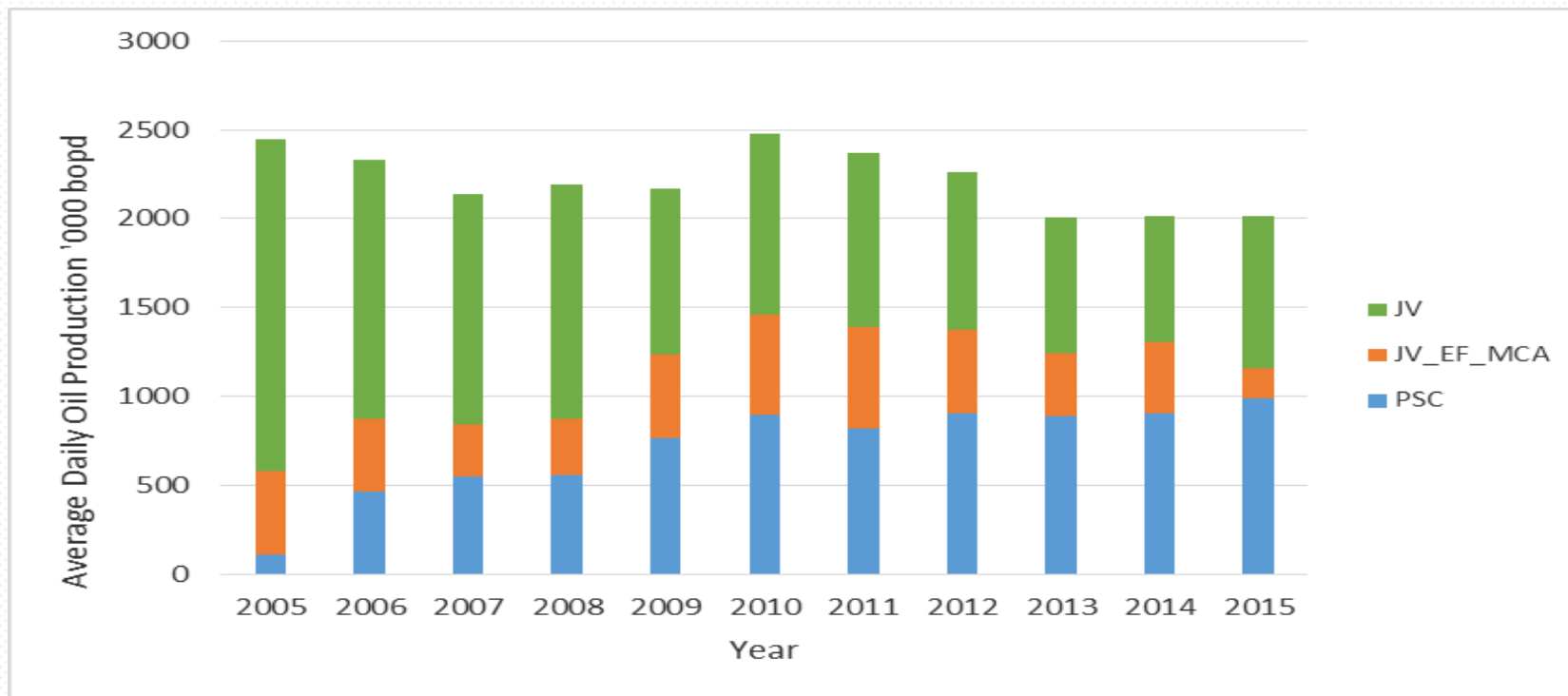
- Down sizing and job losses in the Upstream Oil & Gas industry both locally and globally
  - *About 120,000 direct and indirect job losses in Nigeria (Economist)*
  - *Layoff prominent in all sectors of Upstream activities (Oil Majors and servicing)*





# Current Realities in Nigeria; Funding Challenges

- NNPC Joint Venture shortfall.
  - *53% drop in NNPC cash calls payment to JV operations between 2005 and 2015.*
  - *Led to a 62% drop in JV production that is masked by PSC production.*
  - *Plays a part in decline of crude oil production from 2.3 million barrels per day to 2.1 million barrels per day in over the same period.*
- Non-performing loans are ubiquitous; About N5 trillion in loans granted to energy firms in 2013 and 2014, might be impaired. (Vanguard)



Source: NNPC



# Current Realities in Nigeria; Niger-Delta Insecurity

- Renewed security situation in Niger Delta immediately after the last election;
  - *Violence, Insurgency and security threats*
  - *Pipeline Vandalization*
  - *Illegal Oil Bunkering*
  - *Kidnappings and Hostage Taking.*
  - *Proliferation of Illegal Refineries*
- Increase Oil & Gas production OPEX, risk and uncertainty.





# Current Realities in Nigeria; Contracts, Production & Reserves

- Government directive on Reserve and Production;
  - *Address low reserve replacement ratio.*
  - *Increase national reserve to 40 billion barrels.*
  - *Increase Nations production to 3 million barrels a day.*
- Contract value and cost reduction;
  - *Rigs, equipment and engineering are adjusting to new norms based on government directive to reduce rates by 30-40%.*
  - *Analyzing and understanding the cost structure with the aim of cost reduction.*
  - *Companies will manage cost by reducing headcount and renegotiating supplier contracts*



# Current Realities in Nigeria; Operators Focus

- Focus on stabilizing production
  - ✓ *Identify 'low hanging fruits' that require low cost workover/ remedial operations.*
  - ✓ *Optimize production.*
- CAPEX reduction will come from reduced spending on exploration, facility construction etc.
- Embrace Gas development.
- Identify distressed or underperforming assets.
  - ✓ *Isolate asset which may be falling short due to investment assumptions that no longer hold true.*
  - ✓ *Focus on high performing asset to maximize production.*

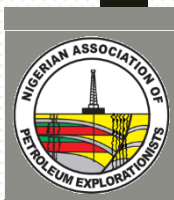


# Current Realities in Nigeria; Operators Focus

- Finance;
  - ✓ *Operators should focus on managing their financial position; optimizing capital (debt vs equity mix).*
  - ✓ *Managing Tax and corporate structure.*
  - ✓ *Renegotiating fiscal policies for optimal benefit where possible.*
  - ✓ *They could also divest asset to generate cash flow.*
- Project management.
  - ✓ *Enhances resource allocation in real time.*
- Talent Management



- Collaboration.
  - ✓ *Improve on integrated project delivery for optimum breakeven cost.*
  - ✓ *Integration across the supply chain among all project participants (owners, engineers, contractors, subcontractors, major suppliers).*
- Advanced analytics.
  - ✓ *To identify early indicators of potential issues that could affect project performance.*
  - ✓ *Integrating external e.g. political unrest data they can model scenarios in which projects typically go off the rails and put mitigation strategies into place in advance.*



# Discussion continues...

*What do we do as  
Explorers?*

Contributions from:

- ✓ an operator
- ✓ a service provider &
- ✓ a financial institution