The Urgency of a New Petroleum Sector Law

The process of enacting a new law for Nigeria’s petroleum sector has gone on for far too long, and at enormous costs to the country. More urgency, more clarity and better coordination are needed.

The failure of Nigeria to pass an over-arching law for the petroleum sector after repeated attempts continues to accumulate huge costs for the country, estimated at more than $200bn. The advent of a new administration on 29 May 2015, expectedly, triggered a flurry of activities and expectations around the passage of the much-anticipated Petroleum Industry Bill (PIB). These activities and expectations will reasonably pick up again as the 8th National Assembly returns to session this month: the Petroleum Industry Governance Bill (PIGB) introduced in April and stepped down in June by the Senate might come back on stream; at least two private members’ bills from the House of Representatives and three separate bills from the executive arm might be introduced.

The plurality of action on the petroleum sector law is good but might be misdirected. Though eight years in the National Assembly, the motion around the PIB has been on for all of sixteen years. Sadly, there is little about what is going on at the moment to suggest real movement or adequate learning from the past. The PIB ship should be rescued from a start-stop, unhurried and uncoordinated mode and brought swiftly ashore. There is need for President Muhammadu Buhari to take the lead by investing his presidential capital on this all-important legislation, putting in place a mechanism for rallying the stakeholders to a consensus, and using this law as one of the pillars of the bridge to a much needed economic recovery.

Ghana’s recent experience with the passage of its petroleum sector law ironically offers lesson points in urgency and coordination. To be sure, Ghana is a new oil country and the issues around its petroleum sector are not as complicated as Nigeria’s. In November 2014, the Petroleum Production and Exploration Bill was submitted to the Ghanaian parliament. Shortly after, the bill was withdrawn to reflect new realities and re-

Action Points

- The executive arm of government, with the President in the lead, needs to take full charge of the process of passing a new law for the petroleum sector;
- Enacting a new petroleum law should be prioritized as one of the planks of economic recovery;
- An inclusive task team should be urgently empaneled, charged with building consensus among stakeholders, drawing up a clear and well-communicated roadmap and fast-tracking the law’s passage;
- A piece-meal rather than an omnibus approach to the law should be adopted;
- The resultant law should have robust transparency, accountability and efficiency measures.

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1 Figure includes estimates of loss of investment, possible returns on investment, and losses due to unclear fiscal terms and non resolution of host community issues etc.
presented in June 2016. On 4th August this year, less than two months after the bill was re-presented and less than two years after the whole process started, the bill was passed by the Ghanaian parliament.

By contrast, Nigeria has been on a perpetual voyage with its own PIB. That journey began sixteen years ago with a lot of anticipation and promise. But four presidents, five presidential terms and five legislative tenures on, the bill is still stuttering through legislation. It is perhaps one of the most important bills ever to be contemplated in Nigeria’s history, yet the one that has taken the most time and generated the most activity without legislation.

The PIB has suffered repeated setbacks due largely to disagreements among stakeholders. These disagreements have centered mostly around the regulatory framework, including power of the minister, ownership and control of the resources, host community benefits, environmental concerns, appropriate fiscal regime, etc. In the process every administration has produced its own PIB draft(s), but not the law. Each PIB process has ended with each administration, to be restarted almost from scratch by the succeeding government.

Current efforts at reviving the process may have inherited all the encumbrances of the past, exhibiting a disturbingly familiar pattern. The exercise has commenced again with very vocal expressions of intention by political actors who have initiated parallel processes with divergent conceptions about the complexion of the bill. Mutual recriminations already mirror the bitter acrimony that heralded and ultimately led to failure of past efforts. Added to the usual disagreements is the new debate over whether the bill should still be taken en bloc, or this time in parts, to make the PIB easier to pass.

The precious time and resources invested in the PIB process should count for much more than unending opportunity for actors and vested interests to engage in one-upmanship or to time out one another. A lot has been held in abeyance and a lot is being lost, at a time the country could ill afford such. While the House of Representatives and the Senate and the Ministry of Petroleum Resources are needed to be actively engaged on the process, having different bills from all of them suggests the possibility of working at cross-purpose, not in concert. This does not augur well for the much needed traction on this important legislation. The executive needs to lead the charge here and is well positioned to facilitate greater urgency, clarity, and coordination.

The Unbearable Costs of Delay

In the sixteen years the process of reforms commenced, and in eight years since the PIB was first drafted, there was no question that the petroleum industry was in desperate need of regulatory reforms. Some of the reasons like imprecise rules, excessive regulatory discretion, and the fusion of regulatory, policy and operator roles were first-order problems which in turn created second order causes. Others like corruption, lack of transparency and accountability were consequences in a chain of ripple effects, leading ultimately to a severely underperforming economy, loss of benefits to the country, and a largely impoverished population.

There is however, a direct and hugely significant cost associated with promising a new petroleum industry law in the first place but having an indefinite delivery date.

More than the size of the return, the rational investor prizes regulatory certainty above practically all else: clear, unambiguous rules, predictable policymaking and efficient regulation. These clarity and predictability have been lacking, especially in the past sixteen years since the process commenced. In the eight years that the PIB was first presented for legislation, experts estimate that over $120 billion (at over $15 billion yearly) has been lost to investment withheld or diverted by investors to other (more predictable) jurisdictions.

The hedging by investors stems from the expectation that the old rules would no longer apply, and not knowing when the new ones would materialize. So they wait. Or walk, if they are investors looking at the time value of money. Considering the limited pool of investment funds, the amounts of funds previously allocated by IOCs for investment in Nigeria is almost certainly shrinking due to the emergence of several other viable oil and gas projects across Africa including Ghana, Senegal, Mozambique, Kenya, Uganda and Tanzania etc. According to Dr. Ibe Kachikwu, the Minister of State for Petroleum Resources, the cost of uncertainty is far greater than the cost of simply not having the law itself. Further estimates put projected (lost) earnings due to factors including loss of investment that should have happened at $100 billion. This figure represented only five years period between 2007 and 2012.

Estimates of employment impact of upstream as well as midstream and downstream have been computed in the hundreds of thousands. Granted, these numbers are largely projections. But there can be no arguments about the narrative or logic that produced them. The projected losses show the cost in missed investment opportunities. Other costs are historical, direct and equally astounding. For five years up to 2014, Nigeria imported $26.4 billion worth of refined petroleum products. The resulting impact of this haemorrhage on the country's balance of payments position, foreign reserves and, most recently, the value of the Naira has been colossal.

Governance deficiencies have been equally prolific. NEITI's 2013 audit of the oil and gas sector revealed that a cumulative $10.4bn and N378.7bn was lost, under-remitted or outstanding due to inefficiencies, theft or absence of clear fiscal regime in the sector. All these came to N1.74 trillion at 2013 value. At the current exchange rate, total losses, under-remitted and under-payments for 2013 alone sum up to N3.2 trillion. Proper governance framework and clearer fiscal regime for the sector could have resolved most of the underlying causes.

Attempt to capture the economic losses in a single figure is almost impossible given the scale of effects and size of the multiplier. The cost computation attempted above is therefore only a slice of the real picture, and only limited to the period that the uncertainty surrounding the fate of the PIB has persisted.

Stretching back to the period before the life of the PIB, Nigeria’s oil and gas sector has continued to deteriorate largely due to the fact that the laws that govern the petroleum industry are either not sufficient for effective regulation of the sector, or too outdated to be relevant in today’s global energy environment. For instance the Petroleum Act (1969) was enacted when the country’s economy revolved less around oil and when the global oil market was less competitive than today’s. Yet the country has failed to enact laws to adapt to the changing realities in the sector locally and internationally.

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2 See http://allafrica.com/stories/201510150158.html
3 National Petroleum Investment Services (NAPIMS) data sourced by Thisday Newspaper, April 26, 2013.
5 Current estimates put number of jobs to be created by the Dangote Group refinery under construction at 235,000. See report at https://www.thecable.ng/dangote-refinery-projects-to-create-235000-jobs
6 World Trade Organisation (WTO) data. Available online at www.wto.org/english/res_e/statis_e/Statis_e.htm

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Since 1970, the number of oil producing countries has more than doubled. In Africa, Nigeria used to be the continent’s clear leader by some stretch. Today, the country produces less than a quarter of the continent’s oil, partly due to its declining production but mostly owing to the emergence of new producers. Few decades ago, only a handful of African countries bore the title of oil producing nation. Today, more than two dozen African countries have either found oil on their territories or have begun production in commercial quantity. All these have grave consequences for Nigeria’s positioning in the global energy market.

Relying on rules and methods that were crafted for the market as it was four decades ago is not only a wrong choice, it is a very costly one in reality. Inevitably, the cost of failure of policy and regulation to adapt as the industry evolved has left a yawning gap between endowment and performance. Nigeria currently holds the largest gas reserve in Africa and the 9th largest reserve in the world. Yet it occupies only the 24th position among the world’s producers. This contradiction is one of many illustrations of the paradox of a sector abundant in natural endowments but beset with avoidable, man-made problems. Nigeria is the 12th largest producer of crude but has the lowest contribution of oil to GDP among OPEC countries. The commodity accounts for 93% of export earnings, 85% of government revenues but only 9% of GDP. This is on account of the absence of adequate “productive activities in the economy” related to oil.

The numbers appear to bear this out. Latest data from OPEC show that Nigeria refines only 3% of the crude that it produces, even though domestic demand is seven times the total volume of refined products. In essence, the real benefit of the country’s crude oil endowment would come from the volume of local economic activities that it can generate. As things stand, the PIB offers Nigerians the greatest chance to turn a wish like this one into reality.

Motions without Movement: A Short History of the PIB

This brief recollection is useful to underscore the fact that the attempt to enact a composite law for Nigeria’s petroleum sector is not a new process. So much output has been generated in the previous attempts. What is simply needed now is to build on the accumulated learning and that have been experience procured at great expense to the country.

The journey started when President Olusegun Obasanjo inaugurated the Oil and Gas Reform Committee (OGRC) on 24 April 2000. Composed of more than two dozen local and international experts, the committee was charged with reviewing and streamlining all existing petroleum laws and also establishing a regulatory framework for the sector to reflect the interests of consumers, the environment and the operators. Four years of extensive work, stakeholder consultations, and deep diagnosis of the problems produced the National Oil and Gas Policy (NOGP).

On 21 June 2005, the government constituted the Oil and Gas Implementation Committee (OGIC) to develop strategies for the implementation of the content of the policy documents developed earlier by the
National Committee on Oil and Gas Policy”. 13 Five subcommittees were set up to carry out this task, with a Drafting and Harmonization Committee charged with producing a legal framework for implementation. The committee made wide-ranging recommendations, including the restructuring of NNPC, deregulation, incentivizing private investment in refineries, harmonization of existing petroleum laws etc. However, a draft law was not submitted to the National Assembly before the end of the tenure of the Obasanjo administration.

Two years later, the Federal Executive Council under President Umaru Yar’Adua, approved the NOGP on 5 September 2007. The president again set up another OGIC to transform the NOGP into a workable legal document for implementing reforms in the sector. A draft bill was presented to the 6th National Assembly in September 2008. But the bill stalled over disagreements on the sharing of oil profit among the IOCs, host communities and the federation.

Four years later, the process started again. In January 2012, President Goodluck Jonathan set up a “special task force to fast-track the passage of the Petroleum Industry Bill (PIB)”. 14 Following its inauguration, the government constituted a technical committee comprising “the world’s best and experienced industry experts” to assist the special taskforce. In July 2012, the committee’s report was again submitted to the National Assembly after approval by the Federal Executive Council. According to the Minister for Petroleum at the time, the output of the committee was reviewed in great detail by stakeholders and reworked to reflect as much as possible the entire spectrum of the substantial strategic framework for the petroleum industry. More than sixteen existing laws were harmonized in the new draft bill. It was presented to the 7th National Assembly in July 2012. But this time, disagreements over the provisions of the bill was serious enough to yield different versions of the same bill representing different stakeholder interests.

In the confusion, the National Assembly requested for the bill to be withdrawn and replaced with a fresh version. This was after extensive legislative work on the bill, including a public hearing. A revised version was again presented to the National Assembly in 2014. This “fresh version” again failed to pass, having been considered only by the House of Representatives, and at the tail end of the tenure of the 7th Assembly.

The 8th Senate, believing that the “omnibus” and unwieldy form of the PIB was responsible for the failure of the bill, again assembled experts to produce a draft bill dealing exclusively with a governance framework for the oil and gas sector. This was termed the Petroleum Industry Governance Bill (PIGB). The PIGB scaled first reading in the Senate in April. However on June 13, the Senate suspended debate on the PIGB. This development threw up a new reality – that this one-issue-at-a-time strategy designed to avoid contention

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14 Nigeria National Petroleum Corporation, “Federal Government Inaugurates Special Taskforce on PIB”, available online at: www.nnpcgroup.com
is in itself no less contentious. Host communities had opposed the ‘exclusion’ of the host community fund from the PIGB. 15

In reviewing history, it is important also to not identify the wrong reasons for past failure, because then, even the post-mortem would produce its own stillbirths. First, it is important to note, from the above account that the PIB has stalled not due to poor understanding of the problems or the deficiency in expert inputs. The various versions of the PIB sufficiently attest to this. Secondly, there was no question about intention, or shortage of activity. Thirdly, stakeholder engagement and representation was also a part of past processes. It is therefore unhelpful, even disruptive, now to restart and replicate processes for which closure could reasonably be said to have been achieved.

A New Opportunity, But Lingering Contentions

It would appear from the current process that the country is back to the well-worn path that it has travelled in the last sixteen years. Sure, the petroleum industry is a very important one for Nigerians. Hence, it is unlikely that the making of a law for the oil industry would have escaped the strict vigilance of stakeholders – both the fortunate few for whom oil has been a lifelong jackpot and the majority for whom it has become a veritable curse. In hindsight, the different, conflicting versions of the PIB became an expression of divergent interests indicating probable cross purposes. The PIB was hardly going to sail through in those circumstances.

But it does not appear that hindsight has caused much learning. Hence, Nigeria may well be on course to rewrite its PIB history: (i) A first draft (the PIGB) appears to have made no progress beyond the initial enthusiasm that saw it scale the first reading in the Senate; (ii) two private member bills have already gone to the House of Representatives, which has commenced another process of stakeholder consultation to produce another draft; (iii) the executive arm of government will “soon” forward three draft bills to the legislature for consideration. All three institutions are instrumental to any process of legislation in Nigeria’s presidential democracy. But better coordination is sorely needed.

If the methods of the new process are disturbingly familiar, the content of the message is even more ominous. In June, the House of Representatives convened a well-attended summit on the PIB where some of the traditional contestations around the PIB came to the fore:

1. Scope of ministerial discretion: The legislature and civil society oppose any form of discretion but officials contend that some powers should be retained.

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2. Who owns this process – politicians or bureaucrats? The bureaucrats want politicians to be excluded from drafting the bill because “they attract too much politics.” Opponents counter that the bureaucrats are “interested parties” and should not drive the reforms.

3. Mutual recrimination among key state actors: Besides conducting parallel processes, the legislature and the executive blame each other for the failures of the PIB. The mutual distrust created by such recriminations potentially widens the gulf between them.

4. The zero-sum paranoia: Outside the contestations at state level, there are indications that the different geo-political zones still harbour mutual suspicions about the allocation of costs and benefits within the federation – the one sees the gain of the other as its loss. This disposition threatens the process by making it difficult, even impossible, to conduct objective conversation on the PIB. It prevents openness to practical options being considered for pushing through the current PIB.

Additional sources of divergence are emerging out of the debate around the appropriate strategy to adopt to ensure that the previous approaches and mistakes are not repeated, and that this PIB does not suffer the fate of its predecessors. There are contentions around splitting the bills for speedier legislation; or having one “omnibus” bill; about prioritization of issues; about framing etc.

It is fairly widely believed that the sheer volume of the document, with its collection of disparate issues, was its greatest undoing in the past. Thus the bill became the source of several contentions, attracting opposition from multiple fronts. Working on this conjecture, the 8th Senate produced the PIGB for subsequent legislation. The bill was essentially an extract of the old PIB which deals exclusively with a governance framework for the petroleum industry. Since then the arguments have followed broadly the following pattern:

(a). Avoid the process that brought Nigeria to this pass - split the bill into manageable parts

Having too many issues in one bill, the proponents argue, attracts opposition to the bill from several constituencies. Besides you can't aspire to produce a single bill that would solve all the problems in the industry, and that the different issues have different objectives.

(b). One composite PIB to sign-off on the reforms

This argument takes the position of the previous PIBs but adds to it the drawbacks of piecemeal legislation. The main one being that multiple bills will lengthen the process of reforms. It raises concerns about the likelihood of staying the course with the entire process.

There is a compelling argument for taking the piecemeal approach to passing the PIB. But for this approach to succeed there is need to build consensus and social capital around this option, there is need for a clear roadmap that accommodates the different concerns and shows the sequence of the various bills, and there is need for a robust communication strategy that is stakeholder-centered.

Transparency, Accountability and Efficiency as Irreducible Minimums

It is very important in evaluating the different options and in exploring a consensus, to not lose sight of the fact that lack of transparency, accountability, and poor governance of the sector are responsible for the problems in the sector, which is the main reason for reforms in the first place. Nigeria performs poorly on all three leading global indexes on transparency, accountability and good governance. In the 2013 rankings of the Resource Governance Index (RGI), Nigeria, with a ‘weak’ score of 42 out of 100, is ranked 40th out of 58 countries. The RGI measures the quality of governance in the oil, gas, and mining industries. In the other leading tool for evaluating the quality of governance of natural resources – the Natural Resource Charter Analysis Framework –

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16 “The Resource Governance Index 2013, Revenue Watch Institute”
Nigeria scored negative in 9 out of 12 precepts of the Natural Resource Charter in 2014. Nigeria also continues to record very low scores in the Corruption Perception Index of Transparency International.

It is with good reason therefore that successive drafts of the PIB by different governments have proclaimed good governance, openness, transparency and accountability for the benefit of Nigeria and Nigerians as their central objective. It is the considered belief of NEITI that special attention should be paid to the following in the final versions of the petroleum sector law:

Lifting the veil on oil money

Malfeasance thrives in the midst of opacity, a well acknowledged attribute of Nigeria’s oil sector. To correct this, the resultant law must build on existing practices by enshrining:

- Regular reporting of payments between companies, the NOC’s financial balances, spending and earnings projections, revenue management framework, disaggregated payments to government, profit and loss data.
- Disclosure of contracts, licenses and their beneficial owners. This has become very important in light of the Panama Papers.
- Free access to information by citizens and stakeholders
- Whistle-blower provision: Incentives and protection for employees and officials in the extractive industry to blow the whistle on wrongdoing within their organizations or the industry.
- Provisions to regulate/streamline the management of petroleum revenues for the country.

Ensuring that accountability means answerability

One of the cardinal requirements of accountability is that the one holding to account must be separate from, and independent of, the one being held to account. It is in this context that agitation for separating the policy, regulatory and commercial roles of Nigeria’s petroleum corporation has become perhaps the most resonant of all reforms prescriptions. It is the quality that guarantees the sanctity of regulation, removes discretion, and prevents arbitrariness. The PIB must also ensure that government agencies in the sector are subject to the provisions of government financial regulations.

Incorporating enforceable sanctions

For any accountability framework to be complete and effective, it must include real promise/threat of sanctions. There can be no deterrent if there is no guarantee of cost and consequence for corruption in the petroleum industry. The PIB must therefore specify relevant penalties for non-compliance.

All stakeholders stand to benefit in the proper governance of the sector: transparent, predictable, and enforceable rules provide sanctuary for the investor; enforceable rules create an effective regulator; and accountable government enhances citizen welfare and a prosperous society.
Efficiency of operations

Inefficient management of Nigeria’s oil assets has continued to cost the country billions of dollars in lost revenues. Reports have also shown that the Nigeria National Petroleum Corporation “operates an unsustainable model” where the corporation is unable to sustain monthly remittances to the Federation and also meet its operational costs entirely from domestic crude sales.

As argued by Aaron Sayne et al, the petroleum industry law should therefore clearly specify:

(i) The commercialization agenda which defines the mandates of the new proposed NOC i.e., their roles and scope of operations, guidance on what being “commercial” should mean for each company, or how their responsibilities would be limited, and a clear transition framework; clarity on the assets the companies would inherit; clear provisions on shareholding rights of government; the agency to be responsible for upstream cost control, especially for the JVs.

(ii) Sustainable financing specifying a clear financing mechanism. The provisions should include legally enforceable rules governing the revenues NNPC can keep. Global standard practice requires that “NOCs need flexible, reliable options for accessing capital while maintaining checks and balances” to ensure that they do not become unaccountable. These provisions should also include “a workable revenue retention model that allows the kind of medium- and long-term planning needed for effective commercial operations”.

(iii) Limited political interference in technical decisions. Whichever petroleum industry law that eventually gets passed by the National Assembly “should aim to choose and prescribe an appropriate level of legislative oversight”.

Accountability and performance are key objectives of the PIB. Simply unbundling the NNPC would not guarantee performance and accountability. While the law in itself cannot guarantee protection of the NOC from political interference, a holistic legislation however “offers an unparalleled opportunity to lay the foundation for a high-performing national oil company.”

Getting to the Petroleum Industry Act(s)

Since inauguration, the present administration has devoted much energy to battling budget deficit, and now the recession. Urgently enacting a new and effective law for the petroleum sector offers an important opportunity to address some of these problems. But it is evident that the process is in dire need of direction. The President is best placed to provide the needed direction, primarily because of the administration’s unflinching commitment to the anti-corruption agenda, but also because the PIB process needs political leadership.

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20 See 2013 NEITI audit showing losses amounting to $5.966billion and N20.4 billion due to crude oil theft, and inefficient processes such as Offshore Processing Agreement and crude swap etc.
21 See PwC ‘Investigative Forensic Audit into the Allegations of Unremitted Funds into the Federation Accounts by the NNPC’. February 2015
20 This section was largely adapted from the work of Aaron Sayne et al, ‘The Petroleum Industry Bill and the Future of NNPC’ published by Revenue Watch Institute, October 2012.
21 Ibid
There have been suggestions that dropping the name PIB from the bill might be useful, as the name seems to be attracting too much contention and a lot of negative baggage. Another suggested approach is to individually repeal or amend the existing laws in the petroleum sector if the process of passing a composite law is generating too much heat. These are suggestions that should be considered bearing in mind that there is hardly any political challenge that good politics cannot resolve.

There is clearly the need for a joined-up approach between the executive and the legislature in a coordinating committee or any suitable format, to facilitate political negotiation and secure consensus before the bill is formally presented to the parliament. This committee is necessary for several reasons. First, if the option of splitting the PIB into several packets is to be adopted, the political actors should be persuaded about the overriding agenda and the public interest. This should moderate any resistance awaiting the bill in the legislature. The committee will also provide clarity in terms of sequencing and roadmap. That way, all concerns about the fate of residual interests would be assuaged.

Where the option of a single “omnibus” bill is preferred, then it would mean a greater task for the committee, but its work increases the probability of success.

Incidentally, this “harmonization” approach to negotiated legislation is not novel to the history of law-making in Nigeria. This creative innovation cannot now become unavailable when its utility is most required.

Legislation is essentially a political process. A petroleum industry bill is simply another bill, only with greater importance. In spite of, but also because of this fact, its process needs not be trapped in an eternal cycle. As both Professors Yemi Osinbajo and John Patterson recently cautioned, consultation and debate are good, but the ultimate challenge is to find a way to make progress. Else, the process and the entire country can become stuck in perpetual “analysis-paralysis”. 22

22 Professor Yemi Osinbajo, Nigeria’s vice president and Professor John Patterson of the Centre for Energy Law, University of Aberdeen, spoke at the recent National Stakeholders’ Summit on the PIB held in Abuja from 18th – 20th July, 2016.

NEITI, the Nigerian chapter of the global EITI, is mandated by the NEITI Act (2007) to promote transparency and accountability in the management of revenues from oil, gas, and solid minerals sectors in Nigeria.

The NEITI Policy Brief is one of NEITI’s policy and advocacy instruments, designed to focus the attention of policy makers and the populace on important issues in the extractive sector in Nigeria.

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