



NIGERIAN  
NATURAL  
RESOURCE  
CHARTER

# Highlights and scoring of the Oil and Gas sub-sector

Presentation at the  
Scoring meeting on the Nigerian Natural Resource Charter  
November 8<sup>th</sup>, 2012

# Precept 3 – Fiscal Regimes and Contractual Terms

## Strengths

- The fiscal regime does ensure that the government has a minimum revenue stream in all production periods, through signature bonuses and royalties except for deep-water operations under the 1993 PSC contracts for which the royalty rate is zero.

## Weaknesses

- Oil contracts in Nigeria are notoriously shrouded in secrecy, which allows for no public scrutiny or oversight of contractual terms and revenues deriving to government
- The fiscal regime does not ensure that the government receives a rising share of revenues during periods of increased profitability as the fiscal terms in the contracts covering almost all of Nigeria's oil production (1993 PSC contracts and MOUs covering Joint Ventures) are regressive.
- FIRS lacks sufficient capacity to administer and enforce the tax system effectively.

# Precept 4 – Award of contracts and sector roles

## Strengths

- The process for allocating contracts and licences is based on competitive bidding and open to all companies. However, there is extensive evidence of collusion and corruption
- Although the contracting process requires the demonstration of requisite management, technological and financial capability from investors, in practice, these are thought to be ignored due to the continued strong influence of actors

## Weaknesses

- There are no clear roles or standards for the key government actors involved in the industry (e.g., Minister of Petroleum, NNPC, DPR, NAPIMS)
- The process for awarding leases and licences has undermined the value that could have been realised for the country because too many have been subject to interference from the government. Licensing decisions are not justified according to the contract and licensing criteria and these are not publically available.
- DPR has significant weaknesses in its capabilities for enforcing environmental, safety and operational regulatory measures
- NNPC does not provide effective mechanisms for cost control.

# Precept 5 – Managing Local Impacts

## Strengths

- Regulatory standards have been established for environmental impact assessments (but not socio-economic for impacts).
- The Nigerian Oil and Gas Industry Content Development Act makes some provisions for increasing the participation of Nigerian companies and workers in the industry, however provides no focused targets for enhancing socio-economic impacts on local communities.
- The EIA Act (1992) requires the monitoring of environmental impact of public and private project throughout the entire life of the project (but no evidence of its implementation).

## Weaknesses

- There is no regulatory requirement to ensure Assessments are completed by independent third parties
- There is no regulation that covers the involuntary resettlement that might arise as a result of oil exploration or grievance mechanisms at the local and national level
- There are no grievance mechanisms available and accessible to communities impacted by resource developments or any measures to avoid, reduce or compensate for negative impacts on local communities.
- The government agencies charged with monitoring local impacts of oil-related activity lack both the personnel and technological competence to measure these impacts.

# Precept 6 – National Oil Resource Companies

## Strengths

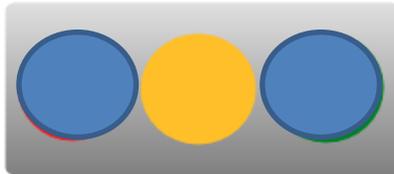
- NNPC accounts cover all NNPC subsidiaries and are produced regularly (but these are not prepared to international accounting standards, nor are they made publicly available or scrutinised systematically by external auditors)

## Weaknesses

- NNPC's roles do not allow commercial and non-commercial responsibilities to be clearly distinguished (de facto regulator and sector participant)
- NNPC is structurally insolvent, creating perverse incentives for to find informal allocations or withhold what it supposedly owes the government.
- There are several quasi-fiscal activities conducted by NNPC which lack transparency and clarity and continue to be funded even where alternatives exists.

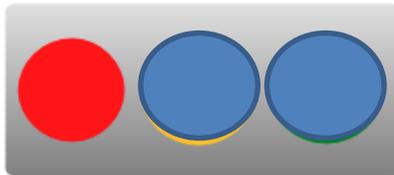
# Proposed Scoring

3



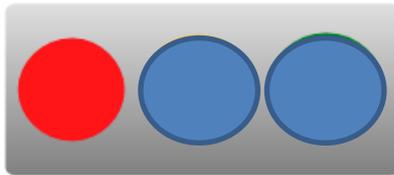
The fiscal regime ensures that the Government has some revenue stream with all production periods but not a rising share when profitability increases. Contractual terms are shrouded in secrecy allowing no scrutiny.

4



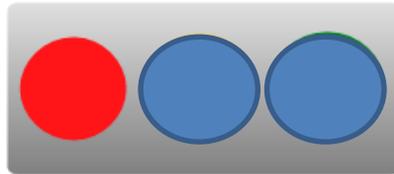
Although the award of licenses is done through competitive bidding, the process has been undermined by the interference of government, collusion and corruption. This has not allowed Nigeria to secure value and integrity.

5



Although some mechanisms are in place on paper to manage environmental impacts, in practice, these are not used and there are no tools to manage other local impacts such as socio-economic ones.

6



NNPC does not operate transparently nor with the objective of being commercially viable. It is often named as the single biggest obstacle to improve the management of the sector in Nigeria.

Thank you