Towards a Sustainable Economy in Nigeria: Harnessing the Hydrocarbon Treasures

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It is trite that the Petroleum Industry powers the global economy - from transportation to power; petrochemicals to fertilisers, is the bedrock of modern life, and that Nigeria is a greatly endowed with an abundance of those resources.

However it must be noted at the outset that it is derivative petroleum products extracted from crude oil through the process of refining, that really enables a producer to realise full value of this natural resource. The best-known of these products are of course fuels: gasoline, or petrol, diesel and kerosine. Several other valuable products are however also derivable from every barrel of crude oil refined. They include liquefied petroleum gas (LPG), naphtha, gasoil and fuel oil - Low Pour Fuel Oil (LPFO) and High Pour Fuel Oil (HPFO)

Beyond these byproducts of refining processes, several other useful non fuels can be manufactured by refining crude oil. These include lubricants and asphalt. A wide range of additional derivatives from perfumes to insecticides are also ultimately derived from crude oil.

Even the primary products listed above which are derived from crude oil, such as naphtha, gasoil, LPG and ethane, can themselves be used as inputs or feedstocks in the production of petrochemicals. Ethylene, propylene, benzene, ammonia and methanol are amongst several thousand petrochemical by products from which a wide variety of petrochemical end-products - plastics, synthetic fibres, synthetic rubbers, detergents and chemical fertilisers are made.

The starting point must therefore be to recall that Nigeria does not currently harness much of this value from its being a major producer of crude oil with the significant employment opportunities that would be created. Decades of sub optimal performance of the country's four refineries compounded by systemic corrupt practices have ensured that we are not even able to meet our basic gasoline, diesel and kerosene internal consumption requirements and have had to depend on the importation of petroleum products.

The turn around and success of Eleme Petrochemical Company by Indorama since 2007, by way of example, dramatically highlights the incredible prospects of value addition, in terms of extracting untold value from our vast hydrocarbon resources and the substantial employment opportunities that have been provided by the company, and incidental means of livelihood within the host community

Nigeria's huge population of a currently estimated 167 million people with more than 50% under the age of 18 years, thus presents, both a daunting challenge and a tremendous opportunity.

If we do not urgently and properly harness our oil and gas resources in the next decade especially, there is a clear and present danger to the sustainability of the much touted relatively high annual economic growth figure of between 6% and 7%. There is also a threat to the nation's development that can ultimately only be sustained by the collective and collaborative efforts of the Federal and State governments, and the private sector to properly educate and put our teeming youthful population to work.

It is only by properly educating and training our youthful population and putting them to work, that we can realise the tremendous potential for wealth creation and sustainable economic growth. The consequences of a failure to do this, which are already beginning to manifest in the unprecedented level of insecurity and violence in the country, are too dire to contemplate

It is clear, as I hope to demonstrate in the course of my remarks in this keynote address, that our window of opportunity to harness our hydrocarbon resources in a globalised and interdependent economy is not infinite. It is indeed likely to be significantly compromised if we do not take certain steps now. The risk we face is not of divestment, even though we have seen and continue to see some of that. It is the failure of potential new investment.

Consider for a moment, that on account of the continued non passage of the Bill or uncertainty or un-favorability of fiscal terms or the existence of other disincentives which the Bill when passed might contain, (and here I do not voice an opinion on whether or not the proposed new fiscal regime is competitive or not), an international oil company makes an decision to invest several billion dollars in Ghana (one of the new hydro carbon provinces in the Gulf of Guinea) for example, with its naturally attractive incentives to new investors, such a decision inevitably reduces the pool of investment funds available for investment in Nigeria's mature oil and gas sector, by that company. Thus the notion that companies that take a decision to divest from Nigeria or invest elsewhere will come back to Nigeria when the PIB is finally passed, is simply fallacious.

The most urgent step therefore is passage of the subsisting version (as may be revised in the course of its passage through the National Assembly), of the Petroleum Industry Bill almost six years after I first had the privilege of presenting the original draft to the Federal Executive Council as Minister of State for Energy (Petroleum) in November 2007.

Today, Nigeria has the 10th largest Hydrocarbon reserves in the world and is the 12th biggest producer and exporter of Oil & Gas, contributing approximately 3% to Global production. Added to this is the fact that our Hydrocarbon Reserve- split between Gas (47%) and Oil (53%) in terms of Barrels of Oil Equivalent (BOE) has an estimated 34 to 36.5 billion barrels of crude oil and condensate and 180.4 trillion standard cubic feet of gas reserves.

For several years Nigeria has unsuccessfully tried to push for an increase in its oil production quota at OPEC on account essentially, of a flat or even declining investment curve arising from the continued delay in the passage of an 'investment friendly' Petroleum Industry Bill (PIB) which has been in contemplation for over ten years as an outcome the Oil and Gas Sector Reform Implementation Committee (OGIC) Report, commissioned by the Federal Government in 2000.

The uncertainty created by the non-passage of the PIB and the controversy surrounding several aspects or provisions of the draft legislation, has already had the effect of stifling fresh investments in the Oil and Gas sector. As a result, exploration activities have stalled with the international oil companies, responsible for producing more than 97% of Nigeria's current total oil and gas production, essentially maintaining production from their already existing and producing assets and maintaining and renewing their existing facilities.

The implication of this is that our oil reserves of 34 to 36.5 billion barrels are being depleted daily without a clear depletion policy or new discoveries and addition of new reserves or production and resulting increased revenue. Some estimates of the losses that the country has already sustained as a result of this dearth of new investments in the last decade run as high as US$100 billion between 2008 and 2012. Further clearly quantifiable losses running into billions of dollars, are also incurred in the huge volume of our invaluable gas resources still being flared.

The urgent task before us is therefore to begin to realise the vast potential of our hydrocarbon resources and to build a large and diversified economy on the back of agriculture, manufacturing and services, especially.

Today, despite our many failings and an economy that is dysfunctional in several respects, (such as being one of the largest exporters of crude oil in the world while we import one of the highest volumes of refined petroleum products in the world at a huge premium!), Nigeria boasts of being the largest economy in West Africa and the second largest economy in sub-Saharan Africa. With average oil production at over 2 million b/day (even with an unimaginable officially acknowledged theft of 400,000 b/day or nearly 20% of our OPEC production ceiling) at a current price of over $110 per barrel - that suggests that we are not even watching the basket (to use Mark Twain's metaphor) - this is hardly surprising. It is indeed predicted that within five years Nigeria will overtake South Africa as the biggest economy on the continent.

Even if we are able to achieve such dubious distinction in a continent made up of relatively small population clusters mired by poverty, disease, poor governance and consequent gross under development, sustainability in the medium and long term can only be achieved through our prudent management of our golden goose and the golden eggs she has be laying for the past 56 years, since our first export cargo of crude oil from Oloibiri in 1956.

Our independence from Great Britain in 1960 was marked by great hopes and expectations of an economy that would meet the needs of all Nigerians and be the toast of the world. Between 1962 and 1975, eager to place Nigeria on a path of sustainable economic growth and development, National Development Plans were judiciously and successfully implemented, leading to an average GDP growth rate of 9.4% and poverty rate well below 50%. Foreign revenues then derived mainly from agricultural produce and solid minerals such as tin exports, with petroleum mining and exports growing steadily in importance. Federal and regional governments through national plans and regional blueprints sought to develop rudimentary manufacturing and created large industrial estates for the purpose.

The development of infrastructure - roads and bridges, railways, sea ports, airports, power stations, large scale public industries, educational and vocational institutions, radio and TV stations, stadia and sporting facilities, hospitals and other social amenities, were a priority, were of a fairly high standard, and were generally functional and efficiently run. On a per capita basis, Human Development Indicators were also favourable, resulting in fairly decent standards of living.

However, the civil war and the lack of long term planning, policy contradictions and inconsistencies which characterised successive military regimes which dominated our political landscape from 1966 to 1979 and 1983 to 1999 brought about deteriorating economic conditions starting with the demise of agricultural production and export, lack of investment in and maintenance of critical infrastructure such as electricity, water resources and roads rail and an over reliance on oil production and exportation. Such that by 1999, when our current political dispensation commenced, GDP growth was a miserable 2%, unemployment rate was 19.7% and poverty rate estimated at over 70%. By this time, corruption too had become endemic and systemic, despite often being amongst the primary reasons for military intervention in the first place. Sadly the poverty index has not been significantly reduced over the past 14 years of civilian government.

The disastrous effect of having all our eggs in our oil basket also became apparent towards the end of 1970s with the oil shocks of 1986 in particular, which saw the oil price fall below US$10 per barrel, culminating in the Structural Adjustment Programme and the catastrophic devaluation of the Naira against the US Dollar between 1986 and 1993. By the time of our transition back to democracy in 1999, our country was a pariah nation, shunned by the international community largely on account of a dismal human rights record. Our economy was in shambles exacerbated by the advent of militancy in the Niger Delta posing an early threat to oil and gas installations in the region, and to the very life of the golden goose!

Happily the oil price rebounded and through strategic planning and good economic management under President Obasanjo, impressive GDP growth figures of above 7% that had not been witnessed in the previous 25 years and incredulous external reserves of approximately USD60billion, based on an average oil price of less than USD45 per barrel, were once again associated with the growth of the Nigerian economy. This in turn gave rise to unmatched optimism and ambition to attain sustained double digit growth over a twenty year period to achieve the now clearly unrealistic development target encapsulated in the vision 20:20:20 document.

Since our transition into democratic rule almost a decade and a half ago, attempts have thus been made by successive administrations to substantially improve the Nigerian economy. At the core of these efforts are reforms intended to rejuvenate policies of the supremacy of the rule of law, transparency, accountability, openness and due process in governance and public procurement. As a result, our economy has grown by an average of 7%, and in a world where countries are judged by economic strength, this is indeed welcome progress. Anti-corruption legislation was passed towards tackling corruption with varying degrees of enthusiasm and success. The CBN implemented tight monetary policies which helped keep inflation at around at 12.0%. We were the first among countries to adopt and implement the Extractive Industries Transparency Initiative (EITI) and passed the Nigerian Extractive Industry Transparency Initiative (NEITI) Act towards improving oil sector governance and management. Partial deregulation of the downstream oil sector is now encouraging at least one substantial investment in new refining capacity. The financial sector is strengthening and reforms are sanitizing the financial system. Banking reforms have successfully differentiated between solvent and insolvent banks, and Stock market reform has also been deepened, making the economy more attractive to investors. Our fiscal position is very strong and the country is highly ranked in the list of emerging markets. Our GDP has grown from a record low of 4.40USD billion in 1961 to an all time high of 262.61 USD Billion in 2012 leading to a better global ranking from number 44 in 2010 to 36 in 2012. Between January and June 2013, revenue from crude oil export was 42 USD billion.

Our economy however still remains almost entirely dependent on the oil and gas sector which still accounts for over 90% of export earnings and 80% of government revenue! Meanwhile the rate of unemployment according to the National Bureau of Statistics rose to 24.30% at the end of 2012 from 23.90% in 2011 mostly because the driving sector of the economy (oil sector) is one with very little employment generation potential. It is instructive that the Dangote Group's estimated 50,000 employees compares favourably with total direct employment in the entire oil and gas exploration and production industry!

For decades, oil has been the most actively traded world commodity stemming from the fact that our lives are directly or indirectly dependent on it or its refined products such as gasoline, kerosene, insecticides, lubricants, plastics, synthetic fibers and rubbers, detergents, chemical fertilizers and asphalt. Indeed, life as we know it today would be difficult without oil. The dependency on oil is evidenced by a rise in global demand from 77.6million b/d in 2011 to 89.1 million b/d in 2012; with future consumption forecasts at 90.6 million b/d in 2013, 96.1 million b/d in 2015 and 102.2 million by 2020. Interestingly and worthy of note, is the persistently high and volatile nature of oil which has seen it rise from $50 per barrel in 2007 to the extraordinary high of $147 in July 2008! A few months later, global prices dropped to $30 only to rise again to $80. By early 2011, on the back of strong global demands and political unrest in oil producing countries driven by the Arab Spring, a barrel was sold for $120. Today, there are constant fluctuations in oil price, predominately caused by several economic circumstances and polices in oil producing countries. At present, the current Syrian crisis has caused an escalation of oil price from an average of $112.92 per barrel to $116.34 per barrel.

As Africa's largest oil producer, the Nigerian economy has been affected by the consequences of oil output and price volatility. For instance, as a fall out of the Niger-Delta militancy oil production dropped to under 800,000 barrels per day. The implementation of an amnesty programme between 2006 and 2008 saw production rise to 2.3 million barrels per day in 2010; resulting in an increase in Nigeria's daily revenue by an estimated 120.45 million dollars per day. The shutdown of at least 1.2 million barrels of Libyan oil during the crisis also presented opportunities for countries with excess capacity to increase their production and revenues.

Oil, is a non-renewable natural resource. An end of production is therefore a matter of time. Increase in consumption has already reduced exportation in some countries, turning formerly oil exporting countries into net importers. Unsurprisingly, this trend is already manifest around the globe. In 2003, Britain's oil imports overtook its exports; an indication of a decline in her North Sea oil production capacity. Similarly, Indonesia (a member OPEC until 2008, and Egypt once also oil an exporting country, have become net oil importers.

The world is now witnessing a significant dwindling in oil importation particularly by its biggest consumer - the USA. Factors such as, higher domestic oil production, a decline in consumption of petroleum products and the economic downturn after the financial crisis of 2008 has reduced the requirement to purchase crude oil. Coupled with these, is the concurrent discovery of un-conventional 'shale' oil and other alternative sources of energy in the USA and other western countries.

The discovery of shale oil and its impending revolution is bound to significantly lower oil prices worldwide, reduce demand and usher in a shift in business models from a reliance on crude oil to other alternatives. To the unsuspecting, this has already begun to affect the economies of oil producing countries. We need not look far to see its evidence. Prior to the discovery of Shale Oil in the USA, Nigeria accounted for about 10% of its crude oil imports, however as recently as January 2012, this figure dropped to below 3%. America's total imports from Nigeria in that month was 449 thousand b/d- a 54% (519 thousand b/d) decrease from January 2011, making it the lowest monthly import total from our country since 2002! Undoubtedly, this poses a serious threat to our heavy dependence on oil and its revenue. Not only would there be a decline in government revenue, but this also puts us in a precarious position of having excess crude and seeking new market and buyers at higher transport costs, to China for example and possibly significantly reduced selling prices.

The falling demand for Nigerian oil by our major buyers, the volatile nature of oil prices, the discovery of Shale oil and other alternative sources of energy, the increasing discovery of oil by several other countries including several African countries namely, Ghana, Liberia, Sierra Leone, Senegal, Guinea, Kenya, Uganda, and the constant problems of corruption and corrupt rent collection schemes in the oil sector, pipeline vandalism and unprecedented oil theft in the Niger Delta region makes it imperative for us- as a country- both to vigilantly watch the basket and to transfer some of the eggs into several other baskets in order to diversify our economy 'using our oil revenue to develop other sectors' in order to grow and sustain our economy as well as avert the risk of increased poverty and under development. The Nigerian Natural Resource Charter (NNRC), which puts in place a set of economic principles for governments and societies on how to best manage the opportunities created by natural resources for development of the country, speaks clearly about this.

Over time, the growth of our economy has been hampered by a several obstacles such as corruption and a critical infrastructure deficit especially in the energy sector. Billions of dollars have been invested in power generation, transmission expansion and distribution capacity for example without the realization of its value. Happily, President Jonathan's administration has shown its commitment to changing our economic structure with the adoption of plans and implementation of policies to enable the private sector to play a dominant role in and to catalyse the power sector - undoubtedly the single most significant impediment to realisable and desired double digit economic growth in Nigeria.

However as long as our oil exports remain the major source of fiscal and export revenues, the country's economy will remain vulnerable to both production and price shocks, and the impact of the potential regression on several macro economic indicators from GDP growth to exchange rate and our external reserves.

Economic diversification is obviously possible, but is not easily achievable as it requires skilful planning and meticulous and consistent implementation of rigorously thought through policies and a good measure of sacrifice and commitment on the part of the people to by patronising goods and services provided by Nigerians and Nigerian companies. Of course it also requires a huge diversion of our oil revenues to support other potentially productive sectors of the economy.

Crucial to this process is the presence of strong political will; concerted and determined efforts and actions to realize the defined and clearly articulated objectives rooted in the rule of law, good governance, transparency and accountability. Examples of successful economic diversification abound - in Brazil, Malaysia, Indonesia and UAE, - of how to reduce dependence on oil or other natural resources.

We have huge potentials in the production of solid minerals too. But we must now look beyond the mining and export of the 34 primary commodities that exist in commercial quantities in Nigeria. Export of agricultural processed and manufactured goods as well as a competitive advantage in labour for the provision of services in tourism, finance and marketing must also be in the mix. The size of our youthful population has already attracted investments in the economy by large foreign conglomerates. By promoting investment in and expertly leveraging on our non-oil resources, the Nigerian economy can emulate the growth of the BRIC (Brazil, Russia, India and China) countries- who at various times faced the same challenges we face today- and are now amongst the most competitive nations in the world.

As a country, we must work towards industrialisation, as we also join the information and technology revolution in particular, strengthen the legal framework for zero tolerance for corruption in all its ramifications such as the promulgation of effective non conviction based asset forfeiture legislation ; add value to our agricultural products for export, develop and create value in all extractive industries including our significant solid mineral potentials; increase our human capacity and development indices and other sectors of our economy, well before we deplete our reserves, or crude oil stops being the dominant global source of energy or its price goes into free fall arising from over supply or alternative energy sources.

I hope that these insights will help to make our deliberations today meaningful and beneficial to our policy makers. As we continue into the dialogue sessions, let us visualize a prosperous Nigeria, truly worthy not just of the title giant of Africa but giant amongst the economies of the world. Let me conclude by wishing you a successful conference. It is my hope that the discussions and recommendations of today, would serve as a catalyst for the sustainable growth of the Nigerian economy.

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