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

Abiodun O. Adesanya, fnape

February 4, 2016
Outline

• Introduction

• Current realities in Nigeria
  o Economic Security
  o Labour implications
  o Funding Challenges
  o Niger Delta Insecurity
  o 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

Source: Energy Information Administration (EIA) 2015
Current Realities in Nigeria

- Short fall in foreign exchange.
  - 95% of Nigeria’s foreign exchange earnings is from crude oil.
  - Budget deficit at a crude oil benchmark 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

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

- 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)

---

**Global Upstream sector Layoffs by Oil Majors**

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shell</td>
<td>7,000</td>
</tr>
<tr>
<td>BP</td>
<td>7,500</td>
</tr>
<tr>
<td>Chevron</td>
<td>8,000</td>
</tr>
</tbody>
</table>

**Global Job cuts by major E&P Service companies**

<table>
<thead>
<tr>
<th>Company</th>
<th>Number of workers</th>
</tr>
</thead>
<tbody>
<tr>
<td>schlumberger</td>
<td>20,000</td>
</tr>
<tr>
<td>Halliburton</td>
<td>15,000</td>
</tr>
<tr>
<td>Baker Hughes</td>
<td>10,000</td>
</tr>
<tr>
<td>Weatherford</td>
<td>5,000</td>
</tr>
</tbody>
</table>

Source: Economist, Fox business, money morning staff research
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)
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

<table>
<thead>
<tr>
<th>• Government directive on Reserve and Production;</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Address low reserve replacement ratio.</td>
</tr>
<tr>
<td>• Increase national reserve to 40 billion barrels.</td>
</tr>
<tr>
<td>• Increase Nations production to 3 million barrels a day.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>• Contract value and cost reduction;</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Rigs, equipment and engineering are adjusting to new norms based on government directive to reduce rates by 30-40%.</td>
</tr>
<tr>
<td>• Analyzing and understanding the cost structure with the aim of cost reduction.</td>
</tr>
<tr>
<td>• Companies will manage cost by reducing headcount and renegotiating supplier contracts</td>
</tr>
</tbody>
</table>
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 Explorationists?

Contributions from:
✓ an operator
✓ a service provider &
✓ a financial institution