

**PRE-REQUISITES FOR PROMOTING THE CULTURE OF
EXCELLENCE IN THE NIGERIAN PETROLEUM INDUSTRY**

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INTRODUCTION

I have been assigned the task of leading a discussion on the pre-requisites for fostering the culture of excellence in the Nigerian Petroleum Industry. In other circumstances, I would have delved into a fairly elaborate historical analysis and overview of the petroleum industry in Nigeria, as background for this discourse. However, considering the audience of this talk, which is composed of key players and prodigious experts in the industry, I have made the assessment that it would **NOT** be the best use of our time.

Then, how may we begin? In lieu of an elaborate historical analysis and overview of the petroleum industry, I will randomly share a few data points to provide a context for the discussion.

- ❖ Although the search for oil began as far back as 1908 (more seriously in 1938), oil was found in commercial quantities about 1956. Production of crude oil began in the same year (1956) with 1.88 million barrels produced. This rose to 10 million barrels in 1965 and 558.9 million barrels in 1971.

- ❖ At present, the oil industry accounts for over 80 percent of Nigerian foreign exchange earnings.
- ❖ Nigeria ranks ninth in position in the world's production of crude oil, and is the largest producer in Africa. It was ranked sixth in the Organisation of Petroleum Exporting Countries (OPEC), and this production position is still maintained today.
- ❖ Much of the crude oil production is exported to America, Europe and Japan.
- ❖ Nigeria's output and reserves of crude oil have been going up each year since the first historic commercial drilling by Shell-British Petroleum (BP.) in 1956. At the end of 1974, for example, proven reserves of crude oil were estimated at over 4.8 billion t as compared to 17 million t in 1958. The proven reserves today are put at far over 25 billion barrels and 160 trillion cubic meters of gas.
- ❖ Nigeria is a major world source of oil, particularly as much of the potential oil producing area has not yet been explored or discovered.
- ❖ The petroleum industry is capital-intensive and consumes a sizable portion of the national budget.

- ❖ The petroleum industry contributes a relatively low percentage to the Gross Domestic Product (25% – 45%) of Nigeria, despite providing 95% of foreign exchange earnings, and about 65% of government revenues.

Back to the topic of our discussion – I would like to state that in my opinion, aspects of the Petroleum industry in Nigeria have experienced and continue to experience operational/technical excellence. Examples include world class upstream assets and operations such as the SNEPCO operated Bonga, the NNPC/Shell JV Gbaran Ubie, the NLNG T1 – T6, the list goes on. These upstream and mid stream petroleum operations can be compared to their peers anywhere in the world. It is necessary to state the above in order to distinguish between isolated instances of operational/technical excellence as maybe found within Nigeria (selected micro) and the culture of the Nigerian Petroleum industry as a system (macro system).

While the two are not necessarily mutually exclusive, the selected micros exist within the macro system. In fact, you can argue that the instances of operational excellence scattered on the landscape of our oil and gas industry have come about as a result of being part of global operations. In other words, their nature and

character can be attributed to a source outside the Nigerian system. It is a known fact that a sub system cannot outperform the macro environment on a sustained basis, if at all. Therefore, what we need to do is to harness over five decades of invaluable experience in petroleum operations, our interactions with the rest of the world, and the significant human capital that have been produced at these 'islands of hope' to foster a culture of excellence at the macro system (i.e. the Nigerian petroleum industry). That way, we can replicate the isolated instances of excellence we experience on a sustained basis for national development.

For simplicity of thought and ease of recollection, I would like to discuss three prerequisites for fostering the culture of excellence in the oil and gas industry in Nigeria. These are: -

- a) A fit for purpose legal, fiscal and commercial framework
- b) A balanced and forward looking institutional framework
- c) A strategy for developing and deploying world class human capital. We must put square pegs in square holes.

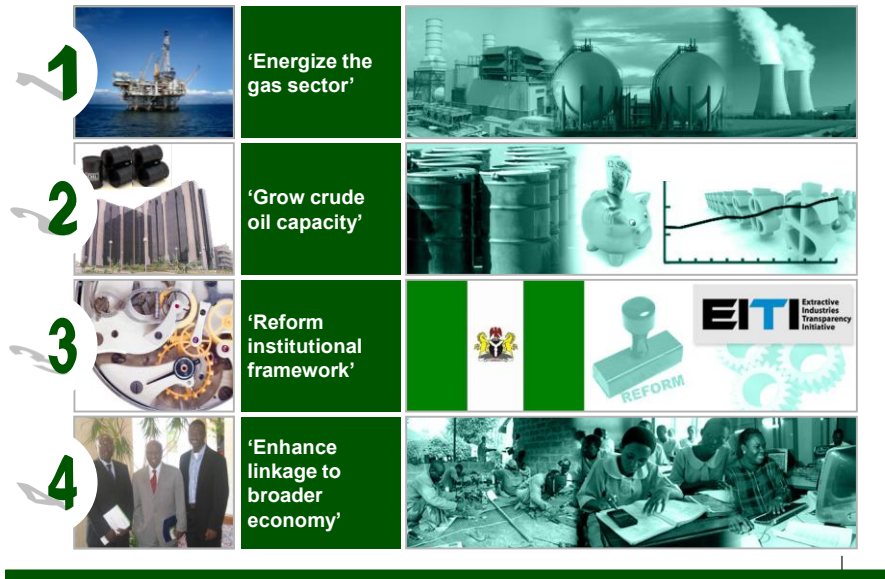
1. **A fit for purpose legal, fiscal and commercial framework.** In the simplest terms, the infrastructure for development, change and growth is the legislative and regulatory framework. Against this background, I humbly submit that a total and comprehensive overhaul of the legislative and regulatory framework of the Nigerian petroleum industry is long overdue. As most of us are aware, the legislative and regulatory framework that currently underpins the petroleum industry evolved from being essentially a licensing regime for what was a nascent petroleum industry into a *pot pourri* of ad hoc legislations and regulations that have been developed to cater to different situations as they arose. It is not unusual for some of this legislations and regulations to be unknown to operators and the public alike.

While the ad hoc nature of the development of our petroleum laws cannot be overly criticized or condemned, I believe that the time has come for Nigeria to take a more revolutionary approach to the development of the legislative and regulatory framework that underpins the petroleum industry. There is no point reinventing the wheel. Even though the petroleum industry in Nigeria is a runt compared to its older brothers, the industry itself has been

around for a while – with the drilling of the first well in 1859. It would be a shame if we fail to learn from the experiences of others as well as ourselves and insist on making ours. As the saying goes, those who are not mindful of the lessons of history are condemned to repeat it.

Without delving into the debate of the form and style that the petroleum industry legal reforms should take, I believe that we must URGENTLY translate the National Oil & Gas Policy articulated by the OGIC and approved by the Federal Executive Council into appropriate legislations and regulations to drive petroleum operations in the coming decades. I do not believe that Nigeria can afford a slow and gradual evolution in an industry that is over 150 years old and in a world where science and technology is evolving at supersonic speed.

For ease of recollection, here are the highlights of the Draft National Oil & Gas Policy.



Attributes of a fit for purpose legislative and regulatory framework are: -

- ❖ Transparency and good governance that are predictable and consistently applied;
- ❖ Framework for environmentally responsible and sustainable development;
- ❖ Framework for community development;
- ❖ Increased participation of the local communities and other Nigerians in the oil and gas economy;
- ❖ Provide a basis for sound institutional framework that promotes Regulatory and Policy making efficiency;

- ❖ Resolution of funding issues;
- ❖ An enabling environment for foreign direct investment in a sustainable fashion (the laffer curve);
- ❖ A framework for decommissioning

2. **A balanced and forward looking institutional framework.** If the legislative and regulatory framework is the infrastructure of development, strong and focused institutions are the pillars. Again, without delving into the debate on how or whether the framework proposed in the PIB works or not, it suffices for our purposes to say that the institutional framework that governs the petroleum industry needs to be reformed by improving separation and clarity of roles between policy formulation and implementation, regulation and commercial operations.

In this regard, I am positing that we need to strengthen our institutional framework in order for them to become custodians and enforcers of global best practices of the oil and gas industry in Nigeria. That way, we will evolve a Nigerian standard of oil and gas practice that is comparable to its peers

across the globe. At the moment, our policy and regulatory agencies act as umpires of different standards each created to cater for the unique purposes of those that created them. However, by strengthening our institutions in the way prescribed, we are able to foster excellence as a culture from the inside out rather than the other way. The later is sustainable, the former is not.

Furthermore, as part of the institutional reforms necessary to reposition the petroleum industry in Nigeria, a new ***‘financially autonomous’*** National Oil Company with strict commercial orientation and focus needs to be established to substitute the existing institution that is dispersed in focus and effort and spread too thin to be effective in any meaningful way. A note of caution here is that simply ‘reinventing’ NNPC via incorporation under CAMA would not by itself amount to institutional reform nor transform NNPC (or its successor) into a commercially focussed ‘financially autonomous’ organisation. We need to tackle institutional reforms with courage and clinical precision by clearly separating policy formulation from regulation and both from commercial operations.

In simple terms, a policy organ embedded in the public service handles policy formulation exclusively, while regulatory agency or agencies are set up to regulate oil and gas operations across the upstream, midstream and downstream sectors of the petroleum industry in accordance with clearly defined legal and fiscal provisions. Another note of caution here is that even though policy formulation and regulation are essentially functions of government; we need to ensure that the organisational framework of the policy and regulatory agencies are robust enough to match the industry they govern. These agencies must be manned by industry professionals.

As for the creation of a national oil company that is commercially focussed and financially autonomous to undertake commercial operations exclusively, we need to decide whether the national oil company should build capacity as operators or focus on investment management capacity vis-a-vis practical funding constraints imposed on it by the incidence of the Federation account. Personally, I believe that the national oil company should focus on investment management, which is its core competence and allow existing

unincorporated joint venture companies to transform into incorporated joint ventures that are self funding. To achieve this, the national oil company's holdings in the joint ventures need to be sold down to below 50% to make the resultant entities bankable.

3. A strategy for developing and deploying world class human capital

I have already broached this issue while discussing the need for a balanced institutional framework. It is not a cliché; people are the most valuable assets of any organization or society. After over 50 years of petroleum operations in Nigeria, abundant Nigerian expertise with proven operational excellence has been built in Nigeria and overseas. I recommend that to meet the immediate need of manning the policy and regulatory agencies, we evolve a strategy to tap into the pool of Nigerian experts in the industry, mix them with the rich pool of expertise in governance that already exist in the public sector and use them as the engine room for driving the work force in all the public institutions that regulate the industry.

Highly skilled manpower is a necessary ingredient for achieving any form of excellence in the oil and gas industry. In the medium to long term, it is necessary for Nigeria to grow her own timber. I recommend that we need to evolve a recruitment strategy and talent pipeline that captures Nigeria's best and brightest graduates at home and in the Diaspora, train and deploy on a consistent basis.

If Nigeria is to have a shot at fostering the culture of excellence in its oil and gas industry, then its policy and regulatory institutions must be peopled by a professional, well trained and highly motivated work force. This seems to be the case everywhere else. The elites of the oil and gas industry work for the national oil companies. Nigeria cannot be an exception.

In conclusion, let me emphasize that we have the privilege of adopting global best practices in the petroleum Industry to bring our own industry in tune with the present realities of our state and to be able to compete relatively well with other jurisdictions. Most importantly, we must hone our oil and gas industry to let the people on this side of the globe appreciate the fact

that natural resources are blessings from God, given to positively impact the standard of living of the people. After all, [*“Salus populi est suprema lex”* i.e.] the welfare of the people should be the primary purpose of government. This is the supreme ideal of excellence in any petroleum industry.