THE SENATE

FEDERAL REPUBLIC OF NIGERIA

INTERIM REPORT

ON

THE LEGISLATIVE INVESTIGATION OF LOCAL CONTENT ELEMENTS AND COST VARIATIONS RELATING TO THE EGINA OIL FIELD AND OTHER RELATED PROJECTS

BY

AD-HOC COMMITTEE ON LOCAL CONTENT

JUNE 2018

INTERIM REPORT OF THE SENATE AD-HOC COMMITTEE ON THE INVESTIGATION OF LOCAL CONTENT ELEMENTS AND COST VARIATION RELATING TO EGINA OIL FIELD AND OTHER RELATED PROJECTS

1.0. INTRODUCTION

The Senate of the Federal Republic of Nigeria at its sitting on Tuesday, 5th December, 2017 considered a motion on Legislative Investigation of Local Content Elements and Cost Variations relating to the Egina Oil Field and other related projects and constituted an Ad-hoc committee to conduct a comprehensive Investigation with the mandate to:

i. **Conduct an Investigative hearing on this widely celebrated project**
ii. **Ensure that there are no future changes necessitating further variations of the project cost.**

Consequently, the Ad-hoc Committee was inaugurated on 20th December, 2017 by the President of the Senate represented by the Chief Whip of the Senate, Distinguished Senator Olusola Adeyeye.

A brief Overview of the Egina Oil Field Project.

The Egina Oil Field Project (here-in-after referred to as "the Egina Project" or "the Project") located on OML 130 and covering an area of about 500 sq. miles is the largest Oil and Gas development project currently in Nigeria. It was launched in 2013, with a target to commence operations in 2018.

Engineering studies for the Project began in 2008, with an approval from National Investment Management Services (NAPIMS), and the Department of Petroleum Resources (DPR) in 2008 and 2009 respectively.

The Project was projected to contribute an estimated 200,000 (Two Hundred Thousand) barrels of oil per day to the Nigerian Daily Production from the planned 2018 start date and was conceived as a Deep Offshore Field comprising a Floating Production Storage and

Offloading Vessel (FPSO) and Oil Offloading Terminal and Subsea Production Systems such as:

- Risers;
- 52km of Oil and Water Injection Flow Liners;
- 12 Flexible Jumpers;
- 20km of Gas Export Pipelines; and
- 80km of Umblical and Subsea Manifolds.

Total Upstream Nigeria Limited (TOTAL) as operator, developed the Project with 24% interest in partnership with CNOOC Energy Nigeria Limited (45%), Petrobas (16%), Sapetro (15%) respectively.
TOTAL awarded various Contracts for the different components of the Project to:

- SAMSUNG;
- SAIPEM Consortium;
- FMC Technologies;
- DUCO;
- NOV Oil & Gas; and
- Bell Oil & Gas.

The Contractors engaged several other sub-contractors to service various aspects of the project components.
Being the first project of its kind initiated after the coming into force of the Nigerian Oil and Gas Industry Content Development (NOGICD) Act, it was expected to set a good example and comply with the provisions of the Act by the award of relevant contracts to local Nigerian companies, engagement of local manpower, and the provision of adequate man power training/development programmes to the Nigerian workforce as well as ensuring that needed technology and knowledge transfer, proportionate to the overall project value and scope is achieved.

At inception, the Project was estimated to cost USD 6,000,000,000 (Six Billion United States Dollars) but had undergone several cost variations and is currently at over USD 13,352,000,000 (Thirteen Billion, Three Hundred and Fifty-Two Million United States Dollars) with no record of how this huge sum had been spent or the reasons for the variations.

The project boasted of 24,000,000 (Twenty-Four Million) man-hours of work done in Nigeria representing 77% (Seventy-Seven per-cent) of the work load for the Project, and equivalent to a workforce of 3000 (three thousand) persons on average over a period of 5 (five) years. Another 297,000 (two hundred and ninety-seven thousand) man-hours of work on the basic engineering for the Egina Project was stipulated to have been performed in Nigeria which represented 94% (Ninety-Four per-cent) of the total man-hours spent. Thousands of hours on both local and foreign training programmes were carried out for the Project work force as part of the required technology transfer under the Act.

2.0. MEMBERSHIP OF THE COMMITTEE

The Senate nominated the following Distinguished Senators as Chairman and members of the Committee:

i.	Senator Solomon Olamilekan Adeola, FCA	-	Chairman
ii.	Senator Godswill O. Akpabio, CON	-	Member
iii.	Senator Philip A. Tanimu	-	Member
iv.	Senator Albert B. Bassey	-	Member
v.	Senator Donald O. Alasoadura	-	Member
vi.	Senator Gershom O. H. Bassey	-	Member
vii.	Senator Kabiru G. Marafa	-	Member
viii.	Senator Ahmad M. Abubakar	-	Member
ix.	Senator David Umaru	-	Member
x.	Senator Chukwuka G. Utazi	-	Member
xi.	Senator Stella Oduah	-	Member

2.1. SECRETARIAT

Mrs. Folasade Adigun - Committee Clerk

3.0. METHODOLOGY

The Committee at its inaugural meeting on 14th December, 2017 adopted the following modalities to undertake the assignment:

i. To invite all stakeholders;

   (a) Regulatory Agencies in the oil and gas sector.
   (b) Owner Operator
   (c) Major and sub-contractors

ii. To investigate all issues of local content and cost variations in the Egina oil field and other related projects

iii. Undertake an oversight visit to the fabrication yards of the companies involved in the project to ascertain the level of compliance with the NOGICD Act.

4.0. INVESTIGATIVE HEARING

The Committee held investigative hearing between 23rd January to 8th March, 2018. During the course of its investigation, the Committee received briefing from the following stakeholders:

i. The Hon. Minister of State for Petroleum
ii. The Representative of the Group Managing Director, NNPC
iii. The Chief Operating Officer, Upstream, NNPC
iv. The Group General Manager, NAPIMS
v. The Executive Secretary, NCDMB

4.1. The Committee also received briefing from the following Contractors and Sub-contractors involved in the project:

i. Managing Director, TOTAL Upstream Nigeria Limited
ii. Managing Director, Samsung Heavy Industries Nigeria Limited
iii. Managing Director, F.M.C. Technologies Limited
iv. Managing Director, NOV Oil and Gas Limited
v. Managing Director, Bell Oil and Gas
vi. Managing Director, Saipem Contracting Nigeria Limited
vii. Managing Director, Nigerdock
viii. Managing Director, Aveon Offshore Nigeria Limited
ix. Managing Director, Ponticelli
x. Managing Director, Energy Works Technology
xi. Managing Director, Pipecoaters
xii. Managing Director, Deltatek
xiii. Managing Director, Ladol
xiv. Managing Director, Crestech
xv. Managing Director, TOTAL Premier
xvi. Managing Director, Dormanlong
xvii. Managing Director, Mudiame
xviii. Managing Director, Gil Automation

4.2. The above contractors and sub-contractors were invited to brief the committee on the following aspects of the projects namely:

i. Fabrication
ii. Project Management
iii. Engineering and
iv. Training

4.3. The Committee undertook site visit to Egina FPSO as it arrived in Lagos -Nigeria from Goje, South Korea. The Committee also visited the following fabrication yards to ascertain the extent of work done in Nigeria for the purposes of determining the local Content elements:

i. LADOL SHI-MCI fabrication yard, Lagos
ii. SAIPEM Heavy fabrication yard, Rivers State
iii. Aveon Duplex steel shop
iv. Nigerdock
v. Free Trade Zones in both Rivers and Lagos

5.0. FINDINGS/OBSERVATIONS

Based on the foregoing, the following findings were observed by the Committee:

5.1. No Audit Since Inception

That since inception of the project in 2013, (at almost 90% completion now) it has not been audited in any form despite incessant cost variations and allegations of corruption embroiled in the Project, that the Nigerian National Petroleum Corporation (NNPC) ought to have called for this audit under the terms of its contract.

5.2. Award of The FPSO Contract

i. That for the construction of an FPSO measuring approximately 330M in Length, 61M in width and 33.5M in depth. It is also expected to include an oil storage capacity of approximately, 2million barrels. The FPSO will have topside modules with a gross dry weight of 34,000tonnes. This was expected to be concluded by 2014.

ii. That NAPIMS and NCDMB in accordance with the extant procedures approved prequalified tenderers in the year 2010. At the end of the screening processes two companies were shortlisted that is Samsung heavy industries Ltd and Hyundai Heavy Industries (Hyundai) for the final stage of the screening.

iii. That Samsung submitted an initial bid of $3,545,678,824, whereas Hyundai submitted an initial bid of $3,522,321,198. Between 17th and 24th February 2012, NAPIMS held commercial clarifications with Samsung and Hyundai to enable both companies clarify their bids. After the meeting, both companies submitted a reviewed bid. Samsung submitted a revised bid in the sum of $3, 143, 499,498 while Hyundai submitted its own reviewed bid of $3,140,199,986.

iv. At the end of the process which spanned a period of 4 years between 2008 - March, 30, 2012. The Manager of Product Sharing Contract Facilities, the General Manager, Production Sharing Contract and the Group General Manager did a memo to the Group Executive Director Exploration, NNPC recommending Hyundai for the award of the contract for having tendered the lowest bid. Total Upstream also recommended that the contract should be awarded to Hyundai vide a memo with reference number EGI/C115.

v. However, and despite all of the foregoing, NAPIMS and NNPC awarded the contract to Samsung instead of Hyundai industries Nig. Ltd.

vi. The Committee also discovered that there were several allegations against the award of the contract to Samsung against the recommendations of NAPIMS and TOTAL. These allegations centred on fraudulent acts and abuse of due process by the then Management of NNPC in the award of the contract to construct FPSO for OML 130 to Samsung Heavy Industries Nig. Ltd.

5.3. Cost Variations

The Committee observed in its findings that the project cost was estimated to be U$D 6,000,000,000 (Six Billion United States Dollars). However, the cost components for the Project were reviewed twice over the life of the Project. Upon the first review, the costs were revised to USD 13,000,000,000 (Thirteen Billion US Dollars); and more recently the cost was further revised and is currently over U$D 16,352,000,000 (Sixteen Billion, Three Hundred and Fifty-Two Million US Dollars) approximately.

i. The local content partner LADOL, and other sub-contractors were alleged to have participated in the cost variations in an attempt to earn more commission from the increased Project costs. This was possible as most of the contracts with them were commission based.

It was also observed that Samsung like several other contractors on the Project had begun making variations on costs prior to the commencement of the Project.

ii. The following variations were also observed from the initial contract value.

S/N	COMPANIES	INITIAL CONTRACT SUM	VARIATION FROM THE CONTRACT SUM
1.	SAIPEM CONTRACTING NIG.LTD	$ 2,941,615,322	$ 805 MILLION
2.	FMC TECHNOLOGIES/TECHNIP	$ 1,459,441,885	$ 33.07 MILLION
3.	DUCO LTD	$ 125,638,728	$ 4.5 MILLION
4.	SAMSUNG HEAVY INDUSTRIES NIG. LTD	$ 3,143,499,498	$ 337.5 MILLION
5.	BELL OIL AND GAS NIGERIA LTD	$ 42,876,268	$ 3.6 MILLION
6.	NOV OIL AND GAS NIGERIA LTD	$ 163,780,326	$ 52 MILLION
	TOTAL	**$7,876,852,027**	**$ 1,235.67BILLION**

5.4 Non-Adherence to Nigerian Content Law and Policies

The Committee observed that most of the reports on local content in the Project were local contractors and local commissioned agents fronting for foreign company's partners at the expense of the Nigerian people, capitalizing on various loopholes in the NOGICD Act. As a result of these, local companies were seen to be used as conduit pipes.

For example, BELL OIL & GAS NIG LTD bided for and got a line pipe contract of over U$D42,000,000, (Forty - Two Million United States Dollars) but all the pipes used were directly imported by TOTAL itself and about N20,000,000 (Twenty Million Naira) was paid to Bell as training fees.

There were also several assertions in the oil and gas sector to the effect that several of the planned local engineering activities (design, fabrication and integration) relating to FPSO as well as other elements of the Project were not executed in Nigeria, but in Korea and other related countries, but only imported to Nigeria upon completion.

Further observed was the role of LADOL as the local content partner to Samsung) on the FPSO element of the Project was allegedly compromised as there were allegations that LADOL has connived with Samsung to take away local jobs thereby diverting revenue accrued to the Federal Government.

Also observed was the award of contracts to companies whose shareholding structure do not reflect the approved percentage of 51 percent Nigerian and 49 percent foreign investors. For example, FMC and Nov Oil and Gas companies are 95 percent owned by foreign investors while 2 percent are owned by Nigerian investors and they got contract of millions of U.S Dollars.

Infractions in expatriate quota and import waivers involving some contractors were observed e.g. some expatriates that came in for construction companies were sneaked into oil and gas free trade zone for business.

In the initial course of the investigation, some infractions were also observed as carried out by some of these companies and was admitted by the NCDMB.

These are as follows:

S/N	NAMES OF COMPANIES	PACKAGE	INFRACTIONS AGAINST NCP/THE APPROVED NOGICD ACT	EXPATRIATE QUOTA VIOLATIONS
1.	F.M.C		Outstanding NCDF 1%	Deployed 89 Expatriates without

		Subsea Production System	Remittance - Violation has been addressed and FMC is remitting	approval from the NCDMB
2	AVEON (SUB-CONTRACTOR TO SAIPEM)	UFR Umbilical Flow lines Riser		Deployed 52 Expatriates without the approval from the NCDMB
3	SAMSUNG HI	FPSO Floating Production Storage & Offloading Unit	1. Attempted to source for Anodes outside Nigeria which was later discovered by NCDMB 2. Also attempted to award weighing of 6 Egina FPSO Topside modules to a foreign company ALE without approval from NCDMB	Deployed 91 Expatriates without approval and also claimed to be operating in a Free Trade Zone that needs no approval for its Expatriates
4	DELTA AFRIK (SUB-CONTRACTOR TO SAMSUNG)			Deployed 10 Expatriates without approval from the NCDMB
5	PONTICELLI (SUB-CONTRACTOR TO SAMSUNG)			Deployed 21 Expatriates, (3 on EGINA) without approval from NCDMB
6	SAMSUNG SHI-MCI FZE			Deployed 126 Expatriates for the same reason without approval from NCDMB
7	DUCO/TECHNIPS NOW			

	FMC/TECHNIP		CDI not actualized by DUCO and Nexams Kabel Metal	

5.5. Discrepancies in Contract Documents

It was observed that most of the contract documents signed with TOTAL and the various contractors differed from those submitted to NAPIMS.

Also, there was documentary evidence from TOTAL showing that the value of the contract sum under the contract of SAIPEM Contracting Limited (SAIPEM) to be U$D 3,200,000,000 (Three Billion, Two Hundred Million United States Dollars) however from a document before the Committee derived through the Federal Government via NAPIMS/NNPC showed the contract sum as U$D2,700,000,000 (Two Billion, Seven Hundred Million United States Dollars).

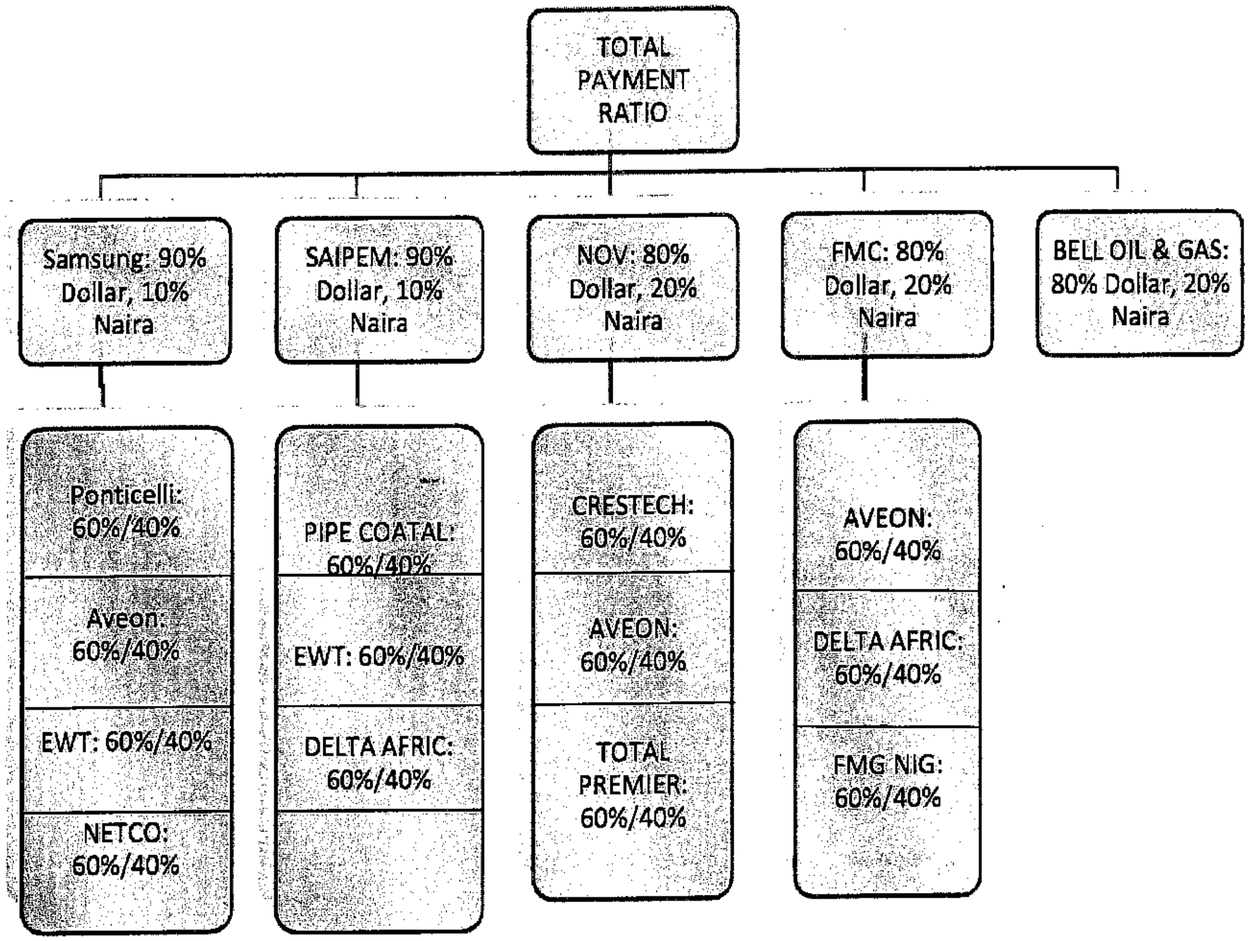
5.6. Non-Appearance of Relevant Parties

The Committee found it disconcerting that the Group Managing Director of NNPC, the MD Saipem SA and MD Saipem (Portugal) failed to appear before the committee despite several invitations made.
Also the Chairman of Samsung SHI and the Managing Director of Samsung worldwide in Goje. They were invited because most of the job was done in Goje - South Korea including FPSO.

5.7. Contract Payment Ratio

The least contract payment ratio by TOTAL was 80% (Eighty per-cent) US Dollars, and 20% (Twenty per-cent) Naira. However, it was discovered that other major Contractors paid their sub-contractors less to the ratio received from TOTAL. Putting devaluation and inflationary pressures on the naira.

The table below shows the payment ratio to both the major contractors and sub-contractors.



6.0. RECOMMENDATIONS

Based on the above findings and having realized that to conduct a full scale investigation, there is need to engage professionals in that field, the Committee therefore recommends as follows:

1. That value for Money Audit be approved for further auditing by reputable consultants in the following areas of the project:
   a. Technical;
   b. Financial;
   c. Project Management; with a legal team.

2. That the Nigerian Oil and Gas Industry Content Development (NOGICD) Act 2010 be amended to make provision for sector "linkages" of the economy such as ICT, Construction, Power and Manufacturing.

7.0. CONCLUSION

The Committee wishes to express its gratitude to His Excellency, the President of the Senate, the leadership and the Distinguished Senators for the confidence reposed in it to carry out the assignment.

Senator Solomon O. Adeola, FCA
Chairman

Mrs. Folasade Adigun
Committee Clerk

SIGNATURE PAGE

S/N	NAMES	DESIGNATION	SIGNATURE
1.	Senator Solomon O. Adeola, FCA	Chairman	
2.	Senator Godswill Akpabio, CON	Member	
3.	Senator Philip A. Tanimu	Member	
4.	Senator Albert B. Bassey	Member	
5.	Senator Donald O. Alasoadura	Member	
6.	Senator Gershom O. H. Bassey	Member	
7.	Senator Kabiru G. Marafa	Member	
8.	Senator Ahmad M. Abubakar	Member	
9.	Senator David Umaru	Member	
10.	Senator Chukwuka G. Utazi	Member	
11.	Senator Stella Oduah	Member	
12.	Mrs. Folasade Adigun	Committee Clerk	