

**LEAD DEBATE ON THE PETROLEUM INDUSTRY
GOVERNANCE BILL 2016**

OUTLINE FOR LEAD DEBATE

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1.0 Introduction

1.1 Mr. President, Distinguished Colleagues, It is my honour and privilege to lead the debate on the Petroleum Industry Governance Bill. The first reading of the Bill took place on the 13th day of April 2016.

The Bill seeks to transform the Nigerian oil and gas landscape by providing for an efficient and effective governance and institutional framework for the Industry with clear separation between policy, regulatory and commercial institutions.

Mr. President, please permit me to briefly provide the background to the introduction of this Bill.

1.2. Brief Background

Oil and gas have been, and will remain for years to come, Nigeria's most important non-renewable energy source, contributing over 90% of the country's foreign exchange earnings and about 80% of recurrent and capital expenditure. The industry is therefore critical to the economic and social development of Nigeria.

While the government's vision and aspiration continue to target diversification of the economy, the petroleum sector remains the primary source of revenues to make that happen as well as sustain the country for the foreseeable future.

Nigeria currently produces about 2.2 million barrels of light, sweet quality crude oil per day when production is not interrupted, still the largest in Sub-Saharan Africa. It has proven oil plus condensate reserves of about 37 billion barrels. Both current oil production and reserves are far short of growth levels envisaged in the Vision 20:2020. Similarly, Nigeria produces approximately 8

Billion Cubic Feet (BCF) of gas daily of which some 50% goes for export, 37% for domestic use and 13% (mainly associated gas) is flared. Natural gas reserves are substantial at about 183 trillion cubic feet (TCF), representing 3 percent of the world's total. Incidentally, gas is also not sufficiently addressed in the existing petroleum industry legislation.

1.3. The Nigeria Petroleum Industry Bill (PIB)

Mr. President, Distinguished Colleagues, the Nigeria Petroleum Industry Bill (PIB) has been in the works in one form or the other since 2008 when it was first introduced. During the 7th National Assembly (2011-15), additional efforts were made to pass the 2012 version of the Bill but it unfortunately was unsuccessful, similar to attempts at prior parliamentary sessions.

No doubt, continuous stalling and delay in the passage of the bill has hampered huge investment opportunities, keeping the country's future in limbo and denying Nigeria the unique competitive edge as oil and gas leader in Sub-Saharan Africa. Consequently, the current effort has adopted a method of splitting the PIB into logical smaller pieces for submission to the 8th National Assembly, a complete departure from all prior attempts. This way, the individual elements can be expeditiously considered and passed one after the other and where amendments are required in the future, the relevant Bill can be separately considered.

Mr. President, this Bill is the first in a series of bills to reform and reposition the Nigerian oil and gas industry for sustainable growth. Subsequent bills will include ones which deals with Upstream Fiscal, Upstream, Downstream and Gas Administration Matters as well as Revenue Management. The Bill represents a unique working arrangement between the Legislature and the Executive Arm contributing to produce the Document.

2.0. Objectives of the Governance Bill

The main objectives of the Bill are:

- (a) To create efficient and effective institutions with clear and separate roles for the petroleum industry;
- (b) To establish a framework for the creation of commercially oriented and profit driven petroleum entities that ensures value addition and compliance with international standards;
- (c) To promote transparency and accountability in the administration of the petroleum resources of Nigeria
- (d) To create a conducive business environment for petroleum industry operations.

3.0. Principles & Structure

3.1. Mr. President, Distinguished Colleagues, it is widely acknowledged that major reforms in the governance and institutional structure for this sector are necessary and urgent. A major drawback of the existing framework is the lack of clarity of roles, self- regulation, conflicts and unnecessary overlaps. For example, while the Minister of Petroleum Resources is in charge of the Ministry of Petroleum Resources, and indirectly supervises the Department of Petroleum Resources (DPR) a body which is supposed to be an independent Regulator, he is also the Chairman of the Board of the Nigerian National Petroleum Corporation (NNPC) by law.

3.2. The lack of clear separation of government roles in the industry has hindered competition, and given ample room for sustained failures in governance and performance. In addition, and in particular, the country is being robbed of huge revenues as a result of mismanagement of the NNPC.

having in mind the intrusive control of the government in the affairs of the corporation, the confusion with the Regulator as well as funding difficulties. These lost revenues are needed primarily to grow the sector, improve government revenues as well as support the much talked about diversification of the economy. This Bill seeks to cure all these, having anchored the work on three governance and control parameters – industry structure, institutional mandates and institutional governance.

In defining the new petroleum industry institutional landscape, the following principles were used to guide the overall framework:-

- (a) Clear delineation of government roles and responsibilities across the industry, that is, Policy formulation, Regulatory oversight and Commercial operations;
- (b) Simple and lean structure, devoid of unnecessary overlaps;
- (c) Creation of a single strong industry regulator;
- (d) Unbundling of the existing NNPC to two Commercial entities limited by shares - THE NATIONAL PETROLEUM COMPANY AND THE NATIONAL ASSETS MANAGEMENT COMPANY;
- (e) Ensuring strong governance, transparency and accountability in all institutions.

3.3. Based on these principles, the institutions proposed in this Bill are as follows:-

- (a) **The Minister**, who shall be responsible for policy formulation and supervision of the affairs of the petroleum industry on behalf of the Federal Government.

- (b) **The Petroleum Regulatory Commission**, which shall be the industry Regulator and Watchdog, responsible for licensing, monitoring, supervision of petroleum operations, enforcing laws, regulations and standards across the value chain.
- (c) **The National Petroleum Company**, which will operate as a commercial entity, in order to ensure efficiency across the value chain.
- (d) **The National Assets Management Company**, which shall ensure maximum value for the Federation through prudent management of the Federation's oil and gas investments in assets where Government is relieved of upfront funding obligations otherwise known as CASH CALLS; e.g. PSC assets.

These institutions constitute the key structures necessary to assure effective governance and efficiency of the petroleum industry. I will now provide a brief overview of the mandates of the institutions created under this Bill.

4.0. **The Minister**

The Minister of Petroleum Resources will exercise general supervision and coordination over the affairs of the Petroleum Industry, subject to the provisions of the Act and provide full diplomatic cover on all petroleum-related matters on behalf of the Country. Specifically, the Minister shall:-

- (a) be responsible for the determination, formulation and monitoring of Government policy for the petroleum industry in Nigeria;
- (b) exercise general supervision and coordination over the affairs and operations of the petroleum industry subject to the provisions of the Bill;

- (c) report developments in the petroleum industry to the Federal Executive Council;
- (d) advise the Government on all matters pertaining to the petroleum industry;
- (e) represent Nigeria at meetings of international organizations that are primarily concerned with the petroleum industry;
- (f) negotiate and execute international petroleum treaties and agreements with other sovereign countries, international organizations and other similar bodies on behalf of the Government.
- (g) promote the strategic interest of Nigeria in the global oil and gas industry.

5.0. The Petroleum Regulatory Commission

5.1. Mr. President, Distinguished Colleagues the Bill proposes the establishment of a single and one stop shop Petroleum Regulatory Commission for the industry, consolidating such roles currently largely resident in the Department of Petroleum Resources (DPR) and the Petroleum Products Pricing Regulatory Agency (PPPRA). In relation to the environment, the Commission will focus mainly on the "preventive" phase of environmental management while clean ups and restoration phases will be the responsibility of National Oil Spill Detection and Response Agency (NOSDRA). The Federal Ministry of Environment will have overriding authority on environmental issues. The core mandates of the Commission will be as follows:-

- (a) promote the healthy, safe and efficient conduct of all petroleum operations;

- (b) promote the efficient, safe, effective and sustainable infrastructural development of the petroleum industry;
- (c) ensure compliance with all applicable laws and regulations governing the industry;
- (d) determine and ensure the implementation and maintenance of technical standards, codes and specifications applicable to the petroleum industry;
- (e) subject to the provisions of this Act, execute government policies for the petroleum industry assigned to it by the Minister;
- (f) promote an enabling environment for investments in the petroleum industry;
- (g) ensure that regulations are fair and balanced for all classes of lessees, licensees, permit holders, consumers and other stakeholders; and
- (h) implement such other objectives as are consistent with the provisions of this Act.

5.2. In addition to the above and other roles detailed out in the Bill, the Commission shall:-

- (a) undertake and promote the exploration of the frontier basins of Nigeria;
- (b) develop exploration strategies and portfolio management for the exploration of unassigned frontier acreages in Nigeria;
- (c) identify opportunities and increase information about petroleum resources base within all frontier acreages in Nigeria;

- (d) undertake studies, analyse and evaluate all unassigned frontier acreages in Nigeria.

6.0. Commercial Entities

6.1. The consistent poor performance of the NNPC is a major concern. Apart from delivery deficiencies which are reported year in and year out, the Corporation is saddled with gross capability and transparency issues, making governance the most urgent transformation focus.

Accordingly, a major fall out of re-designing the corporation for capacity and performance improvement is the commercialization and refocusing into two entities viz:-

(a) THE NATIONAL PETROLEUM COMPANY (NPC) which shall be an integrated oil and gas company operating as a fully commercial entity across the value chain.

(b) THE NIGERIA PETROLEUM ASSETS MANAGEMENT COMPANY (AMC) which shall be responsible for the management of the Federation's oil and gas investments in assets where government is not obligated to provide any funding, Production Sharing Contract (PSC) assets.

6.2. The Bill splits the upstream portfolio of the NNPC into two commercial entities, NPC and AMC as detailed above. Both companies will be incorporated within six months of passing the Bill into law. The Minister will be required within 12 months of the incorporation of the companies to transfer the assets and liabilities of NNPC to the two companies. If considered necessary, the Minister may additionally transfer some of the liabilities of NNPC to a separate company to be created specifically to hold some of the liabilities of NNPC. The Bill provides that the NNPC Act will stand repealed

upon the vesting of all the assets and liabilities of the NNPC in successor entities.

6.3. A number of factors were taken into account in determining the appropriate approach for the restructuring of NNPC. The primary reason is to reduce the risk of putting all Federation assets under one entity, in one basket. In particular, the Bill provides for the NPC to divest some of its shares at a later date which will allow non-government shareholders to acquire a stake in the Company.

6.4. Another consideration was the need to create a financially sustainable entity with the ability to source independent (non-budgetary) funding for joint venture operations, which have suffered significantly from inadequate funding. In analysing the assets of the current NNPC, it was observed that some of them, in particular, those under the PSC do not require upfront funding. Therefore, these assets are proposed to be warehoused in one entity – the Assets Management Company, whilst the other assets would be held by the National Petroleum Company, which would be able to secure external funding outside of the budgetary system.

6.5. It is expected that this split will enhance the commercial focus, performance, transparency and accountability, as well as provide the necessary platform for a lasting solution to the perennial funding incapacity of the NNPC. Some of the direct and immediate benefits of the split of the NNPC include the following:-

- (a) Smaller, manageable entities which will result in reduced cost of running the business
- (b) Enhanced focus on strategic interests as well as cost management

- (c) Reduced opportunity for cross subsidization (i.e. the profitable entities subsidizing loss making entities).
- (d) Enhanced revenues to the Federation Account via distinct and disciplined collection processes.
- (e) Robust liabilities management.

7.0 Financial Implications

Mr. President and Distinguished Colleagues, I have attached herewith the "**Financial Implications**" of this bill pursuant to Senate Standing Order 2015 (as amended). In summary, there shall be no requirement for additional financial expenditure in respect of the agency or other organisations that will be established by this Bill.

8.0 Conclusion

The Bill proposes a slim, focused yet robust framework for effective and institutional governance of the Nigeria Petroleum Industry. Principles of separation, transparency and accountability have been adopted to enhance performance and growth. Key lapses associated with prior institutional frameworks have been remedied.

Mr. President and Distinguished Colleagues, I believe that the objectives and provisions of this Bill are very laudable and would transform the Nigerian oil and gas Industry and attract substantial investment to the industry at this critical time.

I therefore urge you all to support the 2nd reading of this Bill and committal to the Committee for detailed consideration. Thank you.

Senator Tayo Alasoadura
Chairman, Senate Committee on Petroleum Resources Upstream