Local content development in the Nigerian oil and gas industry

A model for indigenisation

Local content development is critical for countries like Nigeria that are rich in natural resources but whose oil and gas sector has traditionally operated in isolation from the rest of the economy, thereby allowing minimal participation from local citizens in its development.

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An effective local content development policy seeks to promote inclusiveness and integration of the sector with the rest of the economy to ensure that the country and its people benefit from the ownership of these significant reserves. It also seeks to promote local employment and the use of local goods and contractors so that a country's citizens are involved throughout the entire supply chain. Other desired outcomes include the increase of domestic capabilities and competencies over time, improvement of national technological capacity and to manage the equal distribution of wealth across the country.

Traditionally, major International Oil Companies (IOCs) have dominated the oil and gas sector in Nigeria due to their technological and financial advantages, alongside a lack of proper regulation in the past. This has meant that local content development has been lacking due to the isolated bubble which the IOCs operated in and a critical lack of infrastructure to support processing and refining locally. For example, prior to 2010, nearly US$380 billion and 2 million jobs were estimated to have been lost as the majority of construction, engineering and procurement undertaken by the IOCs was carried out overseas.

The poor integration of the oil and gas sector with the wider economy has long been a concern for successive Nigerian Governments. There is a general understanding that the huge potential of the sector is not being appropriately leveraged and that, as a result, the country is not reaping the associated benefits. In 2017, the oil and gas industry accounted for 97.7% of total export earnings and 77.5% of government revenue in June 2018 (according to the CBN), its share of the GDP is a meagre 9%. Between 1960 and 2016, Nigeria has earned in excess of US$1.27 trillion from oil exports. Figure 1. compares oil-GDP ratio in Nigeria with selected oil producing countries showing that the country still has a long way to go to improve on the non oil synergies.

Figure 1: Oil contribution to GDP
(%)

However, the landscape in Nigeria is gradually changing with new regulations and policies aiming to put local content development at the heart of the country's natural resources sector, ensuring it is in-line with international best practice. In addition, we can now see indigenous oil and gas companies such as Seplat and Oando competing directly with the IOCs, leading the way in promoting local content development around the regions they operate in.

Nigeria, which sits astride one of the largest oil and gas reserves in Africa, ratified the Nigerian Oil and Gas Industry Content Development (NOGICD) Act in 2010 to promote local content development throughout the sector. This central piece of legislation has been put in place to reverse some of these trends discussed above and established the Nigerian Content Development and Monitoring Board (NCDMB) as the regulatory body responsible for ensuring local content requirements set out in the act are implemented across the industry.

The act aims to achieve 70% local content by 2020 and there has been significant progress as can be seen by the increased number of independent and marginal producers in Figure 2. and the increased production from these independent producers in Figure 3.

Post the implementation of the NOGICD Act, the Federal Ministry of Petroleum Resources launched the Petroleum Industry Roadmap which set out the "7 Big Wins", providing a set of aims for the industry to achieve between 2015-2019. Key elements of the new policy, its benefits and delivery status as at year-end 2018 are outlined in Figure 4.

Figure 2: Number of Independent and Marginal Field Producers
(Source: NNPC Annual Statistical Bulletin, 2010-2017)

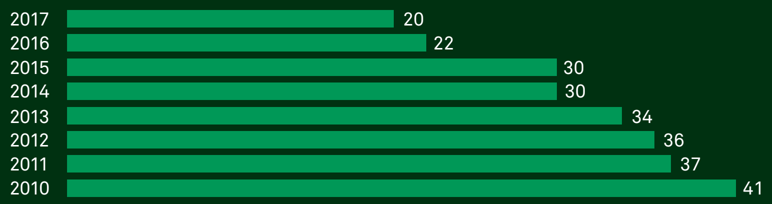
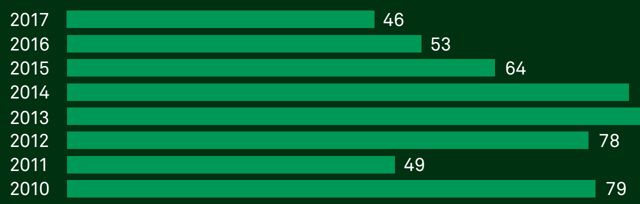


Figure 3: Independent and Marginal Field Production Trend (Oil Production MMbbls)
(Source: NNPC Annual Statistical Bulletin, 2010-2017)



Key Legislation/Regulatory bodies in Nigeria

2010

- Nigerian Oil and Gas Industry Content Development Act(NOGICD)
- Nigerian Content Development and Monitoring Board (NCDMB)
- Nigerian Content Development Fund (NCDF)

2016

- Petroleum Industry Roadmap Launched

2018

- Ministerial Regulation on Local Content Passed
- NCDMB Guide-line on Community Content Published
- NCDMB Guideline on Research and Development
- Presidential Execute Order 5 on Local Content

Figure 4: Priority areas, benefits and delivery statuses of the 7 Big Wins

Priority	Benefit	Delivery status
Policy & Regulation	Robust fiscal Policy & Instrument	PIGB yet to be passed
Business Environment & Investment Drive	Increased oil production	Oil production below 2mbbl/day
Refinery & Local Production Capacity	• Reduced Petroleum Products Import • Net Petroleum Product Exporter	• No cost refinery license issued • Modular Refineries Commissioned • NCIF launched
Gas Revolution	Shift to gas from oil	• Gas Policy and Gas Flare Regulation
Niger Delta Security	• Improved Security • Environmental Safety	• No major attack on crude oil facilities • But increased crude oil theft
Transparency & Efficiency	Parastatals and Institutions driven by profitability and accountability	• No information on disaggregated revenue streams and quasi-fiscal activities
Stakeholder Management & International Coordination	Visibility of Nigeria in global oil production	• Construction of Dangote Refinery • Fabrication of Egina FPSO

7 Big Wins

These ‘wins’ aim to stimulate greater indigenous participation and encourage technological advancements, infrastructure development and an increase in economic synergies. While these milestones are ambitious, their success will ensure greater security in the Niger Delta, deepened local participation in domestic refining, greater domestic production and improved environmental safety.

The ultimate objective is to capitalize on Nigeria’s status as the ninth-largest gas reserve holder in the world. These robust projects aim to support the growing ‘gas revolution’ in the country which looks to shift Nigeria away from being an oil-based economy to a gas-based one. This includes expanding Nigeria’s existing domestic refinery capacity, improving gas supply infrastructure across the country and maximising the use of gas powered generation in order to encourage economic development through access to a continuous, cheap and reliable power source.

Key achievements of local content policy to date

To date, the NOGICD Act and supporting policies have been well received, with tangible successes. Despite this, there are still obstacles to overcome, which are illustrated in Figure 5.

This demonstrates that while strides are being made, local content development must remain a central focus for both the national government and the oil and gas sector to ensure its success.

Figure 5: Implementation challenges facing the Nigerian Oil & Gas Sector:

1 **Inadequate local capacity and technical competency**

2 **Inadequate national training from internationally certified institutions**

3 **Quality control in infrastructure development and construction/engineering**

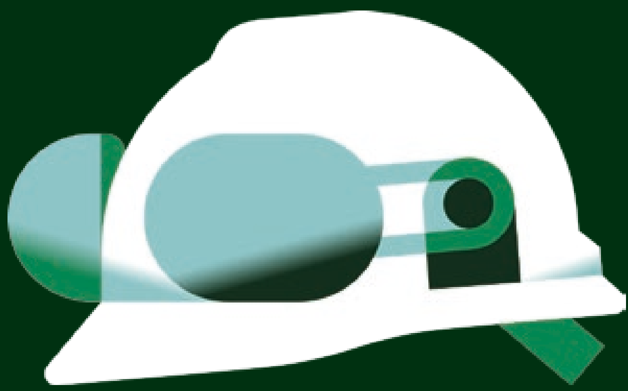
4 **Lack of economic synergies**

5 **Low oil price**

6 **Security issues in the Niger Delta**

7 **Lack of funding for local contractors**

8 **Difficulty in enforcing the provisions of the NOGICD Act**



Increased Indigenous Participation

More than 30,000 direct and indirect jobs have been created for local Nigerians in the sector since 2010. Indigenous companies such as Seplat have been instrumental in maximizing opportunities for local content development at their operations. In 2018, 99% of the Company's entire workforce is Nigerian and Nigerians account for nearly 80% of the Company's top management positions. The Company also has a rigorous Workforce Capacity Development training programme to ensure its workforce has the necessary skills and knowledge required to operate to an international standard.

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Local contractor development

The NOGICD Act has led to a sizeable portion of the goods, services and equipment vital for the every-day running of operations to be sourced locally. The number of contracts awarded to indigenous contractors and sub-contractors has increased over the years, thereby guaranteeing increased local employment and ensuring the emergence of more local companies.

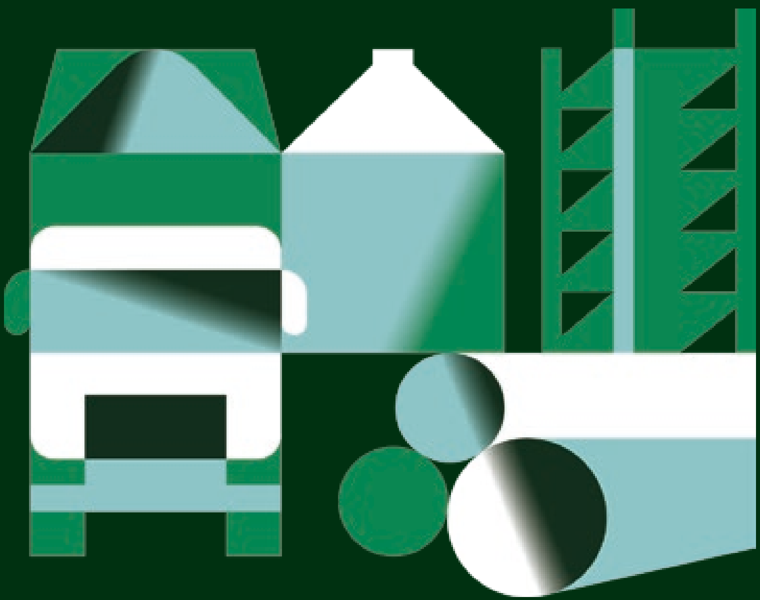
Indigenous companies are increasingly providing programmes specifically designed to support local contractors and businesses. Seplat operates their annual flagship Community Contractors' Capacity Building programme which equips local contractors with the necessary skills to help them develop their business processes to an international standard.

Since 2014, over 300 contractors from the Delta and Imo states have benefitted from this programme. This has enabled up to 40% of host community contractors to gain technical skills which were lacking at the time they originally registered as contractors. In addition, 98% of Seplat's contractor are Nigerian companies – in line with the provisions of the NOGICD Act. Since 2013, contracts worth up to US$1bn have been awarded to Nigerian companies.

Furthermore, Seplat has consistently patronized locally manufactured goods through its in-sourcing strategy ensuring local participation throughout their supply chain.

Case Study

Judenith Nigerian Limited is a vehicle rental company operating in the Jess community in Delta State. The Company is currently contracted to supply Seplat with the buses that we use to transport our staff to locations across our portfolio of assets. In 2014, Judenith attended the inaugural community contractor's empowerment programme where they were inspired to expand into flowline and production maintenance activities. Through the programme they also were able to meet and join forces with a local technical partner who has supported their growth in this area. A second company, Flow Impacte International has also benefited from the programme, Flow Impacte has since gone from strength to strength, executing all flowline jobs for Seplat in 2018.



Addressing militancy and youth unemployment

Militancy in the Niger Delta has long been a key issue facing the oil and gas sector in Nigeria and these policies have created opportunities which has reduced levels of unrest in the region. Communities are now actively engaged through community development programmes to support local stakeholders. Seplat's annual 'Eye Can See' and 'Safe Motherhood' programmes deliver comprehensive eye care and medical care for expectant mothers.

This two-way dialogue between Seplat and the local community alongside the Global Memorandum of Understanding (GMOU) signed in 2010 and jointly reviewed and renewed in 2016 has meant that, production downtime due to community unrest against Seplat-owned assets has been kept to a bare minimum.

The Company also has an additional graduate training programme which aims to help Nigerian graduates with no prior oil and gas industry experience to develop their knowledge of the sector and expose them to the technology used. Since 2014, the Company has spent over US$8m on employee training.

While there is still work to be done across the industry, existing data shows that pipeline vandalisation and human error related spillages have reduced in the Delta.

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Increase in infrastructure development and facility upgrades

Until recently, activities such as engineering, welding and construction were done outside of Nigeria as there were no international standard dockyards or construction sites in place in-country. There have been huge strides in this area with industry leading construction yards built by companies such as Total, Aveon and Saipem to ensure projects can be completed in-country, providing thousands of local jobs.

A key example of this is the recent construction of the Egina Floating Production Storage and Offloading Vessel (FPSO), the largest vessel of its kind ever installed in Nigeria. 77% of the construction was completed in-country, a ground-breaking achievement for the country. This confirmed that the Nigeria's well-equipped construction yards met international standards and were successfully managed by competent local personnel.

Gas and support to the power sector

Gas supply performance relative to Domestic Gas Supply Obligation (DGSO) has greatly improved across indigenous operators including Seplat, Frontier Oil and Gas, and Energia. These companies have been heavily investing in gas production in order to capitalize on the announcement made by the Ministry of Petroleum in 2014, that the DGSO prices were to increase from $0.3/Mscf to $2.5/ Mscf.

For example, Seplat's average daily gas supply was above 230% of its DGSO in 2017, making it one of the leading domestic suppliers of gas in the country. In addition, it currently contributes 3.5% of the total gas production in Nigeria.

The aim of the 2014 price increase was to encourage investment in-country in order to deliver the envisaged 30GW generation, up from the current 5GW level. Ultimately this will guarantee access to reliable, affordable power for local Nigerians, a vital step to achieve accelerated economic growth.

Outlook and conclusions

For Nigeria, as Africa's largest economy and with a growing population of 200m, the continued progress of local content development policy remains vital to ensure the company benefits from its vast reserves. The country still has a lot to do to strengthen local participation in the oil and gas sector and to enhance the sector's integration with the rest of the economy.

There is no doubt that impressive achievements have already been made with regard to the national content goals set out in the NOGICD Act, as highlighted above. However, there is still more to be done for the benefits of the sector to be felt locally.

Seplat: A poster child for indigenisation

Seplat's current and future initiatives will continue to provide a good example to other indigenous operators. The Company has also been able to position itself as a leader in the fast-expanding domestic gas sector, helping to provide reliable access to power for millions of Nigerians. In August 2018, Seplat signed five agreements with the NNPC for the development of the "Assa North and Ohaji South (ANOH) Gas Development Scheme". The project, which will be developed, operated and maintained by the ANOH Gas Processing Company is aimed at delivering between 3 to 3.4 billion standard cubic feet of gas per day by 2020. The gas processing plant will be situated in Imo State, providing thousands of jobs for local workers.

The future for Seplat and local content development programmes in Nigeria looks very bright. The Company must therefore continue to promote local capacity development through collaboration with local Nigerian institutions to ensure quality infrastructure, equipment and manpower for the oil and gas industry.