

CHAPTER II

DESCRIPTION OF NIGER DELTA AND OIL INDUSTRY

Since Nigeria's economy relies on the oil sector, the conditions in the Niger Delta are having discord. However, in this chapter will explain the overview of Niger Delta, Conditions in Niger Delta, also the oil industry and exploration.

A. The Niger Delta Region

Nigeria is a federal State consist of 36 States. For most, people may be a little confused when hear the name of the Niger Delta. Many people consider that the Niger Delta is one of the States that existed in Nigeria and it is not entirely wrong. Terminologically, the Niger Delta is a political term that used for areas that made as oil and natural gas producing areas. The Niger Delta is located in the south-south geopolitical zones of Nigeria that consist of Bayelsa State, Delta and Rivers along with Akwa Ibom, Abia, Edo, Ondo, and Imo whose added in 2000.

1. Geography of Niger Delta

Niger Delta region situated in the southern part of Nigeria. It bordered to the south by the Atlantic Ocean and to the East by Cameroon. It occupies a surface area about 112,110 square kilometers. The region is represents about 12% of Nigeria's total surface area and it is estimated that by the beginning of 2006 its population will be over 28 million inhabitants (NDRDMP, 2016).

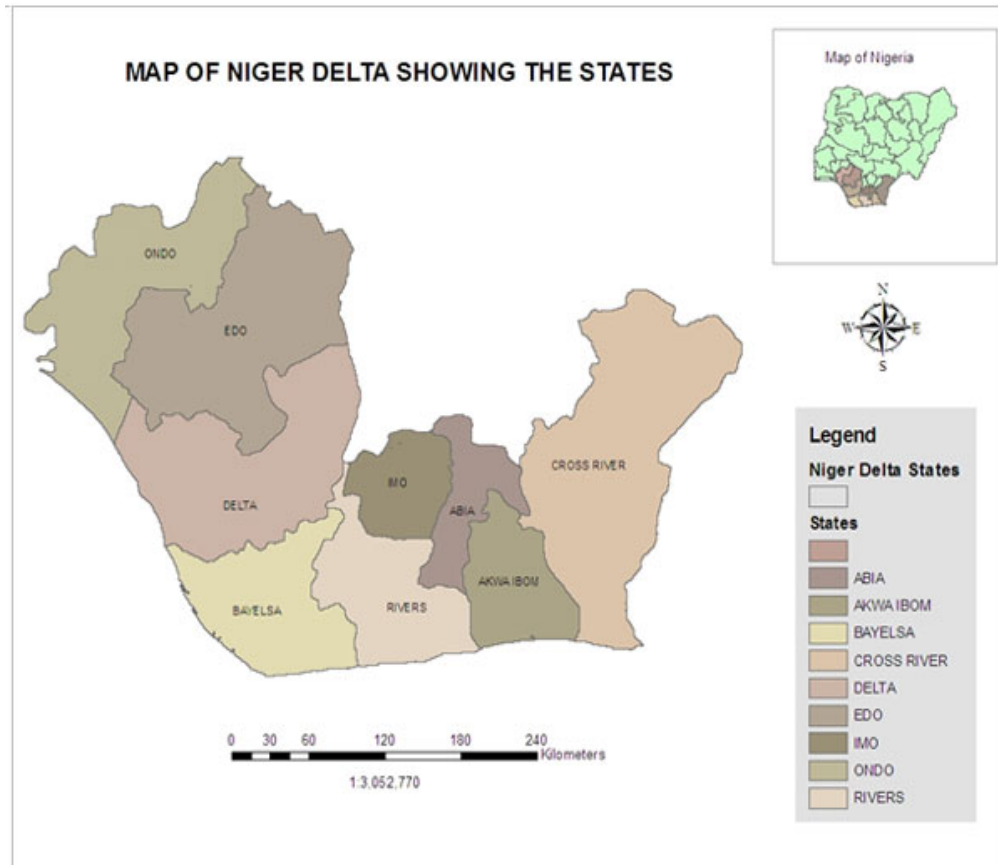


Figure 2.1 Niger Delta Map

Source: (Nwankwo, 2012)

Sub regions in Niger Delta divided into three regions: Western Niger Delta, Central, and Eastern Niger Delta. The western Niger Delta area is consisting of coastal South-South Nigeria which include the Delta region, and then there's Edo and Ondo in the South.

Central Niger Delta consists of the central section of the coastal South-South Nigeria which includes Bayelsa and Rivers States. The eastern Niger Delta consists of Cross River State and Akwa Ibom State.

The region is blessed with an abundance of human and physical resources. It also includes the majority of Nigeria's oil and gas deposits, good agricultural lands, extensive forests, excellent fisheries, and as well as a developed industrial base (Adejumo, Ekpe, & Ebegbulem, 2013). Over 90 percent of oil and gas export are earns up to 70 percent revenues accruing to the federation accounts. (Olusakin, 2006)

2. Peoples of Niger Delta

People who live in Niger Delta region are very diverse. There are 40 different ethnic groups with 250 languages. The majority of ethnic groups are the Ijaws, Ogonis, Ikwerres, Etches, Ekpeyes, Ogbas, Engennes, Obolos, Isoko, Nembes, Okrikans, Kalabaris, Urhobos, Itsekiris, Igbos, Ika-Igbos, Ndoni, Oron, Ibeno, and Yorubas, Ibibios, Annangs, and Efiks. Other groups include Ibibios, Anang, Efiks, Bekwarras, Binis (NDRDMP, 2016).

In western Niger Delta, the people are coming from several ethnic groups which are the Urhobo, Isoko, Itsekiri, Ijaw and Ukwuani ethnics groups in Delta State. In Edo state are consist of the Bini, Esan, and Afenmai ethnic groups. And the Yoruba (Ilaje) who loves in Ondo State.

Meanwhile, in the Central Niger Delta region has the Ijaw (including the Nembe-Brass, Ogbia, Kalabari people, Ibani of Opobo & Bonny, Okrika, and Andoni clans). The ethnic groups who live in Rivers state consist of the Ogoni and Igbo, Etche, Ogba, Ikwerre, Ndoni, Ekpeye and Ndoki.

3. Occupation of Niger Delta People

The local residents in the Niger Delta have livelihoods through traditional economics activities. The major occupation of Niger Delta people activities is based on two types:

- a. Land based type on the drier parts at the northern end of the Delta, which includes farming, fishing, collecting and processing palm fruits, as well as hunting.
- b. Water based type of economy at the southern parts of the Delta including fishing and trading, with a less diversified economy.

However, since the coming of oil exploration more than four decades ago, the district has turned into the major source of foreign exchange incomes for the nation as entirely. Particularly since 1975, the oil resources represent for 90 % of the country's export revenues. The Niger Delta is made up of oil producing states of coastal southeastern Nigeria. It is different from the South-South Region or South South Zone of Nigeria. The region is very densely populated and the region is also called as the Oil Rivers because it was once a major producer of palm oil. The area was the British Oil Rivers Protectorate from 1885 until 1893, when it was expanded and became the Niger Coast Protectorate (Falola, 2014).

4. Environmental Conditions

The Niger Delta Region is surrounded by wetlands accompanied by the rivers running throughout the region. It also consists of a rich and diverse

mosaic of ecological types. There are five distinct ecological zones ranging from the barrier island forest and coastal vegetation areas through to Montane habitats (NDRDMP, 2016). This ecosystem is blessed; it contains one of the highest concentrations of biodiversity on the planet. In addition, Niger Delta has abundant flora and fauna. It has more species of freshwater fish than any ecosystem in West Africa. The immediate source of livelihood for the people of the region has been supplied by the rich flora and fauna of the area for many generations. For so long, the people there lived in harmony, and there was evident balance in the ecosystem (Alamieyeseigha, 2003).

Notwithstanding, the area is blessed with tremendous natural resources. It has the world's third-biggest mangrove woods with the broadest freshwater swamp forest and tropical rainforest described by great biological diversity. Nearby the huge potential for agricultural revolution, the Niger Delta area also has a reserve of non-renewable natural resources and, especially hydrocarbon deposit in oil and gas, and other non-renewable natural resources include silica sand. Part of a World Bank report following a visit to the Niger Delta in 1952 and 1953 declared that the region has great prospects to feed the entire population of the West African sub-region and have sufficient commodities for export (Ikein, Alamieyeseigha, & Aizaki, 2008). Some of the produce highlighted by the report includes rice, palm oil, and cassava, which are in abundance throughout the Niger Delta, especially Bayelsa State, the epicenter of the region.

B. The Oil Industry in Nigeria

Oil Industry is an industry that moves in the field of oil and natural gas mining. The industry includes some activities ranging from exploratory drilling, extraction and refining of crude oil, natural gas and oil processing in a variety of products, and also the distribution of the results of production.

For Nigeria, the oil industry is vital for the country's economy to be sustained. This led to the civilization of the oil industry in Nigeria being advanced.

1. The History of Oil Exploration

Oil and gas industry in Nigeria is holding an important role for the welfare of the nation where fuel oil is propping up the economy of the country and also the national development. As the region that produces oil production, the history of finding crude oil in Nigeria can be traced when German companies doing exploration in the Western hemisphere of Nigeria specifically in the area of Araromi to find an asphalt, coal and oil.

A few years later, the exploration for oil undertaken at a standstill due to the first world war in 1914. When oil exploration had stalled, several years later in 1973, oil exploration back done significantly by the British Petroleum Company (BP) that made the joint venture together with the oil company from Dutch called Royal Dutch Shell. The two companies formed a Shell D'Arcy as a form of joint venture. The Shell D'Arcy has licensed for exploration that

covers 37000 square miles. but then the exploration should be stopped because of the second world war interrupted. Although oil exploration has interrupted it does not then make the exploration done by Shell stop completely.

In 1951, Shell made a new name for his company to become the Shell Petroleum Development company. The company of course was created with the intention to continue the activities of the joint venture. A very rich oil source in Nigeria was discovered in 1956 located in Oloibri by Shell-BP who the previous named was Shell D'Arcy. Oloibri is a small area located in the Bayelsa State. Further oil exploration continued in other areas such as at Afam.

The petroleum sector began to play a vital role in shaping the Nigerian economy and political destiny of the country in the early 1960s. At the point when Nigeria turned into an independence country on 1st October, 1960, Shell-BP began handing over land that had been used for oil exploration to get a legal license for oil exploration that later make for the development of oil production (Vassiliou, 2009). After Nigeria's economic increasing by the presence of the petroleum sector, the Federal Government made a policy toward the existence of oil exploration. This is in addition to encourage co-operation with the oil companies, and also aims to accelerate exploration and oil production enhancement. A multinational oil companies that has joined oil and gas exploration in Nigeria through joint ventures are Texaco Overseas Nigeria Petroleum Company Unlimited in 1961, Amoseas in 1961, Chevron in 1961, ELF in 1962 and continued to join again in 1974, Tennessee Nigeria Limited

(Tenneco) in 1962, Azienda Generale Italiana Petroli (AGIP) in 1962, ENI in 1964, Philips Oil Company in 1964 and Pan Ocean Oil Company in 1972.

The Federal Government of Nigeria established a Department for the management of oil resources. the Department called the Department of petroleum resources (DPR). After the existence of the Inspectorate, Nigeria has spread its wings in the oil industry by join the Organization of petroleum exporting countries (OPEC) in 1971. In the same year, Nigeria also created the Nigerian national oil corporation (NNOC) but was renamed in 1977 became the NNPC. (Vassiliou, 2009).

Several oil companies have joined in the exploration and production of oil in the last decade, but Shell oil companies contribute most in the production of the country from which it produces some 39 percent of the nation's oil and remains the major producer in the Nigeria's petroleum industry. The Niger Delta region is richly endowed with 31 giant oil and gas fields and each has an estimated ultimate recoverable oil of more than 500 million barrels and produces in excess of 1 million barrels a day out of the nation's total production of about 2.1 million barrels per day (Genova, 1980).

2. The Oil Companies in Nigeria

The management of the oil industry sector in Nigeria is held by Nigerian National Petroleum Corporation (NNPC). NNPC is the oil corporation through which the Federal Government of Nigeria regulates and participates in the country's petroleum industry. Nigeria is active to adopt joint ventures method

on handling the oil and gas industry. Joint ventures are the standard agreement between the national oil company i.e. the Nigerian National Petroleum Corporation (NNPC) with a multinational oil company (MOC). Under this arrangement, both NNPC and the MOC contribute to funding oil operations in the proportion of their JV equity holdings and generally receive crude oil and produced in the same ratio.

The following shows the multinational oil companies partnership with NNPC that operating in Niger Delta along with their production quantities:

a. Shell Petroleum Development Company of Nigeria Limited (SPDC)

Shell has been active on oil industry since long time ago, in 1997 on behalf of the Federal Government NNPC held the joint venture with Shell. The percentage of joint venture with Shell composed of 30%, NNPC 55%, Elf 10%, and Agip 5%. This joint ventures operates at onshore fields or in the mangrove swamp. Shell operation area of oil exploration and production is mostly in Port Harcourt, River states, Warri, Oloibri and Ogoni.

b. Chevron Nigeria Limited (CNL)

A joint venture between NNPC (60 percent) and Chevron (40 percent) has in the past been the second largest producer (approximately 400,000 bpd), with fields located in the Warri region west of the Niger river and offshore in shallow water. It is reported to aim to increase production to 600,000 bpd. Chevron operates in the Agbami Field,

which lies 70 miles (113 km) off the coast of the central Niger Delta region.

c. Mobil Producing Nigeria Unlimited (MPNU)

A joint venture between NNPC (60 percent) and Mobil (40 percent) operates in shallow water off Akwa Ibom state in the southeastern Delta and averaged production of 632,000 bpd in 1997, making it the second largest producer, as against 543,000 bpd in 1996. Mobil also holds a 50 percent interest in a Production Sharing Contract for a deep water block further offshore, and is reported to plan to increase output to 900,000 bpd by 2000. Oil industry sources indicate that Mobil is likely to overtake Shell as the largest producer in Nigeria within the next five years if current trend continue. MPNU operational bases in Akwa Ibom and River States.

d. Nigerian Agip Oil Company Limited (NAOC)

A joint venture operated by Agip and owned by NNPC (60 percent), Agip (20 percent) and Phillips Petroleum (20 percent) produces 150,000 bpd mostly from small onshore fields. The operational base of Agip is mostly at Port Harcourt, and Bayelsa states.

e. Elf Petroleum Nigeria Limited (EPNL)

A joint venture between NNPC (60 percent) and Elf (40 percent) produced approximately 125,000 bpd during 1997, both on and offshore. Elf and Mobil are in dispute over operational control of an

offshore field with a production capacity of 90,000 bpd. Elf has operational bases in Port Harcourt and Akwa Ibom states.

f. Texaco Overseas Petroleum Company of Nigeria Unlimited (TOPCON)

A joint venture operated by Texaco and owned by NNPC (60 percent), Texaco (20 percent) and Chevron (20 percent) currently produces about 60,000 bpd from five offshore fields (NNPC, 2016). Texaco has its operational base at Warri.

3. The Oil Industry Sector and Activities

Oil and natural gas industry are usually divided into three main sectors. The three main sectors of oil and natural gas industry are upstream industry, midstream, and downstream industry.

a. The Upstream Sector

Upstream sector typically refers to exploration and production of crude oil and gas (petroleum operations). The upstream oil sectors are the most important sector for Nigeria to enhance their economic growth. More than 90% of the exports of the country and about 80% of the revenue of the Federal Government coming from this sector. In upstream sector, crude production resulting from three different basins, namely in Anambra, off the coast of Benin, and the Niger Delta. The Niger Delta and basin of Benin is known for its richest basins that hold reserves of crude oil in very large quantities to produce.

b. The Midstream Sector

The midstream sector operations usually included in the downstream sector. Midstream sector included the processing, storage, marketing and also the transportation of crude oil, gas, gas to liquid, and liquefied natural gas (LNG). The last sector of oil and gas industry is downstream sector. The downstream sector of the oil industry actually involves the processing, selling and distribution of natural gas and oil based products.

c. The Downstream Sector

The Downstream sector of the oil industry provides the closest connection to everyday consumers. In the Downstream sector crude oil arrives at processing plants where it is refined and eventually turned into various products which will then be sold and distributed.

The Industry Activities

Oil industry activity, certainly not in spite of the oil refinery. In Nigeria there are four oil refineries. Two oil refineries located in Port Harcourt and the other two are located in the region of Warri and Kaduna.

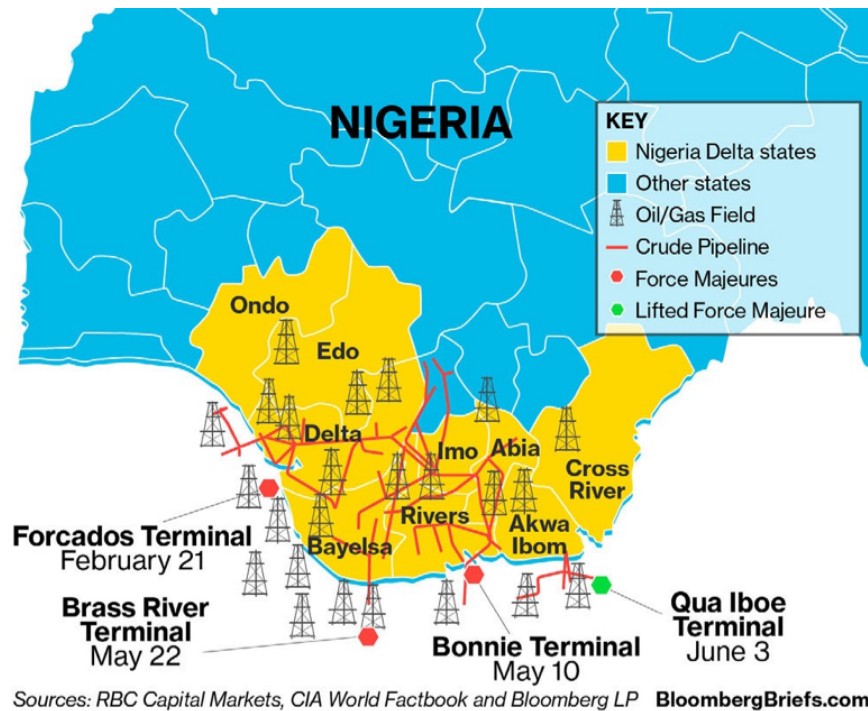


Figure 2.2 Map of Oil field in Niger Delta

Source: RBC Capital Markets retrieved from Bloomberg

After oil was discovered in Nigeria in bulk amount at Oloibri, Port Harcourt is a city which then turns the economic system into oil sector. This is because oil shipments carried out by Nigeria through the city of Port Harcourt. All existing oil refineries in Nigeria owned by NNPC. The four oil refineries have a consolidated nameplate limit of 505,000b/d. In any case, these refineries are just working at around 30% of their introduced limit. It is due to requiring the importation of refined items to take care of request. The FGN has also signed a contract for the maintenance of oil refineries to increase production (KPMG NIGERIA). With the crude oil production reached 2.5 million barrels

per day, Nigeria managed to become the largest country in Africa that produce oil, and also became the sixth largest country in the world's oil-producing.

According to the *Oil & Gas Journal* (OGJ), Nigeria had an estimated 37 billion barrels of proved oil reserves by the end of 2015 the second-largest amount in Africa after Libya. (2015) The majority of reserves are along the country's Niger River Delta and offshore in the Bight of Benin, the Gulf of Guinea, and the Bight of Bonny. Current exploration activities are mostly focused in the deep and ultra-deep offshore, although some onshore exploration is also taking place.

The activities of oil exploration in the Niger Delta has decreased due to the onset of problems related to security such as oil theft and sabotage. Several major MOCs have divested from their onshore assets, which has created opportunity for local Nigerian companies to step in. The regulatory uncertainties surrounding the long-delayed PIB have also contributed to delayed investment in deep water projects, and the start dates for these projects have continuously been pushed back (EIA, 2016).

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