

## Opec Presidency Will Help Nigeria



By Mohammed Abubakar and Roseline Okere

**ABUJA and LAGOS, Nigeria, December 03, 2014 (The Guardian)** — Newly-elected President of the Organisation of Petroleum Exporting Countries (OPEC), Mrs. Diezani Allison-Madueke has assured that she would use her new position working with other members of the oil cartel to work towards promoting Nigeria's interest.

She is also Nigeria's Petroleum Resources minister.

Meanwhile, there are fresh indications that Nigeria's economy currently hit by sliding crude oil prices may also be contending with declining production of the commodity.

Although Nigeria has the capacity to produce 2.5mbp, this target is far below the reality on ground, as the country's crude oil production has not risen to two million barrels since the first quarter of this year.

This has been attributed to crude oil theft, low investment in exploration as a result of the delay in the Passage of the Petroleum Industry Bill (PIB) and insecurity in the Niger Delta area.

Emerging from her first Federal Executive Council (FEC) meeting since her election last week, Allison-Madueke, instantly turned a heroine and was mobbed by her other colleagues in the body as they took turns to embark on photo sessions with her.

She later told State House correspondents that, notwithstanding the current glut in crude oil in the global markets, Nigeria stood to gain a lot from her tenure since she was now in a position to influence certain decisions in favour of the country.

But the minister thanked President Goodluck Jonathan for his belief in her ability to steer the ship of the Petroleum Resources Ministry, which enabled her to have led powerful delegations of Nigerian officials to the conference.

According to her: "First of all, it wouldn't have happened if the President had not had the courage to appoint a woman into the portfolio of Ministry of Petroleum Resources, which meant that I now headed the country's delegation to OPEC. I must say that that was a daunting thing, it happened about three and half years ago when I went into a body which is completely male-dominated and mostly Arab-dominated. But I have found that they have come to respect me and respect Nigeria's voice very well over the last three years in OPEC.

"The position of presidency some years ago was administratively made rotational but OPEC ensures that it must still elect; therefore it states very clearly that 'we have elected' Diezani Allison-Madueke or whoever happens to be the President for that year into the position of the presidency of OPEC. And the reason in the constitution is very clear that it is elective because it reserves the right to reject any minister, head of delegation or person put forward by their country whom OPEC feels is not of the right capabilities and experience and level to seat as OPEC President.

"Because OPEC Presidency is highly influential and it is in fact a high ranking position to that of the Secretary-General of OPEC. It is the OPEC President that seats as chairman of all OPEC conferences at all times during that year. It is the OPEC President that calls for extraordinary meetings of OPEC which will possibly happen in the next quarter of next year if the downward trend in crude prices continues among other things and responsibilities that the Presidency has today.

"This is a very challenging time as you know for OPEC and for the global crude oil wells as a whole. Quite clearly, there has been a battle of wills between certain OPEC countries, the big players and certain non-OPEC countries who are big players in the world crude oil production markets at this time.

"So it is a challenging time to take over as OPEC President at this time and our prayer of course is that we will be able to stabilise the crude oil prices per barrel over this period because it is critical. As many countries both OPEC and non-OPEC countries are suffering immensely.

"Even as we speak Venezuela has gone into austerity measures and is measuring food because they were completely dependent on oil. Angola, Algeria, Iran are all under duress as Nigeria because it has affected our budgetary benchmark. And even non-OPEC countries like Russia who will not cut production are already seeing a drop in the value of their ruble.

"So it is quite impactful on OPEC prices and what OPEC does in the global oil market. And so we will be watching very closely as president of OPEC at this time at what point we have to call OPEC Extra Ordinary meeting and reconvene to see whether other strategies can be put into play."

She added that as OPEC President, she was now empowered to call together the entire body at points where they are critical impact in the market from the price of the barrel and in this case the downward trend of the barrel of oil.

Asked what specific proposals she would put on the table as OPEC President to ensure Nigeria did not really encounter serious crisis as a result of the glut in the international oil market, Allison-Madueke said: "Most certainly, quite clearly Nigeria has to be much more competitive at this time and going into the future.

"We cannot continue to do business as usual. We must ensure that we have the right enabling parameters and indices in this country to attract the right end user markets, end user demand for our products because they are so many other countries that would be competing for those end user markets and to get that end user demand.

"So we will have to sit down and reformulate our entire approach over the next month or so, in fact, immediately to ensure that we are in fact at the cutting edge of competitiveness, we make ourselves competitive in the market and we are able to garner and take those end user markets."

Economic experts who spoke with The Guardian believed that there was need for the Federal Government to reduce the production figure to 2 .0 or 2.1mbd on the average and slide the 2015 budget benchmark to less than \$60 a barrel.

For instance, the second quarter report of the Central Bank of Nigeria (CBN) put the country's crude oil production, including condensates and natural gas liquids, at 1.91 mbd or 173.81 million barrels (mb) in the review quarter, same level as in the preceding quarter.

The CBN said that crude oil production however, fell by 1.0 per cent, compared with the level in the corresponding period of 2013.

It said that crude oil export was estimated at 1.46 mbd or (131.4 million barrels) in the review quarter, same as the estimated level in the preceding quarter.

According to the CBN, despite the government efforts to curb incessant crude oil theft in the Niger Delta region, the menace has continued to dampen crude oil production.

Corroborating CBN's report, OPEC hinted that Nigeria produced 1.9 mbd in the month of October, representing 56,000bpd decrease from the previous month report.

Specifically, the country produced 1.898mbd in first quarter of this year, 1.894mbd; and 1.947mbd in the second and third quarter of this year respectively.

This decline, OPEC disclosed affected its general crude oil production in the month of October, which stood at 30.25mbd.

Analysts believe that if OPEC does not curb production, crude oil price may drop to as low as \$50 per barrel, which is far below the Nigeria's budget benchmark of \$73 per barrel.

This will make it tougher for independent producers to launch new drilling projects because they rely on high returns to finance the costly penetration and oil harvesting in those formations.

Already, the Energy Information Administration (EIA) made significant changes to its forecast global oil balance for this month's Short Term Energy Outlook (STEO).

EIA expects that global oil markets will be looser than projected in last month's STEO, as global oil supply outpaces consumption by a larger amount, resulting in a global stock build of 0.4 million bblpd in the fourth quarter of 2014 and a build of 0.4 million bblpd in 2015.

Specifically, EIA estimated that OPEC crude oil production averaged 29.9 million bblpd in 2013, a decline of almost 1.0 million bblpd from the previous year, primarily reflecting increased outages in Libya, Nigeria, Iran, and Iraq, along with strong non-OPEC supply growth.

EIA expects OPEC crude oil production to fall by 0.10 million bblpd in 2014 and by 0.15 million bblpd in 2015. In last month's STEO, OPEC crude oil production was projected to decline by more than 0.4 million bblpd in 2015, but the projected decline was reduced based on a reassessment of Saudi Arabia's willingness to cut production.

Reacting to this development, Professor of Economics and Director, Centre for Petroleum, Energy Economics and Law, University of Ibadan, Adeola Adenikinju, said that just like the case with oil price, fall in oil production will impact significantly on the budget given the weight of oil in government revenue at all levels.

According to him, states and the local governments in particular will be worse hit by the shortfall in government revenue given the weak capacity for Internally Generated Revenue (IGR) in most of those in the lower levels of government. "Public servants, contractors and other segments of the economy that depend directly or indirectly on government will be affected. Furthermore, the economy will be impacted if government resorts to borrowing from the local economy. Interest rates, inflation and exchange rates will all be affected".

Stressing on the need for the country to improve on the budgetary process, he said: "In the past, analysis of the budget performance would be presented along with budget proposals to show the deviation between projected and actual values of the various budgetary items. The fact is that Nigeria crude oil production has been facing serious challenges internally and externally. Internally, investments in new explorations have not been expanding as expected. In fact, some International Oil Companies (IOCs) have scaled down their production activities. Externally, with the shale oil and gas revolution, the slump in Europe and slowdown in the pace of economic growth in China, then we need to be more conservative in oil volume exports projection."

Adenikinju believed that a production figure of 2 .0 to 2.1mbd on the average may be more realistic.

He stated: "Perhaps the government has some information on new oil wells that will come on streams next year and the production plans that the oil companies have submitted for 2015. However, given the current rate of oil theft, the immediate historical trend in actual oil production and global developments in the oil market, we should err on the side of caution. However, since we can do a lot more to control oil theft if the political will is there, and hopefully the political environment before and after the elections will not deteriorate, then it is possible to attain higher production level than we have this year in 2015."

He also urged the government to review the fiscal terms in the PIB to attract investment in the sector.

"The passage of the PIB is very critical to revive the exploration and production activities in the upstream petroleum sector. The uncertainty surrounding the fiscal terms in the PIB as well as other commercial terms that will influence exploration and productions in the oil sector are great

disincentive to boosting oil production. We are in competition with a number of emerging oil producers in the Gulf of Guinea and other parts of the world.

"Crude oil is also competing with new forms of energy like shale oil and gas, and renewable energy. Hence, the incentives in the sector should reflect these new developments. There is also the need to encourage marginal producers and other indigenous producers to start or expand their production and exploration efforts. The oil producing communities' interests must also be factored into overall policy factors to reduce non-economic risks associated with oil exploration and production in the Niger Delta basin."

Adenikinju also emphasised the need for the government to diversify the economy to reduce uncertainty of crude oil price and production target challenges. Nigeria will survive.

"The current challenges with oil prices also have their own opportunities. In the short term, we will all pay the price for lack of fiscal discipline and wastes. For well over a decade we have benefitted from oil boom as oil prices have been an upward trajectory. Actual oil prices have consistently been above the budgeted price. We should have saved enough to cushion the effects of current slide in oil price. Hence, ordinarily we should not be feeling the impact of the volatility almost instantaneously now on our economy. There should have been some decent lag for the effects of fall in oil prices to be transmitted to the economy. But we have been largely prodigal and wasteful in my view.

Another economist who spoke with The Guardian on condition of anonymity, said that the country should be prepared for face tougher times as the price of crude would still drop further.

According to him, the price of crude oil is likely to drop further than its ability to rebound up to \$100 per barrels.

He stated: "If you look at the rate at which the price of crude oil has been declining in the last few months, you will agree with me that we may be facing serious economic issues in this country than we are currently expecting.

"This is why it is necessary for the country to look for ways to begin to refine our crude oil in order to reduce the importation of refined products. Petroleum has been our mainstay, and we have allowed the easy money from oil to strangle other cash cows like agriculture, solid minerals, tourism and many others. We have been running a mono-product economy, Nigeria must now diversify now."

**(This story was originally published by The Guardian)**