

Host Nations' Participation in the Oil and Gas Business and the Expected Gains

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Abstract

The paper was written on host nations' participation in the oil and gas business and the expected gains. This article examined the expected or resulting gains of active participation by host nations in the business of oil and gas, draw conclusion and make recommendations for sustainable growth. From the earliest time, active involvement and participation by the host nations, particularly the so-called third world countries, in the oil and gas business was virtually non-existent, and, at best, incidental. The implication was that the foreign investor corporations exploited the lack of technical know-how, poverty and none active participation of the host nations, particularly in the case of Nigeria, and ripped off such nations of the accruable income by offering meager amounts and some other incidental gains but repatriated the greater earning to their home countries. Oil bearing developing nations, like Nigeria, must not shy away from active involvement and participation in the oil business as the resulting gains and dividends are quite unquantifiable and have multiplier effects on the broad and general development of the concerned nations. It will bring diversification in the economy as profits realized is ploughed into other areas of critical need and development like railways, airports, construction of dams, agriculture, education etc.

Keywords: Host nations' participation, oil and gas business, expected gains.

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INTRODUCTION

From the earliest time, active involvement and participation by the host nations, particularly the so-called third world countries, in the oil and gas business was virtually non-existent, and, at best, incidental. It was virtually controlled and managed by the foreign investors through the multinational corporations who provided the technical expertise and funding needed for the sector. These multinational corporations were granted full rights and management of the sector subject to payment of royalties to the government of the host nations and other accruable money solely determined or declared by the multinational investor.

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As time went, developing nations started agitating for effective participation in the management

of their naturally endowed resources in order to maximally benefit from them. This dream became a reality courtesy of the United Nations Resolution of December 14, 1962 which gave authority to the host nationals or third world countries to be in full charge and control of their own natural resources. Other UN resolutions with same objective followed.

Nigeria joined the organization of Petroleum Exporting Countries (OPEC) in 1971 and thereby gained full participatory power *vide* Article 90 of OPEC Resolution XVI of 1968 enhancing the right of host nations over their natural resources. The combined effect of the United Nations resolution and that of the OPEC acted as catalyst to host nations, including Nigeria in taking practical steps in the participation and management of the oil and gas business.

This article is going to examine the expected or resulting gains of active participation by host nations in the business of oil and gas, draw conclusion and make recommendations for sustainable growth. These benefits cut across economic, political, social and other aspects as shown below:

Expected or resulting gains by host nations Control of the business through Joint Venture Arrangements

Effective participation of the host nations in the oil and gas business through the Joint Venture Arrangements (JVA) whereby the host nation and the International Oil Companies (IOCs) would pool resources together for mutual benefits has enabled the host nation to be in control of the oil sector. In most cases, the equity shareholding usually tilt in favour of the host nation, like 60% to 40% ratio for host nation and the investor IOC respectively.

This present state of affairs is unlike what it used to be when it was fully investor ownership arrangement where stipends were paid to host nations while the bulk of the profits were sent back to their home countries for investment. This trend has drastically changed.

Opportunity for manpower development

A consequence of the participation of the host nations in the oil sector is that the needed manpower development for the indigenous people is factored in the scheme of affairs which in turn would add to our local content as more and more citizens are fully engaged. The effect is that the Local population would take over positions occupied by foreigners especially the technical aspects having acquired the requisite skills.

Ensuring favourable policies and initiative for inward growth

The participation of host nations would engender favourable policies and initiatives for inward growth of the economy. This is contrasted from when business policies were orchestrated from the metropole, and the host nations as satellite states would wait for initiatives and directions from their foreign masters; and would have to take them either ignorantly or without options. The investor foreign powers were characteristically driven by profit maximization and not to meaningfully develop the economy of their host nations by coming up with progressive and beneficial policies.

Prompt and smooth implementation of OPEC policies and resolution

Akin to the immediate preceding advantage, the participation of host nations in the oil business would ensure that guidelines, policies and resolutions of the OPEC are promptly and smoothly implemented without much ado. This is very important since the OPEC as a body is chiefly concerned with not only growing the economy of member states but also protecting their interests from predator buyers or investor bodies. Prompt implementation of OPEC measures would be for the host nation's optimum benefits.

Firstline beneficiary from the dividends of natural resources

Another gratifying consequence of participation by host nations is that it would attract a lot of profits and dividends as frontline beneficiary. Some of the profits often shared between the host nation and the International Oil Company would be wholly for the former. Sometime, the IOCs hide some oil produce or do not declare the actual volume of crude produced or profits made in the course of oil production. In the process, large chunk of crude is exported under clandestine circumstances just as what is declared is just a fraction of actual profits to be shared between the investor partner and the host nation. Thus, the investor remains the firstline beneficiary while the host nations remain the tertiary beneficiary. This may be particularly so in the case of Nigeria. A former Chief of Naval Staff (CNS), Vice Admiral Dele Joseph Ezeoba while expressing concerns about the level of stealing of Nigeria's crude oil had this to say:

The bulk of Nigeria's crude oil is stolen from the export terminals as the security agencies have no access to metres installed at export terminals to determine the volume of crude exported ... Nigeria was the only country that allows what he described as 'Load plus five percent' on each vessel, insisting that there must be transparency and accountability in the manner crude oil lifting is done ... The biggest theft is the one that occurs at the exporting loading terminals. This is beyond all of us. We have no access to the metres at the export terminals [1].

However, when the host nations, particularly Nigeria eventually become the sole operator, it is expected that the correct volume of crude produced would not only be exported but also the exact profits declared as belonging to the nation.

Enhancement of de-colonization and economic determinism

There is the urgent need to avoid, through host nation's participation, investor-ownership whereby the multinational economic clintel and international oil magnates through capitalist imperialism would harvest our natural resources owing to lack of participation in the business, *a fortiori* the needed skills and manpower. Effective participation would accelerate local manpower development that would eventually domesticate the ownership and management of natural resources to the greater political and economic advantages of the host nations.

In nations where the investor companies dominate the business environment, *vis-à-vis* the host nations, the later are under colonialism, even if subtle, just as they are still economically dependent. Such nations cannot effectively chart their economic paths and policies on their own, let alone executing such,

rather such as dictated by the overbearing multinational corporations. This status can only be reversed by effective participation of host nations in the business of the oil sector.

Prudent management of our resources

There is no gainsaying that the perennial stealing of the crude in host nations, particularly in Nigeria may not be unconnected with active involvement of the IOCs. Accusations of involvement of the Oil majors in stealing crude oil in Nigeria come from both ordinary citizens and state officials, and may not be without justification. This amount to imprudent and corrupt exploitation and management of these resources for private and unauthorized gains to the disadvantage of the general citizenship of the host nations. Such nations lose millions of money that should have been channeled to some worthy productive and developmental projects in the affected nations. An erstwhile high-ranking state official made an instructive declaration in this regard. According to the source:

The Chief of Naval Staff, Vice Admiral Usman Jibrin, has accused International Oil Companies operating in Nigeria of complicity in the theft of the nation's crude oil. He also said that the navy would not pretend about the involvement of the oil companies in crude oil theft... Jubrin said some of the oil firms had deliberately left the manifolds of their oil wells open for years without conscious efforts to close them inspite of the fact that only experts had the capacity to reopen closed manifolds. He warned that the navy would ensure the arrest of executives of the IOCs who decided to leave the manifolds of their oil wells open for years without closing them [2].

A visibly exasperated Jibrin minced no words when he said:

We have a serious challenge and we need the commitment of the CEOs to discuss oil theft. It has become worrisome that we have not been able to check the issue of oil wells. It has got to a point that instead of pointing accusing fingers, we will mention names, including those of the major stakeholders. We cannot pretend that the oil companies do not have a hand in some of these illegalities; the pretending is to allow it to continue. We will not pretend. I can start by citing some examples; some companies have left their oil well opened for years and have done nothing to close them up... I have pictures here. Why is it that all of us cannot sit down at a round table and provide a solution? Why are we denting the image of this country?... I have decided that I will take some steps that if manifolds are left open for years and our attention is drawn to the need for it to be closed, we will look for and start arresting

officials of the Oil companies who own that and left them without taking appropriate action.... The government was taking the issue of oil theft seriously because of the loss of revenue and the inimical effects of oil theft on the environment [3].

Granted that some local people engage in oil theft too, but what is from the locals pale into nothing when compared with the volume of crude oil unaccounted for or diverted with active connivance with or direct dealings of the IOCs. The totality of all these amount to rapacious exploitation of the host nations with active involvement of the IOCS in such mismanagement.

This situation is expected to end, or, at least, drastically reduce when the host nations begin to take active participation in the sub-sector; especially when abreast with the requisite expert knowledge of critical areas like operation of the oil manifolds and provision of metering device is used for computing volume of crude oil production for maximum return.

To enhance sustainable revenue base for the government

There is no doubt that the oil and gas industry has proven to be a 'gold mine' to the nations naturally endowed with it in terms of revenue generation when prudently and effectively managed. Host nations, especially from the perspectives of developing countries stand to be enormously enriched in revenue generation from the oil sector that would be ploughed back in the diversification of the economy and development generally. This state of affair can come into reality especially when host nation get much involved in the business both from the administrative, management to even highly technical areas.

It is hoped that when the citizenry of the host nation get much involved in the sector, all loopholes and avenues through which accruable revenue is lost would be plugged; and that would enhance income derivable from the sector for the government to have the needed capital for transformational developments in society.

Of course, sustainable revenue base would be built in the industry from such areas as taxation, royalties to the government, fines in appropriate cases which could be administrative or judicial and profits derivable from the sale of oil and gas products. Nigeria, indeed, rakes in huge amount of money from sale of crude oil. This is principally done by the NNPC. To buttress this point is an official report which stated that:

The NNPC, in its Monthly Financial and Operations Report for November 2019, disclosed that the amount lost to subsidy, petroleum products theft and pipeline repairs, represented 47.4 percent of the N80.72 billion

remitted by the corporation to the Federation Account Allocation Committee, FAAC from domestic sale of crude oil and gas... the country earned N173.8billion and N5.78 billion from the domestic sale of crude oil and gas respectively in November 2019; while total remittances stood at N217.84 billion [4].

The reported further disclosed that,

In November, 2019, NNPC remitted the sum of N179.58 billion to the Federation Account Allocation Committee (FAAC). From November 2018 to November 2019, total NNPC remittances to FAAC is N1.587trillion; out of which Federation and JV received the sum of N747.69 billion and N838.87 billion respectively [5].

There is no doubt that prudent management of the industry, especially under the watch of local citizens as against where the expatriates are in charge, would enhance steady and sustainable base for the government to achieve much for the people.

To restore environmental sanity

Decay, decadence, degradation and dislocation (4Ds) of the environment has been the lot of most third world countries bearing crude oil with Nigeria as an outstanding case. Already the oil and gas region of the Niger Delta region has been badly, rather deadly polluted for over five decades of oil production in Nigeria. This arose as a result of indifferent attitudes and negative practices adopted by the IOCs in the industry. Perhaps, because Nigeria is not their home country and being goaded only by business orientation of maximizing profits at the detriment of environmental sustainability or sheer double standards in practice, they have cast best oil field practices over board.

A leading multinational in the oil and gas business in Nigeria, Shell Petroleum Development Company Nigeria Limited (SPDC) has been the most vilified in the degradation of the oil hub, the Niger Delta region. It came to a point that a vocal critic Van Dessel, a Dutch had to resign to register his protest while serving as the Head of Environmental Study Unit in SPDC. His main grouse was that SPDC was adopting standards different from its practices in other countries.

The Bodo spills make a good illustration here. A source said:

In 2008, two consecutive spills, caused by faults in a pipeline, resulted in thousands of barrels of oil polluting the land and creek surrounding Bodo, a town of some 69,000 people. Both spills, continued for weeks before they were stopped. No proper clean up has ever taken place. Shell's failure to promptly stop and clean up Oil Spills in Bodo has devastated the lives of tens of thousands of

people. Bodo is a disaster that should not have happened, yet it is one that due to shell's inaction continues to this day [6].

Even quite recently, oil major has exhibited scant regard to environmental sanity characteristics of the IOCs in their operational habits, drawing the ire of a notable environmentalist, Rev. Nnimmo Bassey. A report on the incident shows that a foremost environmentalist, Rev. Nnimmo Bassey has berated Nigerian Agip Oil Company, NAOC, over its reaction to the February 3, 2020, Oil leakage at its oilfields in Brass, Bayelsa State [7].

The pipeline explosion on a line feeding the oil export facility discharged crude into the environment, forcing the firm to shut down the line amidst concerns by oil industry observers on oil output shortfalls. The facility, according to Eni, the Italian parent company of NAOC has capacity to handle exports of 90,000 barrels of crude per day [8].

Bassey said that the statement by NAOC's parent company Eni was insensitive to the impact of the leakage. In a statement yesterday, he stated that it was regrettable that the Operator of the oilfield had neglected its obligations of operating in an environmentally sustainable manner and merely stated that the incident had no significant impact on its oil output. In lambasting the oil major, Bassey said:

The response to this incident underscores the lack of care about environmental impacts of continuous oil spills in our communities. As in previous cases, the concern of the oil company is about profit, about how to keep the oil flowing, about how to continue exploiting without any sense of responsibility. This is shameful and unacceptable. Where are the regulators of the oil and gas sector? They should wake up from their slumber. At a time when the entire Niger Delta should be remediated, we are seeing the regulators, National Oil Spills Detection and Response Agency, NOSDRA or even the Department of Petroleum Resources, DPR, keeping mum and leaving the security agencies to be speaking on the incident reported since early February [9].

Bassey continued his condemnation of this environmental injustice of subordinating environmental interest to economic growth as well as weak state institutions responsible for enforcing environmental laws when he castigated the defaulting stakeholders thus:

Did they arrest any official of Eni? Was the security agencies deployed to protect facilities equipped to undertake role they have taken upon themselves? Explosions can happen due to operational or equipment failure. The approach we see here is another layer in the

oppression of the poor communities and the worrisome discounting of impacts on the environment and human lives [10].

In the light of preceding state of affairs, it is hoped that when the citizens of the host nations not only participate but become in charge of affairs, such criminal degeneration to non-adoption of international best practice by SPDC, especially in Nigeria would be reversed and best oil field practices adopted towards restoring environmental sanity and sustainability.

To douse agitations and promote industrial peace

There is no doubt that in the Nigeria's oil hub, the Niger Delta region is grappling with perennial agitations that cannot be pinpointed on a single cause but on multiplicity of reasons in relation to the oil and gas industry. Such agitations manifest in lone individuals, peaceful demonstrating young men, women groups, whole communities and quite fearfully armed youths who had taken to the swampy creeks. This latter group engage in kidnappings, especially the expatriate, oil bunkering and pipeline vandalisation.

Among the several causes of such agitations include non-observance of good oil field practices by the IOCs, occasioning spills and environmental pollution; lack of rapid response by both the IOCs and industry regulators (e.g NOSDRA or DPR) in taking remedial and restorative measures on the polluted environment; near lack of payment of compensation or damages in appropriate cases; payment of meager sums as compensation and exhibition of scorn and disdain by the IOCs towards the natives whose life do not mean much to them in their relationship among others.

These habits by the IOCs have not only soured relationship between the investors and the host communities that have made both the expatriates and some state officials adjudged by the people as siding the foreigners in their anti-people practices as easy targets, thus orchestrating hostile industrial relationship in the region.

A very recent example occurred in Bayelsa State. According to the source:

The coastal town of Letugbene in Ekeremor Local Government Area of Bayelsa was Monday evening invaded by the military in search of alleged killers of four soldiers and a civilian tugboat captain. No fewer than four houses and two suspected pirate camps were reportedly razed in the coastal enclave on the Atlantic Shores of the State by troops... The invasion, according to a community source, can be termed a retaliatory move by the military, following the killing of their personnel and a civilian by some suspected sea pirates along the Letugbene waterway [11].

The source further reported,

That the soldiers were escorting a barge conveying some equipment belonging to one of the multinational oil companies operating in the western axis of the state when they came under attack on Sunday afternoon. Also killed during the attack which reportedly occurred at about 3pm on the fateful day was the civilian captain on board the tugboat towing the barge carrying two cranes allegedly heading to Tunu, a shell location in the mangrove swamp [12].

This particular case shows the running battle between the armed agitators who feel being deprived of their Godgiven resources by the foreigners in connivance with the government and the investors in the main. It is really a cat and dog relationship which does not enhance healthy industrial peace for sustainable economic and environmental state.

This hostile industrial relationship existing between the IOCs, and, at times, the industry regulators on the one hand, and the host communities (hostcom) on the other hand unarguably contributes to the high rate of pipeline vandalization and some other disruptive activities as form of revenge in the oil industry. This no doubt takes its toll on the income accruable from the sector.

Official source on this issue is quite revealing. Quoting from the subheading '*Sabotage threatening oil output increase – NNRC*', the source stated:

Furthermore, the Nigeria Natural Resource Charter, NNRC, in its 2019 Benchmarking Exercise Report, BER, released last weekend, noted that increased volume of crude oil and gas production in Nigeria was being threatened by sabotage of oil pipelines by members of oil-producing communities. According to the report, in July 2019, the NNPC reported a record high of 228 pulverized points, representing a 115 percent increase from the 106 vandalized points recorded in the previous month ... This suggests that the challenges faced by host communities are yet to be effectively addressed [13].

However, it is expected that with active participation of the citizens of the host nations, especially by occupying strategic management positions in the oil sector, informed policies, practices and decisions would be in place that would cater for the interests of both the investors (especially when Nigerianised) and the local people; thus promoting industrial harmony, and agitations drastically reduced, if not wholly ended.

CONCLUSION

The above points represent some gains or expected gains following active participation of host nations, most importantly from developing nations, in the oil and gas sub-sector; and as such, constitute giant strides in the broad development of the economy of such oil bearing nations.

RECOMMENDATIONS

Envision the multiplier effects nationally

Looking at the advantages highlighted above, oil bearing developing nations, like Nigeria, must not shy away from active involvement and participation in the oil business as the resulting gains and dividends are quite unquantifiable and have multiplier effects on the broad and general development of the concerned nations. It will bring diversification in the economy as profits realized is ploughed into other areas of critical need and development like railways, airports, construction of dams, agriculture, education etc. This should be a motivating factor.

Provide legal framework for local participation

Once this vision of multiple impact on the economy is made and becomes attractive, legal measure has to be made, making it imperative for local interests to be given due opportunity in the industry. Nigeria has taken a giant step in this regard by the enactment of the Nigerian Oil and Gas Industry Content Development Act, 2010. The Act in Section 2, provides Nigeria Content as Management Philosophy for project execution in the Oil Industry. This means that interest of Nigeria and Nigerians must be given priority in the subsector. With such legal backing, it will be much easier to create the room and opportunity for local citizens getting actively involved in the industry, thus deepening the local content in the area.

If the preceding recommendations are embraced, among other positive steps, host nations

stand the chance of becoming masters of their own economies and charting the desirable paths unto sustainable economic, political and social developments.

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