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The Honourable Minister of Petroleum Resources
Federal Ministry of Petroleum Resources
Abuja

August 2012

Our Reference:
Your Reference:

Report of the Petroleum Revenue Special Task Force

We have pleasure in reporting the conclusion of the assignment given to the Petroleum Revenue Special Task Force (PRSTF) in accordance with its Terms of Reference as laid out at the inauguration of the Task Force. We enclose our final report of work done together with our key findings and recommendations.

Our overall approach has been prescriptive and consultative with various stakeholder groups within the Petroleum Industry providing in our estimation a unique opportunity to address some long standing issues that affect the industry.

This is our final report of the assignment. Accordingly, this report supersedes earlier copies used for presentations and discussions.

We take this opportunity to thank all the Government Agencies and Private Organisations in the Petroleum Sector who assisted us by providing us with information and documentation from the Operator's records.

We appreciate the opportunity given to us to be of service to the Ministry and the Nation on this most important assignment.

Yours faithfully,

Mallam Nuhu Ribadu
Chairman, PRSTF

Olasupo Shasore SAN
Member/Secretary PRSTF

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LIST OF ABBREVIATIONS/ ACRONYMS

AF	ALTERNATIVE FINANCING
BPD	BARRELS PER DAY
CA	CARRY AGREEMENT
CBN	CENTRAL BANK OF NIGERIA
COMD	CRUDE OIL MARKETING DIVISION
COSM	CRUDE OIL STOCK MANAGEMENT
DPR	DEPARTMENT OF PETROLEUM RESOURCES
EFCC	ECONOMIC AND FINANCIAL CRIMES COMMISSION
EIA	ENERGY INFORMATION ADMINISTRATION
ERP	ENTERPRISE RESOURCE PLANNING SYSTEM
FAAC	FEDERAL ACCOUNTS ALLOCATION COMMITTEE
FGN	FEDERAL GOVERNMENT OF NIGERIA
FIRS	FEDERAL INLAND REVENUE SERVICE
FMF	FEDERAL MINISTRY OF FINANCE
GTL	GAS TO LIQUID
HAGF/HMJ	HONOURABLE ATTORNEY GENERAL OF THE FEDERATION/ HONOURABLE MINISTER OF JUSTICE
IOC	INTERNATIONAL OIL COMPANY
IT	INFORMATION TECHNOLOGY
JOA	JOINT OPERATING AGREEMENT
JV	JOINT VENTURE
LNG	LIQUEFIED NATURAL GAS
LOC	LOCAL OIL COMPANY
LPG	LIQUEFIED PETROLEUM GAS
MCA	MODIFIED CARRY AGREEMENT
MPR	MINISTRY OF PETROLEUM RESOURCES
NAPIMS	NATIONAL PETROLEUM INVESTMENT MANAGEMENT SERVICES
NCS	NIGERIA CUSTOMS SERVICE

NDR	NATIONAL DATA REPOSITORY
NEITI	NIGERIAN EXTRACTIVE INDUSTRIES TRANSPARENCY INITIATIVE
NGL	NATURAL GAS TO LIQUIDS
NLNG	NIGERIA LIQUEFIED NATURAL GAS
NNPC	NIGERIAN NATIONAL PETROLEUM CORPORATION
NPMS	NATIONAL PRODUCTION MONITORING SYSTEM
NXP	NATIONAL EXPORT PROCESSING
OAGF	OFFICE OF THE ACCOUNTANT GENERAL OF THE FEDERATION
OPTS	OIL PRODUCERS TRADE SECTION
OSP	OFFICIAL SELLING PRICE
PIB	PETROLEUM INDUSTRY BILL
PMO	PROJECT MANAGEMENT OFFICE
PPMC	PIPELINE PRODUCTS AND MARKETING COMPANY
PPPRA	PETROLEUM PRODUCTS PRICING REGULATORY AGENCY
PPT	PETROLEUM PROFITS TAX
PRSTF	PETROLEUM REVENUE SPECIAL TASK FORCE
PSC	PRODUCTION SHARING CONTRACT
TOR	TERMS OF REFERENCE

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The Petroleum Revenues Special Task Force carried out a review of the Nigerian Petroleum Industry with a view to fulfilling its Terms of Reference as inaugurated by the Honourable Minister of Petroleum Resources.

Executive Summary

Background

The Honourable Minister of Petroleum Resources, driven by the need to strengthen the institutions responsible for Petroleum Revenue Management, commissioned the Petroleum Revenue Special Task force (PRSTF) on 28 February 2012. The goal of the Task Force was to support the programme of the Federal Government of Nigeria in enhancing optimization, probity and accountability in the operations of the Petroleum Industry.

As part of this agenda and the issues arising from the various fiscal regimes existing in the sector, there arose an urgent need to establish the streams of revenue flows from the Petroleum sector to the Federal Republic of Nigeria and design systems and processes which would enhance the accountability of each agency or entity.

The assignment of the Special Task Force is contained in its Terms of Reference and covers the entire Petroleum Value Chain. Accordingly, the Task Force set out to confirm if existing systems, laws, processes and functions across the value chain provide reasonable assurance that revenues from the Petroleum Industry are captured, complete, recorded intact, properly accounted for and that revenue due is demanded and collected.

Terms of Reference

At the inauguration of the Petroleum Revenue Special Task Force, the following Terms of Reference (ToR) were communicated:

1. To work with consultants and experts to determine and verify all petroleum upstream and downstream revenues (taxes, royalties, etc) due and payable to Federal Government of Nigeria;

2. To take all necessary steps to collect all debts due and owing; to obtain agreements and enforce payment terms by all oil industry operators;
3. To design a cross debt matrix between all Agencies and Parastatals of the Ministry of Petroleum Resources;
4. To develop an automated platform to enable effective tracking, monitoring and online validation of income and debt drivers of all Parastatals and Agencies in the Federal Ministry of Petroleum Resources;
5. To work with world-class consultants to integrate systems and technology across the production chain to determine and monitor crude oil production and exports, ensuring at all times, the integrity of payments to the Federal Government of Nigeria; and
6. To submit monthly reports for ministerial review and further action.

Scope and Methodology

Since its inauguration, members of the PRSTF have approached the assignment with all the seriousness that it deserves. In carrying out its ToR, one of the initial activities performed by the PRSTF was to obtain both written and verbal presentations from the various stakeholder groups within the Petroleum Industry. This was to enable the Task Force to understand the challenges faced and the type of reforms that are required. This was all carried out with a view to determining and optimising the nation's revenue streams from all sectors within the industry.

The Task Force members also visited and reviewed selected agencies and operators, supported by the Consultants, for the period spanning 1 January 2005 to 31 December 2011 in line with the Statute of Limitations. Two workshops were also held to aid information gathering process with respect to key issues of Metering and Measurement in the Oil & Gas Sector Value Chain, and Security in the Oil and Gas Sector.

Apart from several plenary meetings to receive briefings, analyse gathered information and deliberate on findings, the Task Force also operated through constituted two (2) ad-hoc subcommittees to conduct a detailed review of NNPC's and DPR's roles in petroleum revenue management. Five (5)

standing subcommittees were also formed and conducted detailed assessments followed with recommendations in specific areas relevant to the overall ToR. Specifically in pursuance of ToR 2, the Task Force through the Security and Enforcement Subcommittee also liaised with relevant agencies to validate the status of outstanding debts identified in the course of the forensic review, and to demand payments where deemed necessary.

Revenue Review and Debt Verification Findings

The Task Force in pursuance of ToR 1 and 2 conducted activities to determine and verify all Petroleum Upstream and Downstream Revenues due and payable to Nigeria; and took all necessary steps to collect all debts due and owing.

It was determined that the main petroleum revenues due to the national treasury in respect of oil and gas activities in Nigeria are:

Domestic Crude Oil Sales, Equity Crude Oil Sales, Gas Sales, Refined Petroleum Products sales, Profits from NNPC subsidiaries, Petroleum Profits Tax, Company Income Tax, Signature Bonus, Concession Rentals, Royalties from Oil and Gas, Gas Flare Penalties, and Miscellaneous Oil Revenues.

The Task Force's key findings are presented below according to these revenue streams.

1. Proceeds from the sale of Domestic Crude Oil

As at 31 December 2011, N843 million¹ was due to the Federation in respect of Domestic Crude Oil allocations. The amounts outstanding as at 31 December 2011 represent amounts due for the months of September 2011 to December 2011. In view of the 90-day credit period, the outstanding amount as at 31 December 2011 was not due for payment.

The Task Force received representations from the NNPC and other relevant agencies on the Corporation's practice of deducting amounts for subsidy-related expenses prior to remittance of these revenues. In the course of the Task Force's work, we did not receive sufficient justification for the practice which does not accord with the law, with particular reference to the Constitution.

¹ PRSTF is aware that further settlement should now have reflected providing figures as at April 2012

Our review of the records received for 2002 to 2011 showed an inconsistent pattern in the implementation of the policy to allocate 445,000bpd allocation to NNPC, with variances found for the ten years reviewed.

The Task Force also compared the average price per barrel payable by NNPC for Domestic Crude with the average weekly prices for Nigeria Bonny Light, Forcados, obtained from the Energy Information Administration (EIA). The review revealed that over a 10 year period (2002 – 2011), the State may have been short paid by an estimated sum of US\$ 5 billion, although it was understood from discussions with NNPC officials that the pricing of domestic crude oil was based on international prices. Enquiries from NNPC revealed that up until October 2003, NNPC was granted fixed price regimes which explain the wide disparity in prices in the earlier years.

The Task Force found that the exchange rates used in arriving at the Naira equivalent of the amounts payable differed from the CBN rates for six (6) of the ten (10) years reviewed. The potential underpayment of amounts payable to the Federation Account over the 10- year period is estimated at N86.6 billion. Also, the Task Force's review of the domestic crude utilisation showed that the percentage not refined in- country ranged from between 50% to 88% over the 10 year period.

2. *Proceeds from Equity Crude Oil Sales:*

Equity Crude represents government's share of crude oil production (excluding domestic crude) obtained mainly from three (3) arrangements: Joint Operating Agreements (JOA) with IOCs, Production Sharing Contracts (PSC) and Service Contracts. Equity Crude Oil proceeds are remitted into the Federation account as export proceeds, DPR accounts as Royalties and FIRS accounts as Petroleum Profit Tax.

The Task Force observed that there is no single point accountability for the income and expenditure streams of upstream petroleum operations, compounded by the current structure of NNPC such as multiple roles executed through NAPIMS and its COMD.

A decline was also observed in national investments that would increase the nation's proven reserves. Accordingly, despite the increase in crude oil production in Nigeria over

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the years, the nation's entitlement has decreased as a result of various alternative funding arrangements for its upstream investments.

The Task Force found that legislation governing the industry and agreements with third parties are outdated, do not reflect current economic or legal realities; or include ambiguous clauses. Also, there are some provisions within the legislation that could significantly improve government's revenue that the government is yet to take advantage of. Examples include a provision to ensure that the share of the Government of the Federation in the additional revenue shall be adjusted under the Production Sharing Contracts if the price of crude oil at any time exceeds \$20 per barrel; and the requirement for a periodic review of provisions in specified time frames.

It was also observed that some traders lifted crude oil although they were not listed on the approved master list of customers who had a valid contract and were selected through an annual bidding process. The Task Force research also found that quite a number of traders did not demonstrate renowned expertise in the business of crude oil trading.

Furthermore, the Task Force found that the use of crude oil traders was contrary to the global trend wherein national oil companies develop their own trading arms, such as the various NNPC trading subsidiaries which currently have limited capacity. The Task Force identified various concerns in this area with Nigeria being the world's only major oil producer that sells 100 percent of its crude to private commodities traders, rather than directly to refineries. Various submissions to the Task Force demonstrated the potential for lost margins to middlemen, manipulation of pricing, suboptimal returns and market fraud as emanating from this policy and practice.

A review of NAPIMS's audited financial statements as at 31 December 2009 showed that Joint Venture cash calls payable was N459.568billion. Since 2006, government has not allocated enough funds to cover these amounts and NNPC has entered into a range of borrowing arrangements referred to as Alternative Financing Arrangements with the costs of financing this debt (estimated at around 8%) continuously mounting. This cycle will continue to increase in the coming years unless a systemic solution is found.

As JV partners there is a need for the effective management and oversight of oil companies' operating costs which affects revenues accruable to Nigeria. There is also a clear training, technology and human capacity gap between NAPIMS staff and their counterparts in the private oil and gas sector.

3. *Proceeds from the Sale of the National Entitlement (Gas):*

The Task Force aided by the Consultants identified a total of N137.572 billion (\$946.878 million) due to the Federation from SNEPCO representing the proceeds of gas sales from the Bonga oil field; according to the NNPC (NAPIMS) Financial Statements for the year ended 31 December 2009.

For Liquefied Natural Gas, the price observed at which the feedstock gas is sold to NLNG seems too generous, compared to prices obtainable on the international market. The estimated cumulative of the deficit between value obtainable on the international market and what is currently being obtained from NLNG, over the 10 year period, amounts to approximately US\$29 billion.

4. *Proceeds from Sale of Petroleum Products:*

From the Task Force's review, NNPC is owed ~~N~~27billion including current debt, total overdue, disputed debt and total debt outstanding, by the major marketers of petroleum products. We also found that amounts payable to suppliers of petroleum products, as at 31 December 2011 amounts to approximately US\$3.6 billion, of which US\$2.7 billion represents amounts outstanding for over 365 days. The Task Force also observed that pipeline product loss has steadily increased over the years.

5. *NNPC and Subsidiaries:*

From review of the latest available audited financial statements (2009) it was noted that NNPC has sixteen (16) subsidiaries. The financial performance of the Corporation and its subsidiaries in 2009 shows the Group had a deficit of approximately N298billion for the period. Various reviews conducted by the Task Force showed that the NNPC does not receive the required capital to grow its assets or meet operating costs. NNPC has therefore increasingly relied on the FGN for lines of credit, and deduction of oil revenue due to the Federation Account. In our review, the legal basis for this practice was unclear.

6. **Signature Bonus:**

The Task Force found that discretionary decision-making in the award of oil blocks can result in revenue losses for Nigeria. Our review also showed that the management of past bid rounds has resulted in lower demand and fewer qualified bidders, uncompleted deals weakened government returns, and lower development of acreage.

The DPR provided the task force with information indicating that 67 licenses were awarded between 1 January 2005 and 31 December 2011; with an outstanding balance of \$566 million unpaid in signature bonuses. For the 7 discretionary allocations reviewed, the Task Force found \$183million outstanding and due to the nation's treasury. We were however informed that of the total \$749m outstanding in signature bonuses, \$321m was legally disputed.

7. **Concession Rentals:**

The Task Force found that \$2.9million represents outstanding amounts to be collected by the DPR from the various concessionaires. However, we also observed inconsistencies in records provided by DPR in respect of information and schedules regarding the list of concessions.

8. **Royalties (Crude Oil and Gas):**

The Task Force found that \$3.027billion was outstanding from the operators for crude oil royalties as at 31 December 2011 per the DPR's records. Of this amount, the DPR had stipulated that ADDAX is liable to pay \$1.5billion royalties under the 2003 fiscal regime and there is currently a dispute between Addax and NNPC on the one hand, and the DPR on the other. In the course of the review, the Task Force also encountered differences in records of payments made to the CBN vis-à-vis DPR records, and lack of independent gas production and sales data.

9. **Gas Flare Penalties:**

The Task Force found that the DPR is currently unable to independently track and measure gas volumes produced and flared and depends largely on the information provided by the operators.

We also observed that the periodic reconciliation meetings with the operators to address the gas flare volumes were delayed with only 6 completed of 36 at the time of our review.

The total revenue from gas flaring during the review period was \$175million with the balance outstanding as unpaid was approximately \$58million indicating that \$115million had been received by the DPR. We however reviewed payments received by the CBN in respect of gas flare penalties. However a review of CBN records showed that \$137million was received between 1 January 2005 and 31 December 2011. The DPR was not able to reconcile the \$115 million to the \$137million.

Lastly, operators have not complied with the recent Ministerial directive signed on 15 August 2011 increasing the gas penalty fee from N10.00 to \$3.50. The operators have continued to flare gas at the rate of N10 and records at the DPR reveal that none of the companies have paid any gas penalty fee in 2012.

10. **Miscellaneous Oil Revenues:**

The Task Force was unable to obtain a comprehensive miscellaneous oil revenue schedule from the officials of the DPR, although a review of CBN's records provided some information albeit with unexplained variances. The amounts due in respect of the various fees relating to the miscellaneous oil revenues are also not reflective of the current economic realities.

Revenue Losses in the Nigerian Petroleum Industry

The Task Force identified sources of revenue losses in the industry, with a view to identify opportunity areas for major reform in boosting resources obtainable from the sector for national development. These include the following.

1. **Crude Oil Theft and Associated Revenue Losses:**

Hydrocarbon theft was found by the Task Force as being a major and chronic source of revenue loss to Nigeria. Theft of crude oil and refined petroleum products may be reaching emergency levels in Nigeria.

The Task Force observed various estimates by International Oil Companies and Government officials of the scale and volume of crude theft which ranged from 6 to 30 percent of production. While the Task Force does not endorse any of the numbers it received, we note that it could actually be as high as 250,000 barrels per day closer to 10% of daily

productions amounting to as high as N1 trillion annually. This issue therefore requires immediate attention.

2. *Lost Refined Products and Associated Revenue Losses*

The Task Force did not receive comprehensive figures documenting volumes of refined products stolen or spilled. NNPC reports that thieves stole 3.2 million metric tons of products from its pipeline network between 2001 and 2010 and that about 40 percent of products currently channelled through pipelines are lost to theft and sabotage.

PPMC also recorded 4,468 product pipeline breaks in 2011, 98 percent of them from sabotage; and values the products stolen from its pipeline network between 2001 and 2010 at N178 billion.

3. *NNPC Withholdings for Costs Associated With Theft and Sabotage*

NNPC withholds oil revenues from the Federation Account to cover costs associated with theft and pipeline sabotage.

4. *Pioneer Status granted to Indigenous Companies*

The Task Force was informed that at least five companies: Allied Energy, Midwestern Oil & Gas, Britannia Oil Nigeria Limited, Suntrust Oil Company Nigeria Limited; and Niger Delta Petroleum Resources Limited² have been granted pioneer status by the Nigerian Investment Promotion Commission (with others pending or undetected) for their exploration and production activities.

The Task Force finds that the granting of pioneer status to oil operators for an activity that is well established for over 40 years inappropriate. The loss of revenue from the grant of pioneer status to oil operators is an avoidable loss and it is recommended that any such further consideration be stopped forthwith and the current ones set aside and or revoked.

1. *Collateral Social Costs of Theft:*

The Task Force also found that certain social costs emanated from crude oil theft and considered them important and requiring urgent attention. These include environmental

² The argument that the status is appropriate for “exploration” and not “production” is untenable and self-defeating because once it is accepted that “production” is “already being carried on” in Nigeria the same goes for “exploration”

pollution and its socioeconomic impacts, armed piracy, and lost investment in the sector leading to revenue losses.

Debt Collection

Based on the detailed review of outstanding debts owed to the Federation, the Task Force determined outstanding amounts for royalties, signature bonuses and concession rentals. Pursuant to an initial understanding of ToR 2 of the PRSTF, relevant government agencies were invited to assist in a debt collection drive, and invitation and demand letters were sent to over 47 oil companies allegedly indebted to the nation. We have recommended that government pursue debts further in any manner deemed appropriate.

However during the debt reconciliation exercise, the sum of USD\$5,830,261 was paid into the treasury of Government with evidence of payment, while several companies made undertakings to pay at later dates.

Automation of the Nigerian Petroleum Industry

The Task Force identified Information Technology and business automation gaps, by carrying out Current Position Assessments of the stakeholders within the Oil and Gas production value chain, including government regulatory parastatals. The assessment scope covered three broad categories namely Core Business Systems, Reporting Capabilities and Automation Capabilities of these entities.

Our findings showed that there were evident automation gaps in the oil and gas value chain specifically in key agencies under the Ministry of Petroleum Resources/ Department of Petroleum Resources that are vested with the mandate to produce Oil and Gas, licence, keep and update records, supervise petroleum industry operations and ensure payment of rent and royalties.

Additionally, the PRSTF reviewed the state of metering and measurement in Nigeria's oil and gas value chain vis-à-vis best practices. The challenges identified with the current metering and measurement regime can be summarised as a lack of adequate vision and ownership required to articulate and drive a cohesive implementation of IT and Automation in MPR and DPR.

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The Task Force identified the following specific challenges with the metering and measurement regime:

- Dependence on manual data gathering processes
- Low level infrastructure at remote locations
- Lack of regular and systemic well testing
- Inadequate data and IT infrastructure among industry players
- Inadequate MIS reporting and dashboard capabilities in existing systems
- Disparate systems with differing data, nomenclature among operators
- Diverse data requirements from Government agencies
- Multiple and strong stakeholders with divergent interests

The Task Force also found inconsistent oil and gas data across the petroleum industry. These inconsistencies in information were sighted across the major agencies and parastatals of the MPR as well as with the oil and gas operators themselves.

Recommendations

In order to address the findings and issues above, the Task Force has developed the following recommendations which Government should implement to address the issues identified and their root causes.

1. *Strategic Management Recommendations*

From a strategic viewpoint of the Task Force's review and the findings discussed above, the Task Force recommends the following:

- Set up a process, independent of NNPC, to review the use of oil traders and NNPC's system for selling crude, on grounds of value for money and probity.
- Undertake a strategic review of all NNPC subsidiaries before the PIB passes, with a view to privatizing, repositioning or scrapping non-performing, redundant or irrelevant business units.
- Require a full public report by NNPC of the amount, cost and terms of all cash call debts; improve reporting of this information to the National Assembly as part of the annual budget and oversight process.
- Pass an oil sector transparency law that requires all oil companies active in Nigeria to report all payments, costs and earnings for each license or transaction, and to publish all contracts and licenses.
- Create a special, properly-trained Oil and Gas Sector Financial Crimes Unit for law enforcement³.
- Appoint a new NEITI Board, now long overdue. Members should be sector experts with a commitment to transparency, and civil society should appoint independent representatives.
- Establish an embedded and **independent** "office of transformation" **for the sector** with a fixed term and

³ The EFCC is one government agency with skill sets to develop this specialised area of law enforcement

specific mandate to carry through recommendations and transformational reforms accepted by government.

- Implement an aggressive debt collection process for outstanding signature bonus payments; revoke blocks from non-paying firms; sanction those agencies that failed to collect.
- Conduct an independent process audit of all upstream cost control rules and mechanisms, including the use of cross-country price benchmarking.
- Amend the 1984 Special Tribunal (Miscellaneous Offenses) Act to strengthen the legal framework for oil theft and other sector crimes.
- Arrest and prosecute perpetrators and financiers of illegal bunkering rings.

2. Production

- Production data for fiscal purposes should be obtained at the flow stations where crude oil is stabilised and not at the terminals as is currently the practice.

3. Domestic Crude Sales

- No deductions should be made from the amounts payable to the Federation Account.
- Domestic crude oil should be sold at international competitive prices.
- FGN should block leakages in the conversion to finished goods process of NNPC.
- There should be full compliance by NNPC with prevailing CBN exchange rates for remittance of crude oil proceeds.
- The Federal Government should revisit the Domestic Crude Oil Business Model

4. Equity Crude Oil Sales

- Restructure NNPC for single point accountability for Petroleum Revenues
- National investment in the oil and gas upstream sector must be managed from a strategic focal point
- Ensure full compliance of all agencies and companies with existing legislation
- Regularise Crude Oil Lifting Under Contract
- Ensure open competitive selection process for crude oil sales
- Review the nominations process for all the Joint Ventures
- Ensure and institute proper review of all draft contractual agreements
- Adequate funding of the Federation's investment obligations
- Create standard terms and conditions and uniform terms of contract agreements
- Proper and realistic budgets and approvals should be prepared annually
- Capacity Building should be embarked upon for NAPIMS in terms of optimal number and appropriate skills and training level of staff
- Ensure uniformity of the realisable prices used by all parties
- Carry out adequate review of the purchase or lease option for production equipment

5. Sale of the National Entitlement (Gas)

- Draw up master agreements for the development of all potential gas reserves in Nigeria
- FGN should ensure that written consents exist for gas for all assets
- FGN should intensify efforts to get the other LNG projects up and running

- FGN to carry out a comprehensive review of its NGL/LPG entitlements under the Agip and Shell Joint Ventures

6. *Signature Bonus*

- The FGN should expedite action with respect to the blocks in dispute in order to ensure that the \$321million outstanding is collected.
- DPR should take further actions against the concessionaires that are yet to pay the amounts due (\$167million) within the remit of the law.
- Proper record keeping should be enforced at the DPR

7. *Concession Rentals*

- DPR should take action and enforce collections of the amounts due of \$2.9million within the remit of the law.
- The DPR should put in place measures to ensure consistency and accuracy of custodial information relating to oil and gas concessions

8. *Royalties (Crude Oil and Gas)*

- DPR should take action and enforce collections of the amounts due of \$3.027billion from relevant operators within the remit of the law.
- DPR should make a demand for the outstanding Addax/NNPC Royalties' payments of approximately \$1.5billion on behalf of the Federal Republic of Nigeria and the consequences of default should immediately be visited on the contract and the relevant parties.
- DPR should instruct the CBN and operators to ensure the proper description of all revenue remittances in order to facilitate easy reconciliation.
- DPR should independently track and record gas production and sales data

- DPR should ensure that all reconciliation process with all the outstanding gas producing companies is concluded before the beginning of the next fiscal year.

9. *Gas Flare Penalties*

- DPR should independently track and record gas flare volumes
- The reconciliation process should be expedited for all operators to ensure timely collection of the gas flare penalty amounts due.
- DPR should take action and enforce collections of amounts due as gas flare penalties within the remit of the law.
- Enforce the new gas flare penalty directive as a disincentive to gas flaring.
- The FGN should put more effort in enforcing a zero gas flare policy by the beginning of the next fiscal year.

10. *Miscellaneous Oil Revenues*

- The DPR should employ the use of proper IT systems and databases to keep its records and ensure consistency and integrity of information across the organisation.
- The Fee and Licensing regimes for operating in the Oil and gas sector should be reviewed to reflect the current economic realities in the Oil and Gas industry

11. *Removing the Source and Outlets of Revenue Losses*

- Explore Fingerprinting of Nigeria Oil to enable tracking.
- Establishment of a transparent whistle blowing and information portal as an independent and transparent repository of information on petroleum revenue losses, sabotage, and illegal activity.

- Implement a deliberate policy on market ban of participants in crude oil theft
- The Fiscal Responsibility Act 2007 should be amended to criminalize withholding payment of petroleum revenue after due date and assessment and a notice of demand.

12. *Automation of the Nigerian Petroleum Industry*

1. *Department of Petroleum Resources*

- The DPR should work with Galaxy Backbone and competent consultants to review on-going projects, NDR and NPMS, and also develop a strategic IT blueprint for the organization.
- DPR and MPR should commence the implementation of a portal that aggregates and presents in real time all relevant information about the operations and performance of the oil and gas industry.
- An ERP Solution should be put in place to capture and automate the identified backend processes in DPR.
- DPR, based on its mandate should build a Data Warehouse which would serve as a hub for gathering vital data about the industry and disseminating reports in various formats to government stakeholders. A framework and implementation roadmap to full automation of measurement and metering should be developed in a collective effort involving DPR and the operators with oversight from MPR.

2. *Nigerian National Petroleum Corporation*

- The implementation of SAP should be expedited to fully automate key processes especially relating to revenue generation, processes feeding and pulling data to external parties.
- The NNPC's culture, end user work ethics and employee resistance to change all need to be managed extensively for the SAP implementation to be a full success.
- The SAP implementation should be independently monitored from the Ministry to track and ensure that the strategic objectives are met.

3. Central Bank of Nigeria

- A quick win solution would be to study and automate the NXP forms with a view to track shipments and track repatriation of export proceeds.
- The existing CBN systems should be interfaced with other systems in the various relevant agencies in order to provide an overview of all revenue reporting and enable timely reconciliation between organizations.

1. Nigeria Customs Services (NCS)

- The existing NCS system should be integrated with other systems in the various relevant agencies in order to provide an overview of all revenue reporting and enable timely reconciliation between organizations.

1. Full automation of the Petroleum Industry

The PRSTF has recommended a way forward for the full automation of the Petroleum Industry. Key features of the proposed metering and measurement regime in particular are shown below.

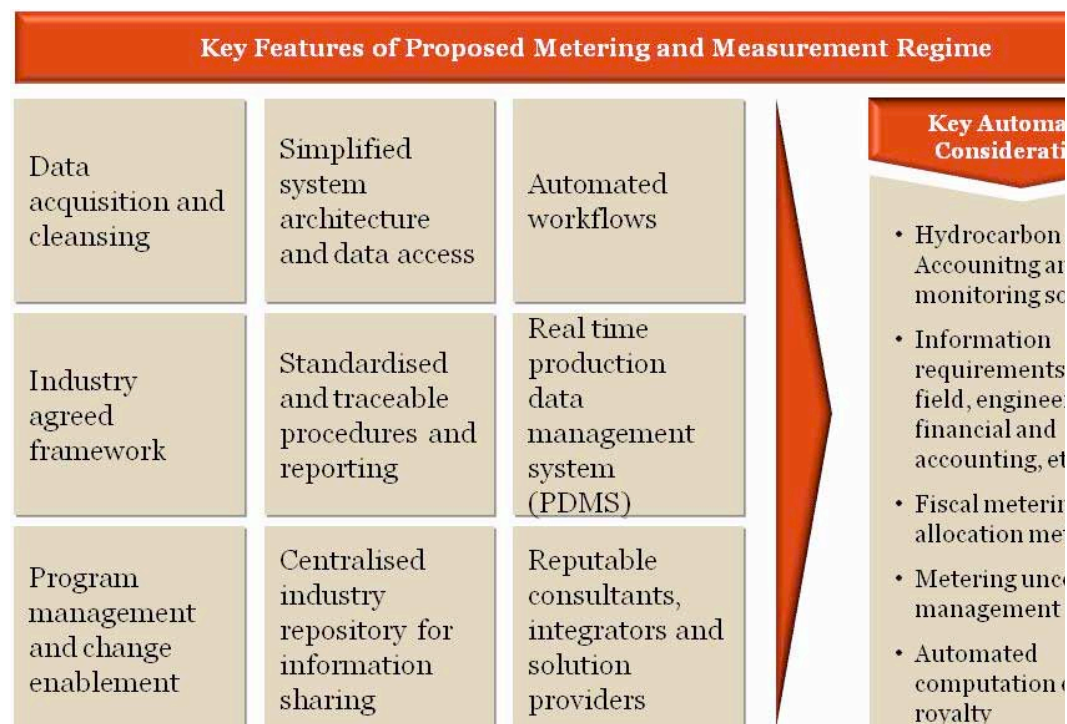


Figure A: Features of Proposed Metering and Measurement Regime

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the 1990s, the number of people in the UK who are aged 65 and over has increased from 10.5 million to 13.5 million (15.5% of the population).

There is a growing awareness of the need to address the health and social care needs of the ageing population. The Department of Health (2000) has set out a strategy for the 21st century, which includes a commitment to 'improve the health and well-being of older people, and to help them to live longer, healthier lives'.

The Department of Health (2000) has also set out a number of key objectives for the health and social care system, including:

- to improve the health and well-being of older people, and to help them to live longer, healthier lives;
- to ensure that older people have access to the services and support they need to live independently and safely;
- to ensure that older people are treated with respect and dignity, and that their views are taken into account in decisions about their care.

The Department of Health (2000) has also set out a number of key actions to be taken to achieve these objectives, including:

- to improve the health and well-being of older people, and to help them to live longer, healthier lives;
- to ensure that older people have access to the services and support they need to live independently and safely;
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- to ensure that older people are treated with respect and dignity, and that their views are taken into account in decisions about their care.

The Petroleum Revenue Special Task Force was set up by the Honourable Minister of Petroleum with a view to enhancing probity and accountability in the Petroleum Industry.

1. Background and Overview

1. Background

The Honourable Minister of Petroleum Resources, driven by the need to strengthen the institutions responsible for Petroleum Revenue Management, commissioned the Petroleum Revenue Special Task force (PRSTF) on 28 February 2012. The goal of the Task Force was to support the programme of the Federal Government of Nigeria in enhancing optimization, probity and accountability in the operations of the Petroleum Industry.

As part of this agenda and the issues arising from the various fiscal regimes existing in the sector, there arose an urgent need to establish the streams of revenue flows from the Petroleum sector to the Federal Republic of Nigeria and design systems and processes which would enhance the accountability of each agency or entity.

The assignment of the Special Task Force is contained in its Terms of Reference and covers the entire Petroleum Value Chain (see Figure 1). Accordingly, the Task Force set out to confirm if existing systems, laws, processes and functions across the value chain provide reasonable assurance that revenues from the Petroleum Industry are captured, complete, recorded intact, properly accounted for and that revenue due is demanded and collected.

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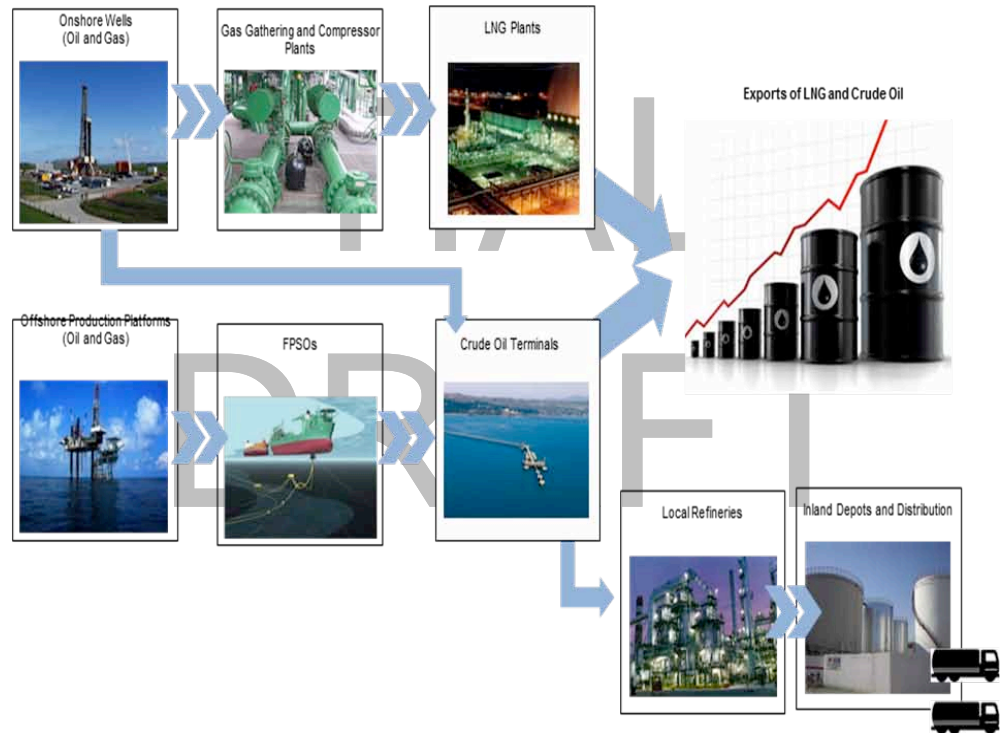


Figure 1: Schematic of the Petroleum Value Chain – (Source: KPMG)

In recent times, various studies and public commentary are replete with the alleged low optimisation of the nation's strategic assets in Oil and Gas reserves and questionable practices within the Petroleum Industry. This has led to a degree of dispute with regards to Nigeria's production information, local consumption figures and remittances to the national treasury and how the proceeds are utilised.

Technical and commercial conditions in the sector also argue for maximizing returns from oil and gas. For example, the Task Force received submissions indicating that in the next three years government's contractual share of profits in most PSCs is due to rise around five percent. While it is hoped that passing the Petroleum Industry Bill (PIB) will unlock investment, the overall trend (without intervention) in oil revenue receipts is toward decline, for three main reasons.

First, future demand for Nigerian hydrocarbons looks increasingly mixed. Supply disruptions due to trouble onshore—oil theft in particular—is increasingly limiting attractiveness and investments. Observers contend that Nigeria has may have dropped an opportunity to be a top LNG exporter, given more proactive investments by Asian producers and the rise of shale gas in America. Overall, foreign direct investment in Nigeria's oil sector reduced considerably in the last five years.

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Second, low investment and an uncertain operating environment could stagnate the sector. Exploration in Nigeria has reduced: three exploratory wells were drilled in 2011, down from more than 20 in 2005. NNPC reports that output from aging onshore wells is falling 10 to 12 percent a year. Production offshore has been bridging the gap but may soon plateau from lack of new projects and disappointing exploration results.

Industry analysts forecast production could drop 20 percent by 2020 without additional investment. Current average daily production is barely at 2005 levels. Reserves and production grew marginally over the past decade, with Nigeria falling well behind its Sub Saharan African neighbours as shown in Table 1 below:

Table 1: Growth in reserves and production, 2000-2010

Country	Reserves			Production		
	2000	2010	% growth	2000	2010	% growth
Angola	6,000	13,500	125	746	1,851	248
Chad	900	1,500	66	0	122	
Congo-B	1,700	1,900	11	254	292	15
EG	800	1,700	112	91	274	301
Sudan	600	6,700	1000+	180	475	264
Nigeria	29,000	37,200	28	2,155	2,402	10

Third, the Nation's per barrel profits from oil are also shrinking. As reservoirs age, there is need to drill more wells and use costlier technology to keep fields producing. NNPC estimates that by 2014, US\$3.7 billion in new drilling costs would be needed annually to simply retain current production levels. Growing use of alternative finance mechanisms reduces government's take onshore. Nigeria also earns less per barrel offshore than it does on land, such that its increased reliance on offshore fields creates a revenue gap.

The current period is thus a pivotal one in the life of the nation's Petroleum Sector. Without reforms in oil revenue management,

Nigeria will struggle to keep its status as Africa's leading oil producer and its goal of becoming one of the world's top 20 economies. However, proactive commitment to reforms now could catalyse sector growth and yield ample funds for national development.

This Report of the Petroleum Revenue Special Task Force is therefore structured to present its key findings and recommendations on the review of the Nigerian Petroleum Sector in terms of major challenges in revenue generation and outstanding debt, revenue loss areas, a cross debt matrix, and automation in the production value chain. Our recommendations have been made to address lapses and leakages; and remedial mechanisms that need to be implemented.

Within the limited time given to the Special Task Force it has had to prioritise its work to ascertain the items with the highest revenue impact or significance, and bring out the more compelling recommendations to support decisions that will propel the desired transformation of the Petroleum Sector.

2. Overview

1. The Nigerian Petroleum Industry

Nigeria is the home to substantial deposits of oil and gas resources. The country's proven oil reserves totalled 37.2 billion bbls as of January 2010, according to the US Energy Information Administration. Nigerian Government sources claim that reserves may actually be as high as 38.2 billion bbls. However, due to lack of transparency in reporting, key statistics on Nigeria's hydrocarbons industry vary widely and are often coloured by different interests. Still, Nigeria's deposits are regarded internationally as the tenth – largest in the world and the second largest in Africa after Libya.

Nigeria's oil is prized for its purity. Export blends are Bonny Light and sweet crudes, which require less refining and are thus more lucrative. The oil typically fetches more on global markets than Brent Crude, the global benchmark oil that is extracted from the North Sea.

Despite the fact that the country's reserves are substantial, crude oil production faces serious challenges such as Nigeria's inability to meet its funding obligations to the joint ventures (JVs). Nigeria also faces the challenges which include social unrest in production areas, wilful damage to the pipeline network and crude

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oil theft to name a few. In 2008, Nigeria's output was enough to rank it as Africa's largest producer, but since 2009 the country's production has been occasionally surpassed by Angola.

Nigeria also has the ninth – largest proven gas reserves worldwide, at about 5.2trn cu meters, according to government figures. Like its oil, Nigeria's gas is high quality and low in sulphur. Of the total, 2.7trn cu meters is associated gas mixed in with oil deposits. Non – associated gas, which is more valuable because it does not require separation from crude, amounted to about 2.5trn cu meters.

One of the main issues relating to Nigeria's gas market is gas flaring. Before 1999, most gas was flared due to lack of demand. In 2004, both Chevron and Sarsol signed gas-to-liquid (GTL) agreements and Mobil decided to reduce flaring to 10% by 2004. Since then, alternatives to liquefaction and exporting have emerged in the form of electricity projects, petrochemicals plants and other industrial uses. However, supply constraints have blocked growth in gas use due in part to a lack of distribution infrastructure.

These constraints have resulted in significant gas flaring in Nigeria. The US National Oceanic and Atmospheric Administration show that Nigeria flared 14.9billion cu ft (10.6%) in 2008 making the country the world's second biggest gas flaring nation after Russia, which burned 40.2 cu ft.

The country's downstream sector is also plagued with various challenges. Nigeria imports most of its refined petroleum products due to inadequate refining capacity in-country. Officials of the Pipelines and Products Marketing Company Limited (PPMC) submitted to the Task Force that Nigeria owns four (4) refineries with a combined capacity of 445,000bpd. In addition, for the purpose of distribution, Nigeria has 5,120km of pipelines, 23 storage depots, 8 LPG depots, 24 pump stations, 2 offshore jetties (Atlas Cove and Escravos) and 4 Jetties (Apapa, Warri, Okrika and Calabar). However, the four (4) refineries are in poor shape and currently operate at about 30% capacity due to poor maintenance, fire damage, crude oil theft, and other issues. Domestic consumption of Nigerian crude oil is low – about 200,000bpd, or around 15% of total petroleum products consumed.

There are well known and frequently documented challenges to the downstream sector which include frequent wilful damage to the pipeline network, refined product theft, inadequate storage

tanks, high demurrage costs, and alleged fraudulent practices relating to government subsidies.

The government agency overseeing and representing the interests of Government in the oil and gas sector is the Nigerian National Petroleum Corporation (NNPC). The NNPC is the national oil company, but performs several other functions as well, serving as energy sector regulator, joint venture partner in all onshore operations and the nation's primary source of income. The Department of Petroleum Resources, a separate body under the Ministry of Petroleum Resources, conducts the bidding rounds for exploration blocks and tends to be regarded as the technical regulator.

This introduction gives a glimpse of some of the issues and the case for change in the Petroleum Sector. The next section describes the terms of reference of the Special Task Force and the work approach adopted. An international firm of consultants and auditors Pricewaterhouse Coopers (PwC) was engaged to support on the forensic reviews and data gathering.

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the 1990s, the number of people with a diagnosis of schizophrenia has increased in the United Kingdom (Meltzer and Murray 1998).

There is a growing awareness of the need to improve the lives of people with a diagnosis of schizophrenia. The United Kingdom has a national strategy for mental health care (Department of Health 2003) and the World Health Organization has published a strategy for mental health care (World Health Organization 2003). The United Kingdom strategy states that the aim is to improve the lives of people with a diagnosis of schizophrenia by providing them with the best possible care and support. The World Health Organization strategy states that the aim is to improve the lives of people with a diagnosis of schizophrenia by providing them with the best possible care and support.

The aim of this paper is to describe the development of a national strategy for mental health care in the United Kingdom.

The paper is organized as follows. Section 2 describes the development of a national strategy for mental health care in the United Kingdom.

Section 3 describes the development of a national strategy for mental health care in the United Kingdom.

Section 4 describes the development of a national strategy for mental health care in the United Kingdom.

Section 5 describes the development of a national strategy for mental health care in the United Kingdom.

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Section 21 describes the development of a national strategy for mental health care in the United Kingdom.

Section 22 describes the development of a national strategy for mental health care in the United Kingdom.

Section 23 describes the development of a national strategy for mental health care in the United Kingdom.

The Federal Government of Nigeria approved the appointment of Mallam Nuhu Ribadu, as chair of a 20-member Petroleum Revenue Special Taskforce inaugurated by the Honourable Minister of Petroleum Resources.

1. Terms of Reference of the Task Force

1. Introduction

At the inauguration of the Petroleum Revenue Special Task Force by the Honourable Minister on February 28, 2012, the following Terms of Reference (ToR) were communicated:

1. To work with consultants and experts to determine and verify all petroleum upstream and downstream revenues (taxes, royalties, etc) due and payable to Federal Government of Nigeria;
2. To take all necessary steps to collect all debts due and owing; to obtain agreements and enforce payment terms by all oil industry operators;
3. To design a cross debt matrix between all Agencies and Parastatals of the Ministry of Petroleum Resources;
4. To develop an automated platform to enable effective tracking, monitoring and online validation of income and debt drivers of all Parastatals and Agencies in the Federal Ministry of Petroleum Resources;
5. To work with world-class consultants to integrate systems and technology across the production chain to determine and monitor crude oil production and exports, ensuring at all times, the integrity of payments to the Federal Government of Nigeria; and
6. To submit monthly reports for ministerial review and further action.

The Task Force over the period of its activities constantly reviewed the TOR to ensure that it properly understood its Terms of Reference and to ensure that its activities fell within its TOR. There was some difficulty with interpretation of TOR number 2 which states that the Task Force was “To take all necessary steps to collect all debts due and owing; to obtain agreements and enforce payment terms by all oil industry operators”. It was initially interpreted to mean literally that the

Task Force was to take all necessary steps to collect due debts and to enforce payment which necessitated invitation to law enforcement agencies to assist with such recovery. However the eventual position taken was that appropriate recommendation would be made to government on necessary steps to collect due debts and enforcement of payment to enable government decision on that matter prior to collection and enforcement action.

2. *Members of the Task Force*

The membership of the Petroleum Revenue Special Task Force is as follows:

- Mallam Nuhu Ribadu - Chairman
- Mr. Steve Oronsaye - Deputy Chairman
- Mallam Abba Kyari - Member
- Ms. Bennedikter Molokwu - Member
- Mr. Olasupo Shasore, SAN - Member/
Secretary
- Mr. Anthony Idigbe, SAN - Member
- Mr. Anthony George-Ikoli, SAN - Member
- Dr. (Mrs) Omolara Akanji - Member
- Dr. Olisa Agbakoba, SAN - Member
- Prof. Olusegun Okunnu - Member
- Pastor Ituah Ighodalo - Member
- Mr. B.O.N. Otti - Member
- Mallam Samaila Zubairu - Member
- Mr. Ignatius Adegunle - Member
- Mr. Gerald Ilukwe - Member
- Rep. of FIRS - Ex-Officio
- Rep. of FMF Incorporated - Ex-Officio
- Rep. of HAGF/HMJ - Ex-Officio
- Rep. of OAGF - Ex-Officio
- Rep of CBN - Ex-Officio
- Rep. of DPR - Ex-Officio
- Rep. of NNPC - Ex-Officio

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Since its inauguration, members of the PRSTF have approached the assignment with all the seriousness that it deserves. In carrying out its ToR, one of the initial activities performed by the PRSTF was to obtain both written and verbal presentations from the various stakeholder groups within the Petroleum Industry. This was to enable the Task Force to understand the challenges faced and the type of reforms that are required. This was all carried out with a view to determining and optimising the nation's revenue streams from all sectors within the industry.

Also, the members of the PRSTF visited various locations as they deemed necessary.

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the 1990s, the number of people with a diagnosis of schizophrenia has increased in many countries (1).

There is a growing awareness of the need to improve the quality of life of people with schizophrenia. This has led to a focus on the development of psychosocial interventions, which aim to help people with schizophrenia to live more independently and to participate more fully in society (2).

One of the most common psychosocial interventions is cognitive remediation (CR). CR is a type of therapy that aims to help people with schizophrenia to improve their cognitive skills (3).

CR is based on the idea that people with schizophrenia have difficulties with certain cognitive skills, such as memory, attention, and problem-solving (4).

CR aims to help people with schizophrenia to improve these skills through a series of exercises and activities (5).

CR has been shown to be effective in helping people with schizophrenia to improve their cognitive skills (6).

CR has also been shown to be effective in helping people with schizophrenia to improve their social skills (7).

CR has been shown to be effective in helping people with schizophrenia to improve their employment skills (8).

CR has been shown to be effective in helping people with schizophrenia to improve their quality of life (9).

CR is a promising intervention for people with schizophrenia. It is important to continue to research CR and to evaluate its effectiveness in different settings (10).

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CR is a promising intervention for people with schizophrenia. It is important to continue to research CR and to evaluate its effectiveness in different settings (27).

3. Scope and Work Done

3. Work Approach

The Petroleum Revenue Special Task Force, in order to fulfil its Terms of Reference, carried out the following activities:

- Set up a Virtual Project Management Office (PMO) managed by BGL Plc;
- Confirmed the engagement of Bode Ososami as our Adviser and liaison with other Task Forces set up to consider other aspects of the oil and gas industry.
- Confirmed the engagement of PricewaterhouseCoopers Limited (PwC) as consultants to the Petroleum Revenue Special Task Force;
- Selected Industry Stakeholder Groups that were invited to address the Special Task Force.
- Prepared and adopted a Work Plan that covered the scope of the assignment, delineating areas of critical focus, scheduled meetings, presentations and interaction with the Stakeholders; and
- Received briefings and presentations from the following organisations:
 - Oil Producers Trade Section (OPTS)
 - Shell Nigeria
 - Chevron Nigeria
 - Trispec Schlumberger
 - Sahara Group
 - NNPC Finance and Accounts Directorate, Crude Oil Marketing Division, IT Department and other Divisions
 - National Petroleum Investment Management Services (NAPIMS)
 - Pipeline Products and Marketing Company Limited (PPMC)
 - Department of Petroleum Resources (DPR)
 - Petroleum Products Pricing Regulatory Agency (PPPRA)
 - Central Bank of Nigeria (CBN)
 - Economic and Financial Crimes Commission (EFCC)

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- Inspection Agents (Cobalt International Services Nigeria Limited,

The Petroleum Revenue Special Task Force (Special Task Force), in order to fulfil their mandate by the Honourable Minister of Petroleum Resources carried out various activities in order to acquire relevant information

- Services, Robinson International and Gulf Inspection Services)
- Monitoring Agents (Swede Control Intertek and Q & Q Pre – Shipment Inspection)
- DFID's Facility for Oil Sector Transparency (FOSTER)
- KPMG Professional Services on the Process and Forensic Review of Nigerian National Petroleum Corporation.
- HSBC Global Banking and Markets
- Visited and reviewed selected operators and agencies of government covering the period from 1 January 2005 to 31 December 2011. This exercise covered the Agencies and Parastatals of the Ministry of Petroleum Resources, the Central Bank of Nigeria, the Federal Inland Revenue Service, the Nigerian Customs Service, Nigerian National Petroleum Corporation and its subsidiaries, International Oil Companies (IOCs), Local Oil Companies (LOCs) and other relevant parties.

Our detailed review, supported by the Task Force's consultants covered an in-depth examination of the various revenue streams of Government across the various responsible agencies. The review period covered was from 1 January 2005 to 31 December 2011 in line with the Statute of Limitations. However, where it was deemed necessary by members of the PRSTF, the scope was extended. The review carried out at the NNPC covered a period of ten(10) years instead of seven (7) to enable the PRSTF determine key trends in the determination of the FGN's revenue and carry out better analysis of the status quo.

- Set up Two (2) Ad- Hoc Subcommittees namely NNPC Review Subcommittee and the DPR Review Subcommittee to conduct an in-depth review and onsite consultations with these two key agencies responsible for the management of revenues from the sector.

- Set up Five (5) Standing Subcommittees with detailed ToRs emanating from the Task Force's mandate. This was to enable the Special Task Force follow up on the assertions made by the various stakeholders and organisations. See Section 3.3. for the membership and terms of reference of the Task Force's constituted Subcommittees.
- Two workshops were held in the month of May 2012 to further assist the Special Task Force in the information gathering process. These were the: (1) Workshop on Metering and Measurement in the Oil & Gas Sector Value Chain, and (2) Workshop on Security in the Oil and Gas Sector.
- In pursuance of ToR 2, the Task Force through the Security and Enforcement Subcommittee liaised with relevant agencies to validate the status of outstanding debts identified in the course of the forensic review, and to demand payments where deemed necessary.

4. *Limitations and Constraints*

The Task Force encountered some limitations in the course of executing our terms of reference, which in some cases constrained the depth of the review or access to desired information. The key limitations are as follows:

- Disputes between agencies on crude oil production data leading to difficulty in ascertainment
- Timely implementation of the country's production data repository said to be at pilot stage.
- Some of the companies invited or circularised with information requests did not respond to the letters sent by the Task Force requesting information.
- Given the time allocation for the Task Force's work, the review and findings were constrained owing to the large number of companies and agencies that required review. However, the Task Force made all necessary efforts to ensure a full execution of its mandate and our findings are presented in the report.
- For crude oil sales, a lot of the supporting documentation and information was provided towards the end of the mandated time stipulated for the review. In fact, information was still trickling in as at the time this report was being concluded. It is key to note that the information

was primarily paper based which would have required further extensions to conclude the reviews of certain Domestic Crude Oil Revenue Drivers.

- In the course of the work of the Task Force, information received was not sufficient to carry out a complete assessment of the cost versus the proceeds of sale for the entire 445,000bbls domestic allocation by the FGN. Therefore, we cannot come to a meaningful conclusion in this regard.
- As at the time of reporting PPMC had not provided the Task Force with schedules of crude volumes that was delivered to the refineries and monthly analysis petroleum products available for sale (import and refined). This would have facilitated an analysis of utilisation as well as an estimation of expected generated revenues from sale.
- The nature and scope of work was complex and varied leading to several related challenges
 - Given the volume of contracts under review from execution of FGN contracts (through the NNPC) with Contractors (Oil Companies) including JOA, PSC a further time period would have been of benefit
 - Differences of opinion between NNPC and DPR.
 - Timely access to the records of NNPC's strategic subsidiaries – Napoil, Calson, Hyson, NPDC, NGC etc.
- Information available from NNPC and NAPIMS in respect of the gas pricing model as well as natural gas production/sale contracts with the various contractors was deemed inadequate by the Task Force.
- The Task Force was not provided with the gas supply-sales agreements between NLNG, NNPC and NGC.
- Reconciliation of the list of concessions and the concessions per the detailed schedule of concession rentals.
- The exact status of Royalties due created some disagreement between agencies

- The sector wide need to independently track gas volumes produced, sold and flared by the operators.

5. **Subcommittees' Membership and Terms of Reference**

Memberships of the Task Force's constituted subcommittees are as follows:

Ad – Hoc Subcommittees

A. NNPC Review

- Dr (Mrs) Omolara Akanji (Chair)
(Chair)
- Prof Olusegun Okunnu
- Rep of OAGF
- PwC Consultants

B. DPR Review

1. Mr Olasupo Shasore SAN
2. Ms Bennedikter C. Molokwu
3. Mallam Samaila Zubairu
4. Mr Ignatius Adegunle
5. PwC Consultants

Standing Committees

A. Revenue Subcommittee

1. **Mallam Abba Kyari (Chair)
SAN (Chair)**

2. **Pastor Ituah Ighodalo
Ikoli SAN**

3. **Dr (Mrs) Omolara Akanji
SAN**

4. **Mallam Samaila Zubairu
SAN**

5. **Mr. B.O.N. Otti**

6. **Rep of OAGF**

7. **Rep of FIRS**

B. Legal Subcommittee

1. **Dr Olisa Agbakoba**

2. **Mr Anthony George-**

3. **Mr Anthony Idigbe**

4. **Mr Olasupo Shasore**

5. **Rep of FIRS**

A. IT and Automation Subcommittee

D. Security and Enforcement Subcommittee

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1. *Mr Gerald Ilukwe (Chair)*
SAN (Chair)
 2. *Prof Olusegun Okunnu*
Omolara Akanji
 3. *Pastor Ituah Ighodalo*
Idigbe SAN
 4. *Mr Ignatius Adegunle*
 5. *Mr Anthony George-Ikoli SAN*
1. *Mr Olasupo Shasore*
 2. *Dr(Mrs)*
 3. *Mr Anthony*
 4. *Rep of CBN*

A. *Report Writing Subcommittee*

F. 1. *Ms. Bennedikter C. Molokwu (Chair)*

2. *Prof Olusegun Okunnu*

3. *Mallam Samaila Zubairu*

4. *Mr Olasupo Shasore SAN*

5. *Mr B.O.N. Otti*

The Terms of Reference of the Sub-committees were defined as follows:

Committee	Subcommittee Terms of Reference	TOR Cross-Reference
Revenue Subcommittee	Capture all Revenue loss areas resulting from: Unlawful activity System failure Inadequate resources Sundry Evaluate the fiscal regimes in the sector and identify revenue leakage points and recommend immediate steps Reconcile revenue payments due and outstanding to Government across relevant agencies – NNPC, DPR, FIRS and the industry operators – IOCs and LOCs Propose Revenue Enhancement initiatives and programmes for Government’s adoption in the sector	TORs 1, 2 and 3

Committee	Subcommittee Terms of Reference	TOR Cross-Reference
<p>Legal Subcommittee</p>	<p>Identify legal documents governing the key Government agencies with all their partners in Petroleum revenue generation processes, for all applicable fiscal regimes</p> <p>Review all legal disputes between Government agencies and industry operators regarding revenue, tax and other financial obligations</p> <p>Liaise with the Petroleum Industry Bill and Governance and Control Task Forces to reconcile revenue expectations with the legal framework being proposed</p> <p>Propose legislative reforms to support transparency in production and revenue automation</p>	<p>TORs 1 - 6</p>
<p>Security and Enforcement Subcommittee</p>	<p>Establish security and enforcement challenges as a critical contributor to Petroleum revenue losses</p> <p>Quantify losses arising from security issues across the Petroleum industry value chain</p> <p>Develop a Security Master plan to address all revenue loss issues identified in the Petroleum sector</p>	<p>TOR 2 regarding enforcement</p>

Committee	Subcommittee Terms of Reference	TOR Cross-Reference
IT & Automation Subcommittee	Establish the current status of production automation in the Nigerian Petroleum sector Provide the Task Force with a functional best practice case study on measurement, metering and automated production monitoring, for Government's adoption Recommend a short-term bridging solution to address identified issues	TORs 4 and 5
Report Writing Subcommittee	Collate and integrate all the Subcommittee Reports Develop the framework of the Task Force's Final Report	TOR 6

Table 2: Subcommittees' TORs

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4. Revenue Review and Debt Verification

1. Introduction

This section of the report presents the findings of the Petroleum Revenue Special Task Force’s activities regarding the ToR 1 and 2 which in effect involved determining and verifying all Petroleum Upstream and Downstream Revenues (Taxes, Royalties etc) due and payable to Nigeria; and taking all necessary steps to collect all debts due and owing.

It was determined that the main petroleum revenues due to the national treasury in respect of oil and gas activities in Nigeria are as follows:

- Domestic Crude Oil Sales
- Equity Crude Oil Sales
- Gas Sales
- Refined Petroleum Products sales
- Profits from NNPC subsidiaries
- Petroleum Profits Tax
- Company Income Tax
- Signature Bonus
- Concession Rentals
- Royalties (Oil and Gas)
- Gas Flare Penalties
- Miscellaneous Oil Revenues

The table below highlights the scope of this review and provides an overview of the agencies and revenue streams examined.

Petroleum Industry Sub – sector	Revenue Streams	Responsible Agency
Upstream Revenues – Oil and Gas	Domestic Crude Sales	NNPC
	Equity Crude Sales	NNPC
	Royalties (Oil and Gas)	DPR
	Concession Rentals	DPR

Petroleum Industry Sub – sector	Revenue Streams	Responsible Agency
	Signature Bonuses	DPR
	Petroleum Profit Taxes	FIRS
	Gas Flaring Penalties	DPR
	Company Income Tax	FIRS
	Miscellaneous Income – Licensing , Fines etc.	DPR
Midstream/ Downstream Revenues	Miscellaneous Income – Licensing fees etc.	DPR
	Company Income Tax	FIRS
	Sale of Refined Petroleum Products	PPMC

Table 3: Overview of the Agencies and Revenue Streams examined

The following sections document the Task Force’s detailed findings arising from the revenue review and verification exercise, according to each revenue stream.

9. Production

1. Overview

Over the past 10 years, NNPC’s record shows that the country produced an average of 842m bbls per year. An official of Shell in Nigeria told the task force that with adequate investment and good security enforcement by the Nigeria’s production could be increased to 1.3b’bbls annually. Production quantities are used in the determination of Royalties, Taxes, FGN’s entitlement etc.

There are various agencies of Government that are charged with the responsibility of monitoring the nation’s upstream activities. These include: the DPR, NNPC, NAPIMS, Nigeria Customs Service, Pre-shipment Inspection Agents, Nigerian Ports Authority, Navy, and the Nigerian Police.

For the purpose of determining Nigeria’s entitlement, the Task Force was told by NNPC’s Crude Oil Marketing Division that standardised contracts (“templates”) are used for each operator depending on the agreement type (JOA, AF, CA, MCA, and

PSC). With the aid of these templates, production entitlements of the Federal Republic are determined. This is reviewed at COMD periodically for computation errors and adjustments.

Information provided by the operators on production is accepted as valid and the operators are relied upon for data on cost and production. Non- operators are not expected /allowed to visit the production location.

3. Findings

- 1. The basis used in determining actual production figures for fiscal purposes*

Crude oil royalties are determined on the basis of saleable crude at the terminals which is not representative of actual production. Production figures for the purpose of determining crude oil royalties due to the nation's treasury are derived from the metric reading taken at the terminals by the DPR officials. These measurements are applied in a 'net back' to map throughput back to well heads and fields.

Monthly reconciliations are performed between the DPR officials and Operators to determine the final monthly crude oil production figures which is used in the determination of the final royalties due per field.

10. Domestic Crude Sales

1. Overview

The Federal Government of Nigeria (FGN) allocates (on behalf of Nigeria) 445,000 barrels of crude oil to NNPC daily, out of the total crude oil production of the country for the purpose of domestic consumption, hence, the term 'Domestic Crude Oil'. The allocation of 445,000 barrels represents the installed capacity of the four (4) local refineries situated at Port Harcourt, Warri and Kaduna. Liftings for domestic crude are made mainly from the Escravos and Forcados terminals, which produce mainly Bonny Light and Forcados type of crude oil.

The NNPC is required to pay the Federation for this allocation on the basis of quantities lifted in any particular month and at international market prices. A 3-month credit period is granted to NNPC to make the payment to the FGN.

In practice, payments for domestic crude oil are made subsequent to the conclusion of the monthly Federation Accounts Allocation Committee (FAAC) meetings.

5. Findings

1. Remittance of amounts due to the Federation Account relating to Domestic Crude Oil allocation

NNPC is responsible for domestic crude oil sales and the Corporation is meant to remit payments in this regard to the Federation Account through the Central Bank of Nigeria. As at 31 December 2011, N843 million was due to the Federation in respect of Domestic Crude Oil allocations (Table 4). The amounts outstanding as at 31 December 2011 represent amounts due for the months of September 2011 to December 2011.

In view of the 90-day credit period, the outstanding amount as at 31 December 2011 was not due for payment. The Task Force however sighted evidence of subsequent payments in 2012.

Year	Volumes lifted	Av. price per bbl (US \$)	Total Value \$'m	Total Value N'm	Subsidies deducted N'm	Other Receipts/ Other Deductions N'm	Net Pay N'm
2002	163,610,046	18	2,945	323,948	-	-	323,948
2003	157,454,064	23	3,473	409,753	-	25	409,778
2004	151,892,709	37	5,688	759,693	-	1,044	760,738
2005	159,898,538	54	8,704	1,145,361	-	1,478	1,146,83
2006	157,278,731	62	10,599	1,277,965	(232,875)	(19,425)	1,025,66
2007	165,858,741	73	11,531	1,431,176	(275,177)	-	1,155,99
2008	164,723,596	98	15,562	1,809,452	(328,118)	-	1,481,33
2009	161,913,738	62	9,903	1,451,586	260,706)	-	1,190,88
2010	166,522,807	80	13,229	1,954,125	(414,011)	(13)	1,540,10
2011	164,454,254	111	18,363	2,776,906	(732,873)	8,473	2,052,50

Table 4 – Amounts payable, paid and outstanding - Domestic Crude Oil (Source: NNPC)

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Sample selections were made across the 10 year period in order to verify that the net amounts payable were remitted to the Federation account in CBN. From the selections made it was observed that amounts remitted were most times different from the net payable amount (Table 5 below).

From discussions with the NNPC, the variances were attributed to other miscellaneous receipts from domestic gas sales and NGL supplies which were also included in the remittances to the Federation account by the NNPC.

However, further reviews showed that the negative differences were as a result of differences in computation of subsidies.

Period	Amount Payable (N'm)	Amount Remitted as traced to CBN statement (N'm)	Variance (NG N million)
May 2002	27,001	26,541	(460)
June 2002	26,541	26,689	148
August 2002	29,686	29,686	-
October 2002	27,806	24,384	(3,421)
December 2002	28,555	27,563	(992)
August 2003	42,189	42,740	551
September 2003	43,237	44,141	904
October 2003	67,025	66,615	(409)
December 2003	40,889	40,914	25
August 2004	71,972	71,956	(16)
June 2005	87,101	88,413	1,312
August 2005	130,958	130,968	10
September 2005	107,331	106,358	(973)
November 2005	117,670	99,889	(17,781)
December 2005	86,045	80,366	(5,679)
February 2006	57,301	57,905	604
August 2006	109,571	109,911	339
October 2006	71,590	71,752	162

Period	Amount Payable (N'm)	Amount Remitted as traced to CBN statement (N'm)	Variance (NGN million)
December 2006	95,791	96,001	211
January 2007	50,607	51,506	899
July 2007	87,276	87,848	572
October 2007	94,085	94,289	204
December 2007	133,256	133,654	398
March 2008	184,233	184,605	372
June 2008	100,728	100,760	31
September 2008	102,673	103,518	845
December 2008	67,732	68,493	761
May 2009	87,933	88,029	96
July 2009	69,264	69,737	473
October 2009	116,303	116,857	554
December 2009	108,577	110,751	2,175
February 2010	96,596	96,596	-
May 2010	105,388	105,764	377
November 2010	118,271	118,323	52
December 2010	192,445	192,467	21
January 2011	116,440	114,697	(1,743)
August 2011	108,563	108,592	29
September 2011	197,145	197,917	772
December 2011	227,005	227,262	257

Table 5: Sample of Domestic Crude Oil remittances made 2002 – 2011 (Source: NNPC)

Subsidies deducted by the NNPC per table 4 represent the difference between the PPPRA approved landing cost and the NNPC retail price (excluding margins) multiplied by the PPPRA observed volumes. PPPRA subsidy approvals for the sale of

refined products by the NNPC were in excess of deductions made by about N132.7 billion as at 31 December 2011.

At present, subsidy is paid based on the difference between the proceeds from the sale of refined products and the cost of importation of refined products.

In the course of the Task Force’s work, we did not receive sufficient justification and basis for the practice of deducting subsidies from the amounts payable to the Federation Account. Indeed this practice does not accord with the law, with particular reference to the Constitution⁴.

2. Annual liftings of Domestic Crude Allocations

Based on the daily allocation by the FGN of 445,000bbls, it is expected that NNPC would be allocated approximately 162 million barrels annually. Our review of the records received showed an inconsistent pattern in the implementation of this policy with variances found for the ten (10) years reviewed spanning 2002 to 2011 (See Table 6 below).

3. Discrepancy in the pricing of Domestic Crude

The average price per barrel payable by NNPC was compared with the average weekly prices for Nigeria Bonny Light, Forcados, obtained from the Energy Information Administration (EIA). It was understood from discussions with officials of the NNPC that the pricing of domestic crude oil during the period under review was based on international prices.

The review revealed that over a 10 year period (2002 – 2011), showed a difference of an estimated sum of US\$ 5 billion, as shown in the Table 6 below.

Year	Volumes lifted	Av. price per bbl (US \$)	Av. price per EIA (US \$)	Difference (US \$)	Valuation of difference (US \$'m)
2002	163,610,046	18	25	7	1,145
2003	157,454,064	23	29	6	979
2004	151,892,709	37	38	1	152

⁴ See Section 162 which provides “The Federation shall maintain a special account to be called the Federation account into which shall be paid all revenues collected by the Government of the Federation”

Year	Volumes lifted	Av. price per bbl (US \$)	Av. price per EIA (US \$)	Difference (US \$)	Valuation of difference (US \$'m)
2005	159,898,538	54	56	2	320
2006	151,193,195	64	67	3	454
2007	165,858,741	73	75	2	332
2008	164,723,596	98	102	4	659
2009	161,913,738	62	63	1	162
2010	166,522,807	80	81	1	167
2011	164,276,790	111	114	3	493
Total	1,613,607,224				5,008

Table 6: An analysis of the prices of Crude Oil per barrel (Source: Energy Information Administration (EIA))

Enquiries from NNPC revealed that up until October 2003, NNPC was granted fixed price regimes by the FGN for the domestic crude as follows:

- 1999 – 2001 \$9.50/bbl
- 2002 to July 2003 \$18/bbl
- Aug/Sep 2003 \$22/bbl

This explains the wide disparity in prices in the earlier years. Further analysis showed specific examples of transaction with disparities in price in later years.

4. The Exchange Rates used to remit payments in respect of Domestic Crude to the Federation Account

Domestic Crude Oil is paid for in Nigerian Naira using CBN exchange rates. It was noted that the exchange rates used in arriving at the Naira equivalent of the amounts payable differed from the CBN rates for six (6) of the ten (10) years reviewed. The practice appears to have been stopped in 2006; it also appears to have started again in 2011. The potential underpayment of amounts payable to the Federation Account over the 10- year period is estimated at N86.6 billion (Table 7).

Year	Volumes lifted	Av. price per bbl (US \$)	Total value in (US\$)	Av. exch rate (N/\$1)	CBN yearly average exchange rate (N/\$1)	Diff. (N/\$1)	Valuatic differen (N'm)
2002	163,610,046	18	2,944,980,828	110	120	10	29,449
2003	157,454,064	23	3,473,418,919	122	134	12	43,288
2004	151,892,709	37	5,687,518,809	134	133	(1)	(5,688)
2005	159,898,538	54	8,704,165,240	132	131	(1)	(8,704)
2006	151,193,195	64	9,891,404,099	126	127	1	9,891
2007	165,858,741	73	11,531,242,678	124	124	-	-
2008	164,723,596	98	15,561,979,536	117	117	-	-
2009	161,913,738	62	9,903,033,496	147	147	-	-
2010	166,522,807	80	13,228,939,762	148	148	-	-
2011	164,276,790	111	18,342,657,598	151	152	1	18,343
Total							86,579

Table 7: CBN exchange rates used in the conversion of Domestic Crude Oil payments (Source: CBN Website – Rates Archives)

5. Utilization of Domestic Crude

From an analysis of annual domestic crude oil utilisation, it was revealed that a greater proportion of the Domestic Crude Oil has been channelled towards crude oil exportation, exchange transactions and offshore processing than for local refining.

The percentage of Domestic Crude Oil that is not refined in-country ranges from between 50% to 88% over the 10 year period (Table 8).

Year	Total Refinery Quantity m'bbbls	Unutilized domestic crude exported m'bbbls	Crude Oil-Exchange m'bbbls	Crude -Oil Product Exchange m'bbbls	Offshore Processing m'bbbls	Total Quantity m'bbbls
2002	79	85	-	-	-	164
2003	43	113	-	-	-	156
2004	39	115	-	-	-	154

Year	Total Refinery Quantity m'bbls	Unutilized domestic crude exported m'bbls	Crude Oil- Crude Oil Exchange m'bbls	Crude -Oil Product Exchange m'bbls	Offshore Processing m'bbls	Total Quantity m'bbls
2005	72	84	4	-	-	160
2006	42	113	-	-	-	155
2007	18	139	-	-	-	157
2008	41	121	2	-	-	165
2009	19	143	-	-	-	162
2010	35	98	1	6	27	167
2011	45	39	-	56	24	164

Table 8: Domestic Crude Oil Utilisation (Source: NNPC)

6. The Domestic Crude Allocation

NNPC's COMD sells to PPMC roughly 445,000bpd of NNPC's share of crude to supply the nation's four refineries. PPMC is obligated to pay for this crude within 90 days using revenues from refined product sales.

In recent years the refineries have operated regularly at below 50 percent capacity. PPMC has stated that all four are running at a loss due to several challenges- disrepair, infrastructure vandalism, and theft of crude and refined products. COMD typically sold the unrefined part of the 445,000bpd on behalf of PPMC on terms that are identical to other export transactions.

The Task Force's review suggests that the dual agent-buyer status of any agency on sales to the refineries in several ways impacts negatively State revenues:

- Subsidized sales:

NNPC sells domestic crude to itself at prices apparently below market⁵ this creates a margin on crude sales to the refineries that should accrue to FGN and the Federation.

- Exchange Rates:

PPMC declared domestic crude debts are below-market exchange rates; sometimes perhaps as much as 20 percent under CBN publicly advertised rates for corresponding periods.

⁵ Observations of the NNPC sub committee from site visit

- Deferment of Debts:

In the mid-2000s domestic crude debts were deferred repeatedly: for example, according to NEITI published reports, between 2004 and 2008 total domestic crude debts outside the 90-day credit window grew from N1.5b to N588b. Interest on debts outside the 90 day credit window, and infrequent delays sweeping payments into the Federation Account⁶.

As its debt position worsened after 2009, NNPC also began using the non-refined portion of the domestic crude allocation in costly ways:

- Withholding proceeds from sales of exported domestic crude oil:

This practice began ostensibly to cover fuel subsidy costs. NNPC itself has denied this publicly, but our findings per Section 1.2.4.1 above shows NNPC withheld N1.983trillion in subsidies between 2006 and 2011.

- Use of product swaps and offshore processing:

Starting late in 2010, a total of 27mbbls of non-refined domestic crude was sent for offshore processing and 6 mbbls for crude oil product exchange (2011: 24mbbls and 56mbbls respectively). The economics of these transactions are not clear and the task force was unable to deduce whether adequate value is generated from these transactions.

Ultimately, this combination of deferred receivables, discretionary withholdings, and cashless contracts may constitute an unnecessary loss in revenues to the Federation.

11. Equity Crude Oil Sales

6. Overview

The balance of government's share of crude oil production, after deducting domestic crude is termed "equity crude". These crudes are obtained mainly from 3 types of arrangements which are:

- Joint operating agreements with International Oil companies. This may be modified by alternative funding arrangements or modified carry arrangements which arises

⁶ NNPC has acknowledged N450b worth of debt for unremitted domestic crude proceeds through end of 2009. It claims this sum represents a series of Presidential "reprieves," but that it is now agreed a 32 instalment repayment plan.

as a result of the FGN's inability to fully finance its share of JV costs

- Production Sharing Contracts (PSC)
- Service Contracts

Equity Crude Oil is required to be sold in the international market at commercial prices by NNPC (COMD) and the proceeds are remitted into three (3) principal accounts:

- Federation account, as export proceeds
- DPR accounts - Royalties
- FIRS accounts - PPT

The Task Force has carried out a review of crude oil sales from the various contract types.

7. Alternative funding agreements (Carry/Modified Carry Agreements)

These are financing agreements in which International Oil Companies advance loans to NNPC, for the purpose of investing in upstream projects. This type of agreement arose because NNPC was unable to meet its cash call obligations under the joint operating agreements. As at 31 December 2009, outstanding JV cash call obligation was N459.568billion.

Under these agreements, the companies take capital allowances, as allowed by the Petroleum Profit Tax Act to recover up to the applicable rate of PPT for the calendar year of the principal. This serves to reduce the taxable profit that is due.

The incremental notional margin is paid to the operators out of the increased production from which their investment was made. Where the investment does not yield the expected results, the payment is stopped. NNPC has no liability for any financial loss incurred by the carrying party in respect of the project.

The carry oil recovery process covers only capital expenditures. The operating expenditures are funded by NNPC in accordance with the joint operating agreement.

For allocation of oil proceeds, this is done in accordance with the following priority (assume a contract between one operator and NNPC):

- volume of oil representing the operator's participating interest share shall be allocated to the operator

- carry oil shall be allocated to the carrying party to reflect its carry interest share. If the reimbursable carry expenditure (principal plus interest) exceeds the amount of carry oil available in any calendar year, then the excess is carried over to the next calendar year and
- shared oil is shared between the carrying party and NNPC in the agreed proportions. In the earlier carry agreements, shared oil and carry oil are lifted by the operators. In the modified carry agreements, share oil and carry oil are lifted and marketed by NNPC on behalf of the carrying party and proceeds of sale is utilized for repayment of the carrying party for recovery of the reimbursable carry expenditure. Recoverable carry expenditure and share oil can be carried forward to the next calendar year. The balance of NNPC's equity allocation, which remains after lifting and marketing by NNPC of the carry oil/gas and share oil/gas, for and on behalf of the carrying party, shall be for the account of NNPC. The oil taken as carry oil and shared oil by the carrying party is treated as equity production of the carrying party and subject to PPT and royalty. Consequently, the full value of the oil lifted and owned by the carrying party is subjected to PPT and royalty as proceeds from sale of oil, rather than consideration for the disposal of assets to NNPC or tariff income.

When oil recovery from the projects reaches a certain level, NNPC and the operator are entitled to negotiate the shared oil ratio.

8. Production Sharing Contracts

The Production Sharing Contracts are contracts where the NNPC, as holder of all rights in and to the contract area, appoints and conveys to a contractor, the exclusive right to conduct petroleum operations in a contract area.

The contractor provides funds and bears interests on the funds, in addition to bearing the risks of operating costs and risks required to carry out petroleum operations and therefore have an economic interest in the development of crude oil and natural gas discovered.

Under the contract, the available crude oil is allocated to the parties as follows:

- Royalty oil is allocated to NNPC in such quantum as will generate an amount of proceeds equal to actual royalty

payable on the contract area during each month and the concession rental payable annually;

- Cost oil will be allocated to the contractor in such quantum as will generate an amount of proceeds sufficient for the recovery of operating costs, after allocation of royalty oil to NNPC. All costs will be in US Dollars and recovered through cost oil allocation;
- The cost oil ceiling shall be 70% of available crude oil. The realizable price established shall be used in determining the amount of cost oil allocated to the contractor in respect of crude oil produced.
- Tax oil shall be allocated to NNPC in such quantum as will generate an amount of proceeds equal to the PPT liability payable each month;
- Profit oil, being the balance of available crude oil after deducting royalty oil, cost oil and tax oil shall be allocated to each Party in the agreed algorithm.

7. Findings

9. *Single point accountability required*

The Task Force observed that there is no single point accountability for the income and expenditure streams of upstream petroleum operations. This is also compounded by the current structure of the NNPC and its agencies, as detailed below:

- The joint operating agreements and contracts with oil companies in petroleum operations are entered into by NNPC.
- The responsibility for monitoring costs and the investments of the FGN in oil and gas upstream operations rests with the National Petroleum Investment Management Services (NAPIMS), a strategic business unit of NNPC not a limited liability company.
- The responsibility for verifying the FGN's share of crude oil production rests mainly with the Crude Oil Stock Management Unit (COSM), a unit of the Crude Oil Marketing Division (COMD) of the NNPC, with cost considerations based on information provided by NAPIMS.
- The responsibility for marketing and sale of crude oil (equity and unutilized domestic crude) is with the COMD.
- Remittances of sales proceeds are made directly by customers into the CBN correspondent bank accounts with

JP Morgan Chase, which are subsequently swept into the Federation account. This is monitored and tracked by Group Finance, NNPC.

- Revenues from equity crude and costs incurred in upstream operations are recorded in the books of NAPIMS, which is separate from NNPC's books of account.

The reconciliation process amongst the various groups listed above is not clearly defined which makes it difficult and almost impossible to have a single and holistic view of investments and the returns thereto at any point in time.

10. Decline in national investment in the upstream sector

The trend observed is that crude oil production has been in a decline over the 10 year review period. This can be directly linked to the fact that the nation has not made the necessary investments that would increase the nation's proven reserves (Table 9).

The preparation and presentation of Financial Accounts for NAPIMS are presented as if NAPIMS was a single operating business entity or profit centre as opposed to a cost centre. This grossly contradicts the reality and its implications – that there is no strategic single point perspective of FGN's investment and returns in the Petroleum sector.

Year	JV Production	PSC Production	SC Production	NPDC JV Production	Independents	Marginal Fields	Total Production
2002	687,980,920	11,500,555	4,244,744	6,514,425	30,446,536	-	740,687
2003	791,227,920	16,718,964	3,483,966	6,819,784	25,900,295	-	844,150
2004	844,770,516	24,399,567	3,886,392	13,042,029	24,057,985	-	910,156
2005	831,763,445	36,711,219	4,317,081	22,015,929	24,915,639	-	919,723
2006	662,491,651	162,532,458	4,013,954	21,693,919	17,680,246	784,278	869,196
2007	581,468,061	192,621,306	3,932,714	15,853,124	8,693,895	431,608	803,000
2008	546,055,056	195,212,480	3,361,078	12,468,295	12,914,554	2,842,065	772,853
2009	468,180,346	268,792,256	3,237,284	21,869,008	19,519,612	3,878,439	785,476

Year	JV Production	PSC Production	SC Production	NPDC JV Production	Independents	Marginal Fields	Total Production
2010	533,683,737	316,887,117	2,711,402	21,745,142	20,192,353	3,803,447	899,023
2011	526,022,734	288,141,531	3,994,220	27,541,493	16,974,827	8,080,760	870,755

Table 9: Country production of crude oil (Source: NNPC).

Also, looking at Figure 2, variations in the FGN's crude oil revenues have been due principally to variations in crude oil prices.

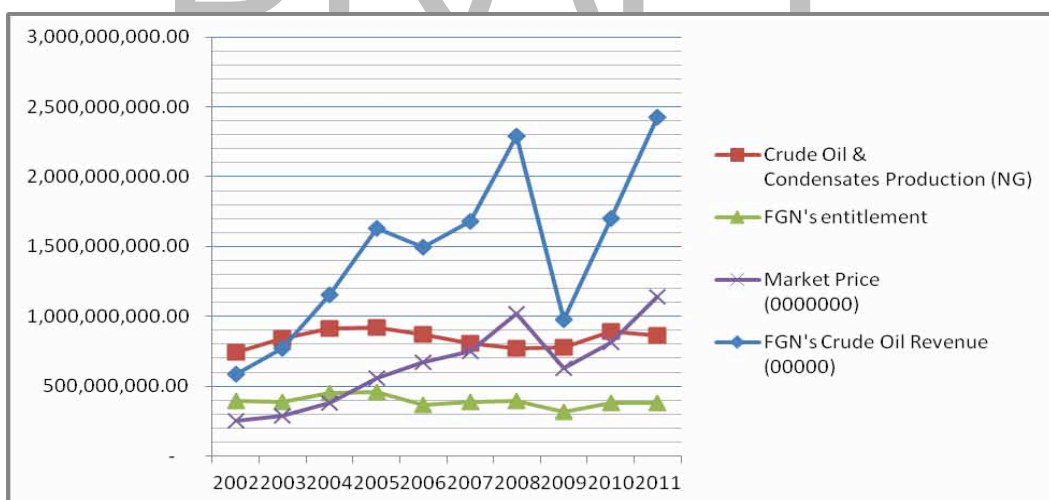


Figure 2 - Country production, government entitlement, government revenues and market prices of crude oil.

Very little impact has been recorded from variations in crude oil production. Despite the increase in crude oil production in Nigeria over the years, the nation's entitlement has decreased as a result of various alternative funding arrangements for its upstream investments.

11. Legislation in the Petroleum Industry

Legislation governing the industry and agreements with third parties are outdated and do not reflect current economic or legal realities. This legislation includes:

- Petroleum Act L.F.N 1990 L.F.N 2004
- Deep Offshore and Inland Basin Production Sharing Contracts Act L.F.N 2004
- Petroleum profits tax Act L.F.N 1990 L.F.N 2004 etc

In addition, some legislation includes clauses that are ambiguous in current economic terms. Examples are applicable rates for calculation of royalties at offshore locations, determination of

realizable prices to be used in Royalty and PPT calculations, timing of capital allowances etc. This creates various controversies between the NNPC, DPR and the oil companies as to the amount of royalties and invariably cost, tax and profit oil. We found that there is need for certainty in the law as to calculation of royalties as a way to avoid existing lingering disputes.

Furthermore, there are some provisions within the legislation that could significantly improve government's revenue that the government is yet to take advantage of. These include Section 16 of the Deep Offshore and Inland Basin Act which provides that:

- The provisions of this Act shall be subject to review, to ensure that if the price of crude oil at any time exceeds \$20 per barrel, real terms, the share of the Government of the Federation in the additional revenue shall be adjusted under the Production Sharing Contracts to such extent that the Production Sharing Contracts shall be economically beneficial to the Government of the Federation.
- Notwithstanding the provisions of (1) above, the provisions of this Act shall be liable to review after a period of 15 years from the date of commencement and every 5 years thereafter.

Provisions of major enabling legislation governing the petroleum sector confer powers on the Minister to delegate the power of regulation and supervision for effective performance of revenues. The Task Force observed that these provisions have not been utilised to vary the fiscal terms for production sharing contracts. The price of crude oil has long since exceeded \$20. It seems that past administrations may have been worried about discouraging investment in deep offshore as a reason for lack of will to invoke the provisions of the Act. But the fact today is that the initial reason for generous PSC terms which was risk of investment in an unproven basin no longer exists as Nigerian deep offshore has been proven to contain vast reserves. It is perhaps appropriate for the present administration to take advantage of the Act to vary the terms of the PSCs so as to increase government take and enable the administration achieve its transformation agenda.

Sections of the Petroleum Act and the Associated Gas Reinjection Act relating to prescription of fines and other revenues can be delegated as such by the Minister in this regard⁷.

⁷ See Section 9 of the Petroleum Act and Sections 3b and 5 of the Associated Gas Reinjection Act, for example

The impact of these observations is a lack of clarity in determination of government revenues and the lack of periodic reviews of legislation to ensure optimization of FGN revenues.

12. Crude sales to traders without formal contracts

NNPC makes use of traders as middlemen for the exportation of crude oil and importation of petroleum products. This logically will serve to reduce margins obtainable on sale of crude oil and increase costs on purchase of petroleum products as compared with where the sales/purchases are made directly.

The COMD annually requests for bids from oil and gas traders. This forms the basis for the selection of traders, to whom contracts are signed, covering a period of 1 year. Table 10 shows the number of traders engaged by NNPC over a ten year period, with an over 100% increase from 22 in 2002 to 48 in 2011.

Year	No of customers/contracts
2002	22
2003	24
2004	24
2005	31
2006	31
2007	47
2008	28
2009	22
2010	40
2011	48

Table 10: Summary of Lifting Contract Agreements (Source: NNPC records)

It was observed that the following traders lifted crude oil however the companies could not be found as listed on the approved master list of customers. This suggests that Nigeria sold crude oil to certain traders without a formal contract⁸.

⁸ Task Force could only establish formal contracts in writing if any oral contracts exist there appears no record of same

Year	Names of customers without formal contracts
2002	Tema Oil Refining, Petrobras
2003	Itochu
2004	Crossoil, Energem Petroleum Corporation,
2006	Ovlas Trading, AMG Petro Energy
2007	Safiya Global Investments Ltd, INC Natural Resources, Tristar, Emo Oil, Republic of Liberia, J&S, OFSI Ltd, Petroleum Corp of Jamaica,
2008	J&S, Ommart Ltd, Dainom Nig Ltd, AMG Petro Energy, Tacorr, Roger Princeton, Rheinoel Ltd, Sterling Oil Resources, Makwande, Alpha Petro Worldwide, Abacus, Ommart, Ovlas
2010	Sunoil Refinery, GNPC, J&S, Mercuria
2011	SPOG Petrochemicals, Sinclair Commercial, Sullom Voe, Liberia Petroleum, Tocomo Oil, Centro Energy, Republic of Benin, Emo Oil, Arcadia, Overt Energy, Rheinoel Ltd, Sarb Energy,

Table 11: Customers without formal contracts (Source: NNPC records)

13. NNPC Crude Oil Sales

Crude oil sales are a major source of government revenues. It makes up roughly 70 percent of the Federation revenue. NNPC's COMD sells government's share of production—1,000,000 bpd or more—exclusively through one year term contracts. These contracts grant holders the option to lift a set allocation of crude at Official Selling Prices (OSPs). COMD quotes OSPs monthly for each of Nigeria's 26 crude grades.

For the NNPC, an average of 20 to 30 crude oil liftings take place each month with the standard lifting cargo capacity being at about 950,000 barrels. In some years (2007, 2010, 2011), the number of contracted customers significantly exceeded available stock, even though it was noted that there were some instances where customers were sold less than the standard capacity.

From analysis of the list of customers provided over the 10 year period, the consistent customers were: Addax, Arcadia, Calson, Duke Oil, Glencore, Indian Oil Company, Ivory Coast, Napoil, Petrodel, Sao Tome, Senegal, SINOPEC, Trafigura and Vitol. The

Task Force research also found that quite a number of traders did not demonstrate renowned expertise in the business of crude oil trading. These traders have lifted crude oil only once over the 10 year period. These are Abacus Oil, AlphaPetro Worldwide, Caligeria Oil Limited, Dainom Nig. Ltd, Gembrook Energy Ltd, Global Gas and Energy, Kingsbury Trading, Makwande, Ommart Ltd, Sinclair Commercial Ltd, Tacorr, Tempo Energy, Tocomo Oil, Worldwide Energy.

The global trend is for national oil companies to develop their own trading arms. NNPC has created at least five trading subsidiaries of its own (Hyson, Calson, Napoil, Duke Oil and Nigermed), however capacity is limited, and most function as financial and operational black boxes.

NNPC maintains that its sales model is sound and fetches Nigeria fair value for its crude. However, various submissions received by the Task Force argued that the process was bureaucratic yet had potential for discretion, waste and erosion of value in the nation's petroleum revenues. Specifically, the Task Force identified the following areas of concern.

First, Nigeria is the world's only major oil producer that sells 100 percent of its crude to private commodities traders, rather than directly to refineries, as shown in the table below:

Selling most crude direct to end-users	Relying somewhat on traders	Relying totally or near-totally on traders
---	------------------------------------	---

US	Russia	Congo-Brazzaville
Chad	Angola	Southern Sudan
Canada	Libya	Nigeria
Yemen	Singapore	
Saudi Arabia	Gabon	
Malaysia	Equatorial Guinea	
UAE	Cameroon	
Indonesia	Colombia	
Kuwait		
Syria		
Iraq		
Sudan		
Iran		
Algeria		
Kazakhstan		
Venezuela		
Norway		
Mexico		
UK		
EU		

Table 12: Analysis of countries and use of crude traders

No technical or commercial problems prevent NNPC from building its own full service trading desk, which seems to be the preferred global best practice. The Corporation’s use of oil traders raises the following issues:

- Lost margins:

Nigeria should ideally be capturing for itself the estimated average margins of US\$100,000-400,000 per cargo made by traders. COMD also awards a number of contracts each year to “briefcase traders” with little or no commercial and financial capacity. These small local outfits, then “flip” their cargoes to real traders for a margin, reportedly US\$0.20 to US\$0.40 per barrel. Such transactions add no value to the sector or the Nigerian economy.

- Manipulation of pricing:

Submissions to the Task Force also alleged that there is manipulation of OSPs. For example, it is alleged that traders are allowed to choose the most lucrative pricing option for individual cargoes retroactively. There is also a question of whether

favoured traders may receive “subsidized” prices well below market.

- Suboptimal returns from current term contract sales system:

NNPC’s exclusive use of term sales may not always net Nigeria best value for its oil, even without manipulation by traders and officials.

- Market fraud:

The lack of transparency in Nigerian crude sales encourages fraudulent activities. Allegations have been made of the existence and circulation of forged documentation on crude allocation in the local and international markets, increasing Nigeria’s perception as a high-risk market and discouraging bonafide purchasers.

- Government-to-Government (G-to-G) Sales:

Each year NNPC grants other countries, most of them Sub-Saharan African neighbours, the option to buy approximately 200,000 bpd. Most of these countries cannot refine Nigerian crude, so they hire private traders to finance, ship and sell the oil to a third party elsewhere. The traders then either split final margins with the foreign country, or pay the country a set per-barrel commission (reportedly between US\$0.20 and US\$0.50 cents per barrel). NNPC denies that these transactions are concessionary, and argues that “the nation does not lose” from them. There is no evidence of the additional value to Nigeria in revenue terms.

14. Cash Calls and Alternative Financing Arrangements

Nigeria faces a cycle of debt related to its equity participation in six joint ventures. A review of NAPIMS’s audited financial statements as at 31 December 2009 showed that Joint Venture cash calls payable was N459.568billion. This cycle may continue to increase in the coming years unless a systemic solution is found.

NNPC holds 55-60 percent equity shares in six joint ventures. In 2011, these licenses produced 1.5 million barrels per day, or 61 percent of Nigeria’s total oil production. Each year, Government allocates funds to NNPC to cover its share of joint venture operational and capital expenses. These are the JV cash calls. As is depicted below, JV costs have risen rapidly since 2005. This is due to several factors such as increased global demand and cost for industry services following high oil prices, unrest and equipment sabotage in the Niger Delta occasioning higher

security and repairs; and escalating cost despite existence of NAPIMS and its control measures.

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US\$ million				
	total JV budgets	NNPC's share (estimated at 58%)	Actually paid by NNPC	Debt to operator
2005	6,800	4,000	4,000	0
2006	8,100	4,698	4,101	597
2007	9,700	5,626	4,365	1,261
2008	12,400	7,192	4,924	2,268
2009	14,800	8,584	4,223	4,361
2010	17,700	10,266	NA	NA
2011	17,200	9,976	NA	NA
2012	18,000	10,440	NA	NA

Table 13: NNPC JV cash call obligations, payments and debts, 2005-2012

Since 2006, government has not allocated enough funds to cover these amounts. To cover the gap, NNPC has entered into a range of borrowing arrangements with its company partners, referred to as “Alternative Financing Arrangements.” These include:

- Carry agreements and modified carry agreements. These are the most common form. In these cases, the carrying partner recovers its funds through tax discounts or receipt of a portion of the government’s share of production.
- Third party debt financing. This project finance mechanism is used to fund certain projects with robust cash flows, such as four projects under the Mobil JV. For instance, in April 2012, ExxonMobil and NNPC signed a \$1.5 billion exploration financing agreement, \$900 million of which is borrowed from commercial banks. NNPC holds \$900 million of this debt.
- IOC bridge loans. NNPC has taken a bridge Loan from Shell to cover unpaid performance of years prior to 2008.

The most prevalent model is for operators to recoup their costs through waived taxes, or by receiving a portion of the

Federation's share of production. In 2011, 473,000 barrels per day, or 19% of total production, was designated as "Alternative Funding" joint venture crude.

From all observable indications, cash call debts will continue to rise while JV contracts remain operational. Additionally, JV costs would increase if production levels are to be maintained in view of increasing maintenance costs. Finally the costs of financing all this debt (estimated at around 8%) are continuously mounting.

JV production may decline in the coming years unless investment increases – an outcome Nigeria cannot afford. Many fields are undeveloped. High producing fields are peaking. Most of the infrastructure is old. NNPC estimates that, by 2014, \$3.7 billion in new drilling costs will be needed annually to simply retain current production levels (much less to increase production). Given the higher government take of the JVs, maintaining production levels is essential for Nigeria to sustain oil earnings. The higher investment needed, however, will mean larger cash calls. We however note that production peaked recently at 2.7m barrels a day. Many factors have been alleged to have contributed to this achievement principal of which has been the success of the administration's amnesty programme which has reduced insecurity within the producing regions. Whilst the current success is commendable it may not be sustainable in the long run unless a comprehensive strategy is adopted and implemented to address the noted areas of decline observed in the Report.

15. Upstream cost oversight and tax assessment

As JV partners there is need for the effective management and oversight of oil companies' operating costs. This is because higher operating costs of the oil companies reduce tax payments, tend to increase NNPC's JV cash call obligations and increase cost oil under PSCs.

The impact of these issues on Nigeria's revenues accruable from the industry is highlighted by the following:

- Various companies have argued that Nigeria is uniquely expensive due to the security problems, equipment sabotage, local content requirements, and industry delays which arguably add to costs. This makes it more difficult for the authorities to evenly compare costs in Nigeria with those in other countries to assess reasonableness. It also means companies can more easily inflate costs.

- There is an inherent conflict in NNPC's role as both a participant in the industry and a cost regulator (via NAPIMS).
- Capacity constraints impair both the NAPIMS cost regulator and FIRS tax assessor functions.
- The current bureaucratic cost regulation processes at NAPIMS and the overlapping responsibilities of the agencies delay investment decisions in the industry above industry averages.
- Control of training programme for NNPC, NAPIM and DPR staff by the contractor/IOC generates conflict of interest as there is potential for perception of compromise in regulation in exchange for expensive overseas training programmes.

Several short-term steps can be taken to reduce these risks and capture Nigeria's fair share of the revenues, while long term reform and capacity development will improve this situation in the long term.

16. National entitlement in a JV

Based on production and lifting data by operator, obtained from NNPC, we performed an analysis to establish whether the government is receiving crude oil entitlement in accordance with the provisions of the various joint operating agreements as modified by the alternative funding and modified carry agreements. See Table 14 for detailed analysis.

We observed the following lifting percentages:

	Contractual entitlement	2002	2003	2004	2005	2006	2007	2008	2009	2010
Shell	55%	55%	54%	55%	53%	56%	54%	58%	53%	56%
Chevron	60%	60%	59%	61%	60%	60%	60%	60%	49%	62%
AGIP/PHILLIPS	60%	60%	60%	65%	61%	56%	58%	56%	60%	61%
MOBIL	60%	60%	60%	60%	60%	76%	58%	57%	54%	72%
ELF	60%	61%	61%	60%	61%	58%	59%	56%	65%	62%
TEXACO	60%	68%	59%	56%	52%	80%	42%	46%	66%	72%
PAN OCEAN	60%	52%	73%	53%	62%	41%	0%	72%	0%	18%

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Table 14: Percentage of government lifting to total JV production (Source: NNPC)

	Shell	Chevron	AGIP/ PHILLIPS	MOBIL	ELF	TEXACO	P/ O
2002	(545,748)	(393,966)	263,734	(436,622)	348,124	739,959	(3.
2003	(2,481,889)	(940,268)	(273,792)	(414,646)	369,134	(51,090)	56
2004	1,256,776	1,270,874	3,441,711	648,775	19,615	(244,080)	(5.
2005	(5,121,577)	(168,638)	655,429	(372,463)	895,452	(438,713)	21
2006	887,700	18,935	(2,335,577)	35,646,569	(1,742,704)	931,212	(2.
2007	(1,818,828)	(296,806)	(986,707)	(4,719,880)	(1,107,992)	(390,745)	-
2008	3,600,933	(584,040)	(1,647,883)	(4,736,312)	(3,326,856)	(586,375)	1,
2009	(2,117,118)	(10,208,937)	68,460	(8,919,080)	3,242,685	248,011	(1.
2010	1,071,071	2,076,726	368,510	19,930,192	1,051,046	506,757	(1.
2011	2,154,960	13,718,474	58,102	104,130,905	(576,046)	(318,444)	30
Total	(3,113,721)	4,492,354	(388,011)	140,757,438	(827,541)	396,491	(2.

Table 15: Difference between government lifting and contractual entitlement under the JOA (expressed in barrels of oil)

On enquiry from NNPC, the reasons for the differences are mainly due to the fact that the lifting data provided for some of the operators (particularly Chevron and Mobil), have not been segregated by agreement type.

In the absence of accurate information on entitlements and lifting per contract type, the Task Force could not arrive at an accurate conclusion as to whether the government is receiving their contractual entitlements or not, in the joint venture agreements.

17. Carrying parties in the carrying agreements recover in excess of 10% of the capital cost through investment tax allowances

RCE is the quantity of carry oil/gas determined in US dollar equivalent and corresponding to the unrecovered residual carry

capital expenditure. In other words, it represents the outstanding principal and interest due from NNPC in the carry agreements.

We observed two (2) distinct methods of calculating RCE from the contracts reviewed. The earlier contracts calculated RCE as Carry tax expenditure less carry tax relief less carry oil recovered, divided by the guaranteed notional margin. The later contracts calculated RCE as cumulative capital cost amortized and expensed to date less cumulative tax relief less carry oil/gas, divided by the incremental notional margin.

CTE = the cumulative amount of capital allowances, including any investment tax allowances.

This implies that in determining the reimbursable capital in the earlier contracts (EA/EJA Field Development (Shell) and Amenam/Kpono Field (OMLs 99 and 70-Elf)), the carrying parties are recovering 10% in excess of the capital cost, representing the investment tax allowance. In the case of the Elf agreement, the amount of the investment allowance on the total capital cost of US\$697 million, will be in the range of US\$69.7 million, recovered in excess of capital cost carried. Total capital costs include intangible and tangible capital expenditure.

18. Shared oil allocation

Shared oil means the quantity of oil production available after allocating the participating interest share of oil production to the operator and allocating carry oil to the operator. Royalty and tax is deducted from the shared oil allocated to the operator, leaving it with the actual fiscal margin for each shared oil barrel allocated to it, as compensation for the cost of the carry. We observed that the percentage of share oil allocated to the carrying party ranges from 6.5% to 50%. In addition, based on the defined financial models and the stage of the project, incremental notional margin ranges from \$6 to \$14 per barrel.

The basis of the determination of shared oil varies from one agreement to the other. See Table 16 below for details.

Carry agreement	Basis of allocation of shared oil

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<p>Between NNPC and Total E&P for Ofon Phase 2 Project Agreement date – 24 November 2008</p>	<p>Share Oil= (SOE-SOR)/INM Where SOE=Share Oil Entitlement SOR = Share Oil lifted and marketed by NNPC for and on l TEPNG in previous months. Value in US\$ INM= Incremental Notional Margin of TEPNG</p>
<p>Between NNPC and ELF Petroleum Nig Ltd for the development of the Amenam/Kpono Field (OMLs 99 & 70) Agreement date – 7 June 2000</p>	<p>Shared Oil is shared between NNPC and the Carrying part ratio of 55% to NNPC and 45% to the Carrying party. It is hereby expressly agreed by the parties that with effect effective date of the new MOU superseding the ELF MOU, new MOU contains a revised notional margin of US\$2.70 p barrel, shared Oil will be shared between the Parties in the 59.1% to NNPC and 40.9% to the Carrying party</p>
<p>Between NNPC and Chevron Nigeria Limited for the Meji Re-development Project Agreement date – 20 May 2005</p>	<p>Share Oil is shared between NNPC and the Carry Party in of 25.5% CNL and 74.5% NNPC. The carry party pays PP Royalty for the crude in its hands.</p>
<p>Between NNPC and Chevron Nigeria Ltd for the Meren-X-Platform Project Agreement date – 20 May 2005</p>	<p>Share Oil is shared between NNPC and the Carry Party in of 6.5% CNL and 93.5% NNPC. The carry party pays PPT Royalty for the crude in its hands.</p>
<p>Between NNPC and Chevron Nig Ltd for the Delta South Central Development Project Agreement date – 20 May 2005</p>	<p>Share Oil is shared between NNPC and the Carry Party in of 16.5% CNL and 83.5% NNPC. The carry party pays PP Royalty for the crude in its hands.</p>
<p>Between NNPC and Shell and Total E&P and Nig AGIP Oil Company Ltd for the Cawthorne Channel Integrated Project Agreement date – 27 November 2008</p>	<p>Share Oil= (SOEV-SOR)/INM Where SOEV=Share Oil Entitlement Value (the after-tax and royal in US\$ of Share Oil entitlement due up to the current montl the schedule defined in the financial model. SOR = Share Oil value received (the after-tax and royalty v US\$ of Share Oil lifted and marketed by NNPC for and on l the Carrying Parties in previous months. INM= Incremental Notional Margin of the Carrying parties The value of Share Oil to be received by the carrying partie current month shall be the share oil entitlement value less of the Share Oil received by the carrying parties in the prev months.</p>
<p>Between NNPC and Shell Petroleum Development Company and ELF Petroleum Nig Ltd and Nigerian Agip Oil Company Agreement date – 17 November 1999</p>	<p>Share Oil is shared between NNPC and the Carry Party in of 50% CNL and 50% NNPC. The carry party pays PPT ar Royalty for the crude in its hands.</p>
<p>Between NNPC and Chevron Nig Ltd for the Escravos Gas to Liquids (EGTL) project Agreement date – 14 August 2001</p>	<p>Share EGTL products are shared between NNPC and the Party in the ratio of 50% to NNPC and 50% to the Carrying The carrying party's share of shared EGTL products shall subject to the same tax treatment as its participating intere of EGTL Products</p>

<p>Modified Carry Agreement Between NNPC and Mobil Producing Nigeria Unlimited</p>	<p>Share Oil= (SOE-SOR)/INM The value of Share Oil to be lifted and marketed by NNPC on behalf of MPN is the Share oil entitlement less the value of Share oil lifted and marketed by NNPC for and on behalf of the previous months.</p>
<p>Modified Carry Agreement Between NNPC and Shell Petroleum Development and Total E&P Nig Ltd and Nig Agip Oil Company Ltd for the GBARAN Ubie Phase 1 Project Agreement date – 24 February 2009</p>	<p>Share Oil= (SOEV-SOR)/INM Where SOEV=Share Oil Entitlement Value (the after-tax and royalty value in US\$ of Share Oil entitlement due up to the current month on the schedule defined in the financial model in appendix 2. SOR = Share Oil value received (the after-tax and royalty value in US\$ of Share Oil lifted and marketed by NNPC for and on behalf of the Carrying Parties in previous months. INM= Incremental Notional Margin of the Carrying parties The value of Share Oil to be received by the carrying parties in the current month shall be the share oil entitlement value less the value of the Share Oil received by the carrying parties in the previous months.</p>
<p>Modified Carry Agreement Between NNPC and Total E&P Nig Ltd for OML 58 Upgrade Gas Export Agreement date – 14 October 2008</p>	<p>Share Oil= (SOE-SOR)/INM</p>
<p>Between NNPC and Shell Petroleum Development Company and Total E&P and Nigerian Agip Oil Company Ltd for the Nembe Creek Trunkline Project Nembe Creek Field Logistic Base Nembe Creek Phase 1 Project Santa Barbara Phase 1 Project Agreement date – 12 December 2008</p>	<p>Share Oil= (SOEV-SOR)/INM The value of Share Oil to be received by the carrying parties in the current month shall be the share oil entitlement value less the value of the Share Oil received by the carrying parties in the previous months.</p>

Table 16: Summary review of the basis of shared oil allocations for the various carry agreements

19. Implicit cost of alternative funding arrangements

NNPC provided the Task Force with production and lifting volumes under the various alternative funding arrangements. The differences in percentages from the baseline contractual agreements of 55% with Shell and 60% with the other joint ventures can be interpreted as the cost of the carry agreements, being incurred by NNPC.

We found that the fluctuation in government take between various projects was wide. This leaves room for arbitrariness. If NNPC gets 74% in one instance, why does it take 55% in another

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instance? There is need to eliminate or adequately explain such arbitrariness so the basis on which NNPC acts is clear and transparent.

NNPC informed the Task Force that in the case of Chevron and Mobil, lifting data provided for some of the operators have not been segregated by agreement type. This implies that some of the liftings made by NNPC are more than actual NNPC liftings, as they include liftings made and sold on behalf of the operators.

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Year	Shell Production (bbls)	Chevron Production (bbls)	Mobil Production (bbls)	Elf Production (bbls)
2003	26,768,881	-	38,869,336	6,436,445
2004	43,071,975	3,138,185	43,106,427	32,656,414
2005	42,439,487	9,083,259	73,694,178	40,909,893
2006	3,418,766	9,121,439	91,516,761	40,250,115
2007	-	6,927,280	71,116,205	40,535,587
2008	-	4,941,662	28,873,600	36,420,384
2009	6,096,195	21,703,939	76,845,529	26,851,534
2010	29,746,886	24,758,070	89,673,390	21,808,427
2011	23,080,837	24,472,853	102,488,316	22,965,461
Total	174,623,027	104,146,687	616,183,742	268,834,260
	Shell Lifting/ Entitlement (bbls)	Chevron Lifting/ Entitlement (bbls)	Mobil Lifting/ Entitlement (bbls)	Elf Lifting/ Entitlement (bbls)
2003	-	-	12,344,101	-
2004	8,208,489	1,882,911	14,241,265	349,610
2005	11,366,628	4,667,007	30,901,102	13,136,805
2006	1,865,460	3,184,337	15,455,790	12,829,913
2007	-	3,876,368	35,519,350	8,037,498
2008	-	2,392,769	18,230,459	10,014,611

Year	Shell Production (bbls)	Chevron Production (bbls)	Mobil Production (bbls)	Elf Production (bbls)
2009	960,061	10,508,501	45,342,125	11,154,952
2010	8,408,407	9,645,512	43,697,662	9,409,471
2011	5,646,750	3,411,834	24,751,615	8,604,953
Total	36,455,795	39,569,239	240,483,469	73,537,813
% of lifting/entitlement over production	Shell	Chevron	MOBIL	ELF
2003	0%	0%	32%	0%
2004	19%	60%	33%	1%
2005	27%	51%	42%	32%
2006	55%	35%	17%	32%
2007	-	56%	50%	20%
2008	-	48%	63%	27%
2009	16%	48%	59%	42%
2010	28%	39%	49%	43%
2011	24%	14%	24%	37%
Average total	21%	38%	39%	27%

Table 17: Production and Lifting Data for IOCs

20. Generous provisions in the Production Sharing Contracts

Some of the provisions of the PSCs and deep offshore and inland basin Act are generous compared with other existing agreements and do not reflect current economic realities. These include:

Royalty rate – The payment of royalty in respect of deep offshore PSCs is graduated as follows:

- o In areas from 201 to 500 metres water depth 12%
- o From 500 to 800 metres water depth 8%
- o From 801 to 1000 metres water depth 4%
- o In areas in excess of 1000 metres water depth 0%

o Inland basin PSC

10%

The applicable petroleum profit tax rate for deep offshore and inland basins of 50% as compared to 65.7 – 85% for onshore/shallow offshore.

Investment tax credit of 50%/Investment tax allowance of 10%

21. Interpretation of the Production Sharing Contracts

Some of the clauses of the contracts are ambiguous and subject to multiple interpretations. Parties translate the contracts to template models which are used for the determination of entitlements.

Examples of contentious interpretations, as obtained from the review of the contracts and discussions with stakeholders include:

- Applicable rate of royalty for crude coming from wells in varying water depths
- Whether signature bonuses are tax deductible
- Entitlement's carried forward in volumes or proceeds
- Ring fencing/Consolidation of costs
- Segregation of liftings
- Determination of realizable price etc.

This creates reconciling differences between NNPC, DPR and the oil companies as to the amount of royalties, cost, tax and profit oil. The impact of these observations is a lack of clarity in determination of government revenues. A clear finding is that due to various interpretations the law in this area is uncertain and need to be clarified. Also the dispute resolution mechanism for resolving issues of interpretation between FGN, NNPC and the IOCs does not seem to be working effectively.

22. Budget, work plans versus cost verification

The operators prepare their budgets and work plans for the year and these are approved by the management committee. The management committee consists of 10 persons, appointed by the parties (NNPC: 5, Contractor: 5). Should NNPC wish to propose a revision, as to specific features of the said work programme and budget, it shall within eight (8) weeks after receipt of the work program and budget, notify the contractor in writing, specifying in reasonable detail the changes requested and the reasons thereof. The Management committee shall resolve the requests for revisions proposed by NNPC. Considering the composition of the

management committee, where revisions are proposed by NNPC and NNPC does not present a unified front of its entire representative, the revision might not pull through.

At the end of the year, the work program and budgets are compared to actual performance on a code by code basis. NAPIMS reviews performance against approved work programs, as well as cash call paid during the year. Periodically (bi-annually), NAPIMS reviews the invoices for the reported performance. Upon verification of costs, work programme is signed off, as agreed.

In determination of entitlements, cost is a critical input for the PSC as this determines the cost oil to be lifted by the contractors. The initial cost used for calculation of entitlements represents the reported performance of the company. This is actualized upon NAPIMS's verification and certification of the cost.

The implication of this is that in the event that the costs are not approved for years (as is obtainable in some instances); the entitlement determination cannot be final.

23. Human capacity needs at NAPIMS

There is a clear training, technology and human capacity gap between NAPIMS staff and their counterparts in the private oil and gas sector. Certain NAPIMS activities are performed without the required depth and speed of a cost regulator that would aid quick investment decisions. NAPIMS' capacity challenges should be bridged to enable detailed analysis using independent benchmarks to verify cost submissions by operators.

24. Determination of realizable price

The basis for determination of realizable price is explicitly defined in the PSCs. The intent, as defined in the PSCs, is to ensure that prices reflect the true market value based on arm's length transactions.

Realizable price is very important under the PSCs as royalty oil, cost oil, tax oil and profit oil are all converted from proceeds (in US\$) to barrels of oil, using the realizable price. The operators and NNPC are hardly able to come to a consensus on what the realizable price, to be used in entitlement determination is. This results in reconciliation differences.

Nevertheless, the contracts provide that the records of the Ministry of Petroleum Resources (represented by NNPC) will prevail. We compared the realizable price used in determining entitlement for NNPC/NAE PSC for the Abo Light crude with the Brent Blend prices (source: EIA)⁹, for the period under review. The Abo Light crude is priced in similar terms with the Brent Blend.

The price as determined by the Ministry of Petroleum Resources should prevail ending the need for any disputes.

25. Opportunity cost – Purchase or lease of equipment

The contract provides that equipment purchased and financed by the contractor, to be used in petroleum operations, in the contract area, shall become the property of NNPC, on arrival in Nigeria. The contract also provides that the above provision does not apply to leased equipment belonging to local or foreign third parties. This implies that the choice of leasing by oil companies may lead to decline in the potential revenues accruable to the Federation in its joint venture operations.

26. Differences in the sales information provided by the NNPC and NAPIMS

We compared the amounts provided as revenues with the amounts recorded in the latest available financial statements of NAPIMS for the years 2009 and 2008. FGN's crude oil sales are recorded in the books of NAPIMS and this is not consolidated by the NNPC.

2009	NAPIMS Financial statements US\$'000	NNPC revenue schedules US\$'000	Difference US\$'000
Equity crude	9,575,506	5,334,666	4,240,840
Domestic crude	9,903,033	9,903,033	(0)
Total	19,478,539	15,237,700	4,240,839
2008			
Equity crude	16,518,320	17,772,860	(1,254,540)

⁹ source: EIA

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2009	NAPIMS Financial statements US\$'000	NNPC revenue schedules US\$'000	Difference US\$'000
Domestic crude	15,599,104	15,561,980	37,124
Total	32,117,424	33,334,839	(1,217,415)
2007			
Equity crude	17,021,863	15,229,031	1,792,832
Domestic crude	11,624,328	11,531,243	93,085
Total	28,646,191	26,760,274	1,885,917
2006			
Equity crude	15,391,648	14,982,798	408,850
Domestic crude	9,943,796	10,598,620	(654,824)
Total	25,335,444	25,581,418	(245,974)
2005			
Equity crude	16,302,777	16,290,789	11,988
Domestic crude	8,704,165	8,704,165	(0)
Total	25,006,942	24,994,955	11,987
2004			
Equity crude	11,894,316	11,544,161	350,155
Domestic crude	5,718,429	5,687,519	30,910
Total	17,612,745	17,231,680	381,065
2003			
Equity crude	7,758,499	7,740,499	18,000
Domestic crude	3,359,337	3,473,419	(114,082)

2009	NAPIMS Financial statements US\$'000	NNPC revenue schedules US\$'000	Difference US\$'000
Total	11,117,836	11,213,917	(96,081)
2002			
Equity crude	5,891,001	5,891,001	(0)
Domestic crude	2,944,981	2,944,981	0
Total	8,835,982	8,835,982	0

Table 18: Differences in crude oil revenue as recorded by NAPIMS and compared to NNPC's data.

12. Sale of the National Entitlement (Gas)

8. Overview

Nigeria is endowed with abundant natural gas resources, which in energy terms, is in excess of the nation's proven crude oil reserve. More so, the gas was discovered whilst searching for crude oil, as no deliberate effort had been made to search for natural gas. The current reserved estimate of the Nigerian gas is over 120 (EIA: 187 as of December 2010) trillion cubic feet, with about 50/50 distribution ratio between Associated Gas (AG) and Non Associated Gas (NAG).

In order to diversify its revenue base and reduce the huge wastage of valuable resource as well as the degradation of the environment as a result of flaring, the Nigerian Government, through the NNPC, is vigorously pursuing a number of natural gas utilization projects with its joint venture partners whereby associated gas would be harnessed to achieve these objectives.

Current Fiscal Incentives in the Nigerian Oil and Gas Industry are as follows:

- All capital costs of upstream gas investments up to the custody transfer points are treated as oil investments and the resulting capital allowances are deducted from PPT (at a marginal rate of 85%). These incentives also apply to some downstream investments.
- The upstream producer is exempted from payment of royalty and PPT on any gas that is transferred to a downstream project.

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- The LNG projects receive a 10-year tax holiday/break.
- The LNG project is also exempted from withholding tax on interest and dividends paid to non-residents and from income tax on work or services provided by non-residents.
- There is an additional investment allowance of 20% for upstream projects, 35% for NGL extraction and gas-to-liquid facilities and 15% for downstream projects.
- Downstream investments receive accelerated capital allowances of 90% of cost of plant and machinery expenditure in the first year with 10% retention.
- Downstream gas projects which received a 3-year tax holiday/break that begins on the first day of production, is renewed for a further 2 years,
- Accumulated capital allowances can be carried forward until the end of the holiday. Qualifying dividend distribution during the tax holiday is tax-free.
- Downstream projects are allowed to fully deduct interest on project-financing for corporate income tax purposes.
- The table below depicts gas produced in Nigeria from the joint ventures, PSCs and service contracts, over the 10 year period. (figures in thousands MMSCF)

	2002	2003	2004	2005	2006	2007	2008	2009	2010
SPDC	532	686	739	696	720	832	831	459	7
MPNU	388	361	434	456	505	527	478	469	4
CNL	197	206	210	244	241	212	236	174	;
NAOC	376	388	434	429	439	428	386	360	.
TEPNG	122	139	210	227	280	335	372	294	2
POOC	22	20	27	27	4	-	20	0	
TOPCON (TEXACO)	22	16	14	-	-	-	-	-	
NNPC JV TOTAL	1,660	1,816	2,068	2,079	2,189	2,334	2,323	1,755	2,
ADDAX (ADANGA, OKWORI & INDA PPs)	33	39	38	48	55	76	84	78	
AENR (AGBARA PP)	9	8	14	15	28	30	21	19	

NAE (ABO FPSO)	-	-	-	-	-	-	-	-	-
SNEPCO (BONGA FPSO)	-	-	-	-	-	59	53	52	
ESSO (ERHA FPSO)	-	-	-	-	-	107	126	123	
TUPNI(AKPO FPSO)	-	-	-	-	-	-	-	-	
STAR DEEP WATER (AGBAMI FPSO)	-	-	-	-	-	-	-	-	
PSC-SC TOTAL	42	46	52	62	83	272	284	273	
NNPC JV AND PSC TOTAL	1,702	1,862	2,120	2,141	2,272	2,606	2,607	2,028	2,

Table 19: Gas Production (Source: NAPIMS)

The natural gas produced in Nigeria, (associated and non-associated gas) is currently utilised as follows:

- NLNG Feedstock, being raw materials for the Nigeria LNG plant
- Domestic Gas managed by Nigeria Gas Company (a subsidiary of NNPC)
- Natural Gas to Liquids Projects. There are currently 2 operating joint venture projects between NNPC on the one hand and Chevron (Escravos) and Mobil (Oso), on the other hand.
- Fuel Gas – used in production
- Gas reinjection/Gas lift make -up
- The balance unutilized is flared. Products from gas comprise ethane, methane, propane, butane and pentane+.

See Table 20 and Figure 3 below for breakdown of how the gas produced is utilized.

UTILISATION/FLARED	2002	2003	2004	2005	2006	2007	2008	2009	2010
Fuel Gas	61	69	81	88	86	98	100	97	
LNG	285	460	523	503	689	958	1,032	609	
NGL / LPG	43	36	57	69	48	46	48	48	
Dom Sales	93	176	202	240	207	221	220	210	

Gas Re-injection / Gas Lift Make Up	330	301	447	471	474	546	583	576
Gas flared	891	820	810	770	769	737	623	488
	1,702	1,862	2,120	2,141	2,272	2,606	2,607	2,028

Table 20: Gas Flared - figures in thousands MMSCF (Source: NAPIMS)

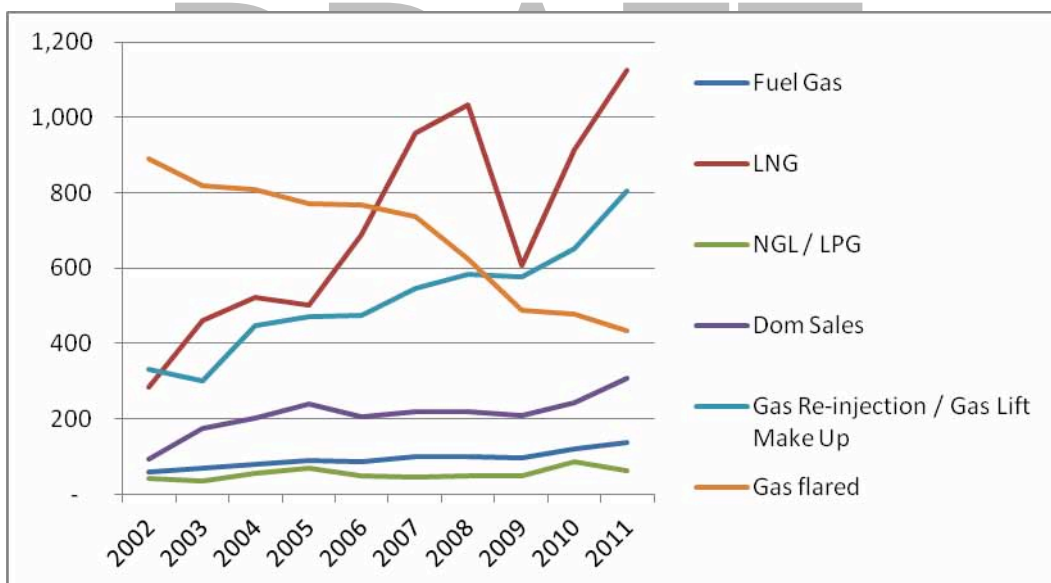


Figure 3: Natural gas to liquids (NGLs)/Liquefied Petroleum Gas (LPG)

NNPC, alongside other major joint venture operators have embarked on several gas- to- liquid utilization projects. The existing projects are:

Escravos Gas Project (EGP) - EGP 1, the first major gas project to gather and process associated natural gas in Nigeria, came on stream in 1997. NGLs are stripped for export and the remaining gas is used domestically. The Escravos gas-to-liquids plant came online in 2005. The 33,000-barrel per-day plant utilizes Johannesburg-based Sasol Ltd.’s proven synfuels conversion technology. The plant produces premium-quality, ultralow- sulfur diesel fuel and naphtha sold in Europe and the United States.

Oso NGL Project - Mobil JV NGL plant, located at its Oso field in the south-eastern part of Nigeria started production for export during the third quarter of 1998. The Project provides additional gas make-up for the Oso NGL as well as maintains condensate production at the expected plateau.

Although we have not been provided with the separate gas agreements covering these projects, we have been informed that the agreements are in a joint venture structure, where NNPC is

entitled to 60% participating interest under the Chevron project and 49% participating interest under the Mobil project.

9. Findings

27. Gas sales proceeds (\$946.878million) due to the Federation from SNEPCO

According to the NNPC (NAPIMS) Financial Statements for the year ended 31 December 2009, a total of N137, 572 billion (\$946.878 million) is due to the Federation from SNEPCO. This amount represents the proceeds of gas sales from the Bonga oil field (OPL 212) held by SNEPCO, the production sharing contractor operating the field. Included in the amount is the sum of N17.325billion which is the gas tax payable on the amount.

The PSC clause 20.1 states that *“If the Contractor discovers a commercially viable quantity of natural gas the Corporation shall require the contractor to investigate and submit proposals for the commercial development of the natural gas for the corporation’s consideration provided that any cost in respect of such proposals or investigation shall be included in Operating Cost.*

For the commercial development of natural gas field, the funding arrangements and participation by the Contractor in the project shall be the subject of another agreement and the contractor shall have the right to participate in such development project.”

However, the Bonga oil field has been producing and selling gas since 2007. There is no available record that a separate contract agreement with respect to gas exists for the field as required by the PSC to determine the funding arrangements and participation by the contractor (in this case, SNEPCO). The absence of a separate agreement presupposes that the gas is owned by Nigeria and therefore, the proceeds thereof.

28. Fuel Gas & Gas Re-injection/Gas Lift Make-Up Utilisation

Gas reinjection is the reinjection of natural gas into an underground reservoir, typically one already containing both natural gas and crude oil, in order to increase the pressure within the reservoir and thus induce the flow of crude oil or else sequester gas that cannot be exported. On the other hand, Gas lift is the situation where gas is injected into the annulus of the well rather than the reservoir. After the crude has been pumped out, the natural gas is once again recovered. Since many of the

wells contain heavy crude, this process increases their production.

The earlier joint operating agreements contain no specific provisions for gas discoveries. They (Article 13) however provide that “each party shall have the right to nominate, lift and separately dispose of its participating interest share of available production of petroleum”.

The later joint operating agreements (NPDC Agreements) Article 18 provide that “it may be necessary for the parties to enter into special arrangements, for the disposal of natural gas in accordance with the ‘Natural Gas clause’ of the standard PSC and any other requirements therein.

If a discovery of crude oil which is a commercial discovery, but the associated natural gas cannot all be used in production, flared or economically reinjected, then the parties shall attempt to negotiate agreements with the NNPC. These should provide for an appropriate economic interest for the contractor in the development of such natural gas and allow for its economic disposal simultaneously with the crude oil, taking into account, as far as practicable, the international value of alternate fuels. If non-associated gas is discovered and the parties desire to pursue the development of the same, then the parties shall attempt pursuant to the ‘Natural Gas clause’ of the PSC, to negotiate agreements, with the Corporation and other involved parties, which shall provide for an appropriate economic interest for the contractor in its development”.

The PSCs Clause 20/22/23 (depending on specific PSCs) provide that” if the contractor discovers sufficient volumes of natural gas whether or not associated with crude oil that could justify commercial development, the contractor shall report the volume of potentially recoverable natural gas to NNPC and shall upon NNPC’s request, investigate and submit proposals to the NNPC for the commercial development of said natural gas taking into consideration, local strategic needs as may be identified by NNPC. Any cost in respect of such proposals or investigation after the final investment decisions has been achieved presented by the contractor to the NNPC shall be included in the operating costs for the commercialization of the natural gas.

For the commercial development of natural gas, the NNPC and contractor shall enter into a gas development agreement. Such agreement shall recognize that the contractor has the right to participate in such development project, with the right to recover the costs and share of profits.

Notwithstanding the provisions above, the contractor may utilize at no cost, any proportion of the produced natural gas, required as fuel for production operations, gas recycling, gas injection, gas lift or other crude oil enhancing recovery schemes, stimulation of wells necessary for maximum crude oil recovery in the field discovered and developed by the contractor and such usage shall be with prior written consent of the NNPC, which consent shall not be unreasonably withheld.

The implication of the above clauses is that gas designated as fuel gas and gas reinjection/gas lift make-up, with a potential value over the 10 year period under review of US\$46 billion, technically bears no value to the Federation, as provided by the agreements.

29. Liquefied Natural Gas (LNG)

A significant portion of Nigeria’s marketed natural gas is processed into LNG. Nigeria’s main natural gas project is the Nigeria Liquefied Natural Gas (NLNG) facility on Bonny Island. Partners include: NNPC, Shell, Total, and Agip. NLNG currently has six trains and a production capacity of 22 million metric tons per year (1.1 Tcf). A seventh train is under construction but this addition has been delayed until sometime after 2012.

Three additional LNG plants with a total of seven trains were expected to come online after 2012, but their expected start-ups have been postponed beyond 2016. Plans included OK LNG (4 trains), Brass LNG (2 trains), and Progress LNG (1 train). These are in varying stages of development and investment decisions will depend heavily on security, world LNG markets, and the final outcome of the provisions of the Petroleum Industry Bill.

Availability of natural gas will also depend on Nigeria’s efforts to expand the use of natural gas for domestic electricity generation.

See table below for details of LNG produced, implied share received by NNPC, LNG feedstock sold by NNPC to Nigeria LNG

Year	LNG Produced 000's (mmscf) - a	LNG Feedstock supplied by NNPC 000's (mmbtu) - b	LNG Feedstock (converted to mmscf) 000's $c = b * 0.0009704$ mmscf	% of LNG produced $d = c/a$	International Market Price (EIA) - f US\$	Expected revenue $h = c * f$ US\$'m	Actual revent per Nf 000'sc $= i$ US\$'n
2002	285	210,880	205	72%	4	835	
2003	460	303,374	294	64%	4	1,321	

2004	523	337,545	328	63%	5	1,618	
2005	503	330,895	321	64%	6	1,853	
2006	689	477,530	463	67%	6	2,802	
2007	958	618,846	601	63%	6	3,758	
2008	1,032	633,115	614	60%	8	4,718	
2009	609	430,360	418	69%	8	3,464	
2010	913	646,031	627	69%	11	6,584	1
2011	1,125	724,466	703	62%	11	7,862	1

Table 21: NLNG Feedstock

From the percentages depicted above, NLNG seems to be receiving their participating interest in gas operations and even more.

However, the price at which the feedstock gas is sold to NLNG seems too generous, compared to prices obtainable on the international market. The Task Force is yet to obtain the gas supply and sales agreements from NNPC, to establish and understand the basis of the pricing.

The estimated cumulative of the deficit between value obtainable on the international market and what is currently being obtained from NLNG, over the 10 year period, amounts to approximately US\$29 billion.

30. LPG produced by Agip and Shell

We are aware of the NGL gas projects with Chevron and Mobil. From our review of data provided by NAPIMS, Agip and Shell Joint Ventures also produce NGL/LPG, for which we have not been able to trace the revenue streams to the Federation Account. It should be noted that Shell produced LPG in 2010 only. The estimated revenue from the gas produced for NGL/LPG under these ventures is depicted in the table below:

Year	Total country production of Natural gas for NGL/LPG (mmscf) - a	Mobil & Chevron production of Natural gas for NGL/LPG (mmscf) - b	Difference accounted for by Agip and Shell (2010) production (mmscf) c=a-b	Expected NNPC's share of difference d	International market price of natural gas US\$ e	Valuation of difference US\$m f =d*e
2002	43	43	-	-	4	-
2003	36	29	(6)	(4)	4	(17)
2004	57	39	(18)	(11)	5	(52)
2005	69	50	(18)	(11)	6	(64)
2006	48	42	(6)	(3)	6	(21)
2007	46	26	(20)	(12)	6	(74)
2008	48	27	(21)	(13)	8	(97)
2009	48	33	(15)	(9)	8	(72)
2010	85	30	(55)	(32)	11	(332)
2011	62	32	(30)	(18)	11	(202)
			(189)			(931)

Table 22: Estimated Revenue from the Gas Produced for NGL/LPG

31. LPG produced by Chevron/Mobil

Minimum expected revenue from natural gas produced for LPG was computed as gas produced multiplied by International market price of gas (Source of gas prices: EIA). This was compared to the sales proceeds made by NNPC from sale of LPG (export and domestic). It was observed that gains of about 286% were made in the LPG projects with Chevron and Mobil, over the 10 year period.

13. Sale of Refined Petroleum Products

10. Findings

32. Major marketers debt as at 31 December 2011 (N27 billion)

NNPC is owed N27billion by the major marketers of petroleum products. This includes current debt, total overdue, disputed debt and total debt outstanding (Table 23).

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Marketers	Current debt N'm	Total Overdue N'm	Disputed debt N'm	Total Debt Outstanding N'm
CONOIL	865.06	3,208.47	177.65	4,251.18
MOBIL	620.51	753.76	3.61	1,277.88
TOTAL	1,097.02	1,650.07	373.71	3,020.80
MRS	348.95	4,960.27	169.20	6,478.43
OANDO	822.89	3,452.62	332.74	4,608.25
FORTE	528.40	3,303.86	200.64	4,032.89
OTHERS	-	-	-	3,746.13
Grand Total	4,282.83	17,329.04	1,257.55	27,415.56

Table 23: Consolidated Major Marketers Debt as at 31/12/2011

33. Outstanding amounts due to importers of refined petroleum products (\$3.6billion)

The total amounts payable to suppliers of petroleum products, as at 31 December 2011 amounts to approximately US\$3.6 billion, of which US\$2.7 billion represents amounts outstanding for over 365 days.

S/N	Supplier	Amount in US\$ 'm	Amount in NGN 'm
1	Addax Energy S.A	206.65	30,947.93
2	Allemaine Intl	0.21	32.04
3	Amaz Oil	107.19	16,072.90
4	AOT Trading AG	57.19	8,588.30
5	Arcadia Petroleum	269.30	40,212.18
6	Astana Energy	136.05	20,279.87
7	Azenith Energy Res	30.25	4,513.72
8	BP Oil Intl	169.48	25,219.21
9	Calson Bermuda ltd	115.11	17,165.61
10	Curtis Petroleum	0.04	5.36
11	Delaney Petroleum	153.64	22,894.76
12	Elan Oil	31.58	4,689.59
13	Glencore Energy	138.06	20,562.36

S/N	Supplier	Amount in US\$ 'm	Amount in NGN 'm
14	J&S Services Limited	350.17	52,209.78
15	J.P.M Supply and Transport	0.07	10.56
16	Kingsbury Trading	7.03	1,054.84
17	Le-Gor Energy	89.90	13,405.99
18	Linetrale Oil and Service	55.60	8,275.23
19	Matrix Energy	28.79	4,271.28
20	Mid Atlantic	33.24	4,944.92
21	MRS Oil and Gas	106.87	15,910.07
22	Napoil Limited	75.60	11,251.98
23	North Petroleum	0.26	39.59
24	Oil and Gas Trading	393.22	58,977.63
25	Orpington Trad Ltd	0.26	38.55
26	Performing Energy	198.50	29,725.78
27	Practoil Limited	75.49	11,400.00
28	Radric General Trading	0.08	12.73
29	Sahara Energy	286.53	42,861.74
30	Sunray Petroleum	0.28	42.60
31	Shell Western	80.19	120,539.95
32	SPOG Pet	26.51	3,954.70
33	Total international	75.65	11,247.67
34	Trafigura	53.33	7,956.13
35	Vitol S.A	197.96	29,448.94
	Grand Total	3,550.29	530,305.46

Table 24: Petroleum Products imports outstanding creditor balances as at 31st dec 2011 (Source: NNPC)

34. Pipeline product losses

Pipeline product loss has steadily increased over the years. There are concerns as to why the Federal Government is not making gains from sales of petroleum products refined in - country. This is attributed mainly to losses incurred in the transfer of crude oil from the terminals to the refineries and transfer of products from the refineries to the depots. A further factor is the diminished capacity of the existing refineries due to lack of maintenance, obsolescence etc.

Year	Pipeline Product Loss in %
2002	8.68
2003	48.51
2004	12.59
2005	24.65
2006	38.31
2007	56.07
2008	45.67
2009	45.67
2010	45.65
2011	No information yet

Table 25 - Pipeline Product Loss (Source: NNPC)

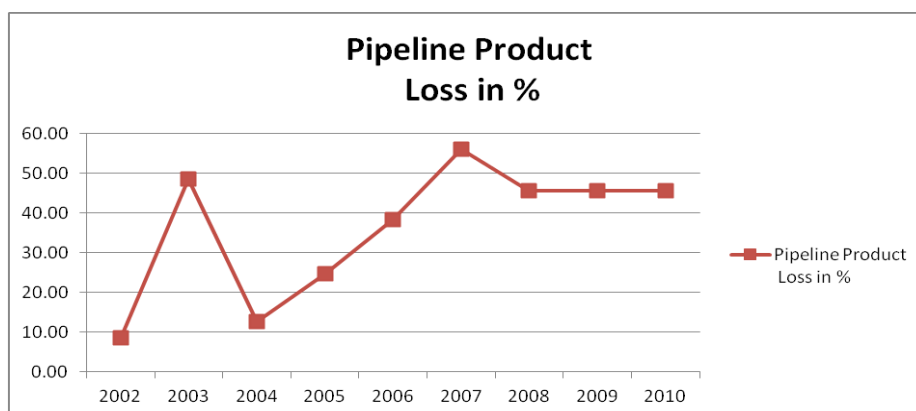


Figure 4: Pipeline Product Loss in percentages 2002-2010

14. NNPC and its subsidiaries

1. Overview

From review of the latest available audited financial statements (2009) it was noted that NNPC has sixteen (16) subsidiaries. Names and principal activities of these subsidiaries are per the table below:

S/N	Subsidiary	% Holding	Principal Business Activity
1	Pipelines and Products Marketing Company Limited (PPMC)	100	Petroleum products marketing and distribution
2	Port Harcourt Refining Company Limited (PHRC)	100	Refining of crude oil
3	Kaduna Refining and Petrochemical Company Limited (KRPC)	100	Refining of crude oil and manufacturing of petrochemicals
4	Warri Refining and Petrochemical Company Limited (WRPC)	100	Refining of crude oil and manufacturing of petrochemicals
5	Nigerian Gas Company Limited (NGC)	100	Gathering, treatment, marketing and distribution of gas
6	Integrated Data Services Limited (IDSL)	100	Geophysical and petroleum engineering services
7	Nigerian Petroleum Development Company (NPDC)	100	Exploration and production
8	National Engineering and Technical Company Limited (NETCO)	100	Engineering, procurement, construction and technical services
9	Duke Oil Company Inc	100	Marketing of crude oil and petroleum products
10	The Wheel Insurance Company	100	Providing reinsurance cover in respect of excess capacity of NNPC oil assets insurance transferred abroad.
11	Duke Oil Services UK Limited	100	Providing logistics services to Duke Oil Incorporated
12	Hyson (Nigeria) Limited	60	Provision of logistic and operational services, marketing of excess crude oil
13	Calson (Bermuda) Limited	51	Marketing of crude oil and petroleum products
14	NAPOIL Company Limited – Bermuda	51	Marketing of crude oil and petroleum products
15	Nidas International Enterprises Limited	51	Shipping and marine transportation
16	NIKORMA	51	Shipping and marine transportation

Table 26- NNPC's Subsidiaries (Source: NNPC Financial Statements as at 31 December 2009)

The accounts of National Petroleum Investment Management Services (NAPIMS) are not part of the consolidated accounts of the Corporation. Proceeds from equity crude oil sales from the JV and PSCs are recorded by NAPIMS.

A cursory look at the financial performance of the Corporation and its subsidiaries in 2009 shows the Group had a deficit of

approximately N298billion for the period. This is analysed as follows:

	NGN '000
The Corporation	(270,230,663)
Subsidiaries	(28,196,375)
	(298,427,038)

Table 27 - Analysis of the Group's Deficit for the year ended 31 December 2009

12. Findings

1. NNPC'S Role in petroleum revenues

NNPC manages various oil revenue streams on behalf of the FGn, with proceeds from crude oil and gas sales being the largest. As the national oil company owned by the FGn, NNPC represents the interests of the Federation in the Oil and Gas Sector via the various fiscal regimes and thereby mobilises and collects revenues due to the Federation from sale of crude oil and gas resources¹⁰.

Various reviews conducted by the Task Force showed that the NNPC does not receive the required capital to grow its assets or meet operating costs. Its status as a statutory corporation makes accessing third-party financing extremely difficult. Lacking a more efficient or sustainable option, NNPC has increasingly relied on the FGn for lines of credit which include formal and informal loans, and deduction of oil revenue due to the Federation Account.

At the same time, fiscal and debtor-creditor relationships between NNPC and Government are blurred. The NNPC Act of 1977 offers little help, and Section 162(2) of the Constitution would seem to require the Corporation to forward all oil revenues to the Federation Account. NNPC participates to a limited degree in the annual appropriations process, but budgeted sums have fallen short of costs for decades.

¹⁰ However, NNPC's fiscal health has weakened dramatically in recent years. Between 2007 and 2009 the Corporation's closing net balance sheet liabilities grew from N952bn to N1.36tn. Gross margins turned to deficit, capital reserves shrunk by half and nearly all SBUs appeared to be running at growing losses. NNPC's asset base appears stagnant from age and absence of strategic investment.

2. Revenues from NNPC subsidiaries

The Task Force found that NNPC retains revenues generated by its subsidiaries listed earlier in the report, to finance operations. In our review, the legal basis for this practice was unclear. Business justification may also be weak, given the poor performance records and unprofitability of many of these subsidiaries.

From submitted information, the Task Force has not received adequate information to determine specific amounts in NNPC subsidiary revenue which is withheld from the Federation Account. It is also unclear what portion of retained earnings Government could properly recover as debt. However, the practice raises red flags around subsidiary governance and requires immediate reform. We found that there are no clear guidelines on this practice.

Most of the trading companies, for instance, are incorporated with offices and accounts outside Nigeria. All but Duke Oil are joint ventures with major traders, but rules for how the partners share profits were not provided to the Task Force. Accountability of subsidiaries to NNPC Group also appears weak with opaque management structures and Boards reportedly do not meet regularly.

15. Taxes

1. Overview

The PPTA governs the taxation of companies engaged in petroleum operations. It is the principal legislation on the assessment of the oil companies' taxable profits and the distribution of these profits between the government and the companies.

The Act defines petroleum operations as,

“the winning or obtaining and transportation of petroleum or chargeable oil in Nigeria by or on behalf of a company for its own account by any drilling, mining, extracting or other like operations or process, not including refining at a refinery, in the course of a business carried by the company engaged in such operations, and all operations incidental thereto and sale of or any disposal of chargeable oil by or on behalf of the company”.

Any other activity not covered by the above definition is liable to tax under the CITA. The PPTA states that the income of a company shall be taken to be the sum of:

- (a) the proceeds of all chargeable oil sold by the company in that period;
- (b) the value of all chargeable oil disposed by the company in that period; and
- (c) all income of the company for that period incidental to and arising from any one or more of its petroleum operations. Incidental income includes interest income, rent/hire of equipment and services provided to other petroleum companies.

Key Provisions

Key provisions of the PPTA include:

- Rates: 85% for Joint Ventures (reduced to 65.75% for companies in the first 5 years of production) and 50% for PSCs.
- Estimated tax for a year to be prepared and filed not later than the last working day in February.
- Revision to be made if there is any significant change in the parameters used in the estimate i.e. production, cost and price.
- Final returns to be filed not later than May 31 after year end.

16. Signature Bonus

14. Overview

Signature bonuses are paid to the State in order to secure the rights to explore a certain oil and gas field or block. The amounts to be paid are determined by the Ministry of Petroleum Resources and collected by the DPR.

Successful concessionaires receive Award Letters which indicates the name of the awardee(s), concession awarded, the signature bonus and the minimum work program commitment.

15. Findings

3. Upstream licensing rounds

Whilst the law allows discretionary grants of oil licenses, best practice suggests that best value is realised from a transparent bid process for oil and gas licenses. The government between 2000 and 2007 has endeavoured to set up a transparent bid

process but the use of discretionary grants even during those same periods of time remains. Design of the five major licensing rounds Nigeria held between 2000 and 2007 was satisfactory. There are however allegations of practices that undermined competition and due process; setting aside bid guidelines, arranging “forced marriages” between companies, and awards outside of the auction process or to low-ranked bidders.

Denying investors access to geophysical data from blocks up for sale has also kept Nigeria from getting full value for its acreage. In past rounds, faulty data management practices by the NDR have affected the results of the bid rounds.

The Task Force from its review identified various issues that have resulted from the management of the past bid rounds. These are discussed below.

- **Lower demand and fewer qualified bidders:**

Each of Nigeria’s 2000-2007 rounds drew less interest and fewer qualified bidders. The only contestants left by 2007 were small independents and indigenous players with low capacity. Only 57 percent of blocks offered in 2005 drew even a single bid; by 2007, the number was 40 percent. This came at a time of strong global competition. In comparison, Libya’s 2005 auction attracted 100 bids for 15 blocks.

- **Uncompleted deals:**

Nearly half of the awards in 2005 ended in default. Overall it appears that less than 50 contracts were signed on the roughly 175 blocks offered in 2000-2007.

- **Weakened government returns:**

Acreage which in 2005 attracted signature bonuses of over \$100mn, but saw bidders default, fetched less than \$20mn when re-offered in 2006 and 2007. One OPL netting government \$76mn went for \$6.5mn two years later. Compare this with Angola, which in the same period captured record-breaking bonuses through open, well-managed bid rounds.

- **Poor growth of the indigenous petroleum sector:**

Conduct of past bid rounds also undermined the stated goals of boosting “local content” and nurturing serious Nigerian operators. Of the 24 marginal fields awarded in the early 2000s, less than 10 have produced oil. Marginal field production is around 10,000bpd, according to NNPC.

- **Low development of acreage:**

This is the ultimate consequence of past licensing practices. Only around half of the over 80 blocks won between 2005 and 2007 are being explored or mined at present. NNPC reports that of the roughly 60 PSCs signed, six are currently producing.

- **Public controversy:**

All of Nigeria’s past licensing rounds led to official probes, reports of scandals in the media, and several court cases. Litigation has delayed development of some blocks for a number of years. During the period from 2005 to 2011 potential revenue of \$321m in signature bonuses is tied up in litigation.

4. *Outstanding Signature Bonuses due to the Federation*

The DPR provided the task force with information indicating that 67 licenses were awarded between 1 January 2005 and 31 December 2011. A total of Sixty (60) concessions were awarded during the 3 bid rounds in the period (2005, 2006 and 2007). Expected revenue from the bid rounds was approximately \$2.26billion. Cash received of the revenue expected in relation to the bid rounds was \$1.7billion leaving \$566 million unpaid.

Year	No. of Concessions	Signature Bonus (\$)	Amount paid (\$)	Amount due (\$)
2005	26	1,118,778,167	788,196,321	330,581,846
2006	17	656,530,010	421,404,975	235,125,035
2007	17	486,452,000	486,125,378	326,622
Total	60	2,251,660,177	1,699,876,774	566,033,503

Table 28 – Signature bonuses, payments and amounts due from the 2005, 2006 and 2007 bid rounds

An additional seven (7) concessions were allocated at the discretion of the office of the Honourable Minister of Petroleum Resources in 2008, 2009 and 2011. The expected revenue from the discretionary allocations was \$414.45million. Of the expected amount of \$414.45million, only \$231.79million has been paid to date and \$183million remains outstanding and is due to the nation’s treasury.

The signature bonuses per concession over the periods reviewed range from \$150,000 to \$310million. Of the \$414.45 million expected for the seven discretionary allocations, three (3) were awarded at \$150,000 each to Afren Energy Services/Oriental, All Grace Energy and Green Energy Nigeria Limited.

Year	No. of concessions	Signature bonus (\$)	Amount paid (\$)	Amount due (\$)
2008	3	40,150,000	18,150,015	21,999,985
2009	1	164,000,000	5,000,000	159,000,000
2011	3	210,300,000	208,260,000	2,040,000
Total	7	414,450,000	240,543,052	183,039,985

Table 29 – Signature bonuses, payments and amounts due from the discretionary allocations

The total unpaid amount with respect to Signature Bonus is approximately \$749million. This comprises mainly of:

- \$321million relating to legal disputes currently in Nigerian Courts
- \$80 million relating to oil & gas blocks that were returned to the FGN or re-awarded.
- \$181million not yet due from the operators until they hit first oil, and
- \$167 million actual long overdue amounts outstanding from the concessionaires.

The delay in resolving the abovementioned disputes has resulted in the FGN’s inability to collect \$321million. With respect to recovery of the aggregate undisputed unpaid amounts due (\$167 million), the DPR informed us that letters had been written to the various concessionaires to request payment.

5. No evidence of award for the discretionary allocations

The Task Force was not provided with the evidence of award for any of the discretionary allocations.

17. Concession Rentals

16. Overview

In line with Section 60 (1) and (2) of the Petroleum Act Cap P10, concession rentals on acreages for development are charged at:

- \$10 per square kilometre on Oil Prospecting Licences (OPLs),
- \$20 per square kilometre on Oil Mining Licences (OMLs) for the first ten years, and
- thereafter for each square kilometre or part thereof until expiration of the lease and on renewal, US\$15 shall be charged.

The sizes of the acreages are defined at the time the concessions are awarded. The Task Force, with its consultants reviewed a schedule of concessions and the rentals paid between 1 January 2005 and 31 December 2011. Findings from the review are presented below.

17. Findings

1. *Outstanding concession rentals due to the Federation (\$2.9million)*

Based on the information provided by officials of the DPR, there were fifty – seven (57) concession holders for the period under review.

Total revenue accruing to the nation for the period amounted to \$12.7million. Of the \$12.7million owed to the FGN, the payments received from the concession holders during the period amounted to \$9.8million indicating that \$2.9million represents outstanding amounts to be collected by the DPR from the various concessionaires.

2. *Record keeping by the DPR (Concession rentals)*

We obtained a list of concessions (active and inactive) from officials of the DPR as at September 2011 and noted that when compared to the schedule of concession rentals obtained also from the DPR, there were a number of inconsistencies which resulted in our inability to rely on the list. We are unable to confirm the completeness of the schedule provided to us; therefore, revenues due may be misstated.

18. Royalties (Crude Oil and Gas)

18. Overview

The Petroleum Act CAP P10 vests ownership of all acreages with the Federal Republic of Nigeria (“the State”). Royalties are income due to the nation resulting from the production of oil and gas. This is other than the amounts accruable from taxation and equity participation. Royalties should be paid by the Oil and Gas Operators quarterly.

Royalties are earned from both the production of Crude Oil and the sale of Gas. In line with the Petroleum Act, royalties are determined per stipulated rates.

Water depth	% Production (Royalty)
Onshore areas	20
Inland basins	10
Up to 100 metres water depth	18.5
Up to 200 metres water depth	16.5
From 201 to 500 metres water depth	12.5
From 501 to 800 metres water depth	8
From 801 to 1000 metres water depth	4
Areas beyond 1000 metres water depth	0

Table 30 - Crude oil royalty rate table (Source: Petroleum Act CAP P10)

Parameters used in determining crude oil royalties are:

Official Selling Price (OSP) this is the price of crude as advised by the Crude Oil Marketing Division (COMD) of the Nigerian National Petroleum Corporation (NNPC).

Reference API gravity (API_r). This is the index assigned to a type of crude to indicate its level of quality. The higher the quality of crude, the higher the API and the more white products will be obtained from it when it is refined.

Field API gravity (API_f). This is the API gravity for the field the crude oil is produced from.

Realisable price (RP). This is the actual price of the crude oil from a particular field when compared to the price of the benchmark crude for that particular field. The realisable price is obtained using the following equation;

The Realisable Price is therefore determined based on the relationship between the OSP and the APIr and APIf as shown below:

$$RP = OSP + (APIr - (APIf * 0.03))$$

19. Findings

3. *Outstanding Crude Oil Royalties due to Nigeria (\$3.027billion)*

The total crude oil royalties due for the period 1 January 2005 to 31 December 2011 was \$32.011billion¹¹. Of this amount, \$3.027billion was outstanding from the operators as at 31 December 2011 per the DPR's records.

4. *On-going DPR dispute with Addax Petroleum on outstanding royalties*

During the course of the work carried out by the Task Force, it was understood that of the \$3.027billion dollars outstanding per 4.11.2.1, the DPR had stipulated that ADDAX is liable to pay \$1.5billion royalties under the 2003 fiscal regime. There is currently a dispute between Addax and NNPC on the one hand, and the DPR on the other.

The DPR should operate independently of the NNPC and report directly to the Minister only on matters relating to the interpretation of the various operations in the Petroleum Industry. An operator should not be allowed to flout a determination of the properly constituted regulatory authority without consequences.

5. *Reconciliation of payments made to the CBN and the amounts due from operators*

¹¹ This figure is not without dispute for instance whether or not there is a sum and how much is "due from" ADDAX does not have a consensus between the parties

The Task Force noted that there was a difference of \$2.55 billion between the royalties payment inflow per the CBN statements (total - \$31.5billion) and the payments recorded by the DPR's Revenue Unit (total -\$28.98 billion), the CBN statements being higher. The Task Force was unable to match some of the payments made by the oil companies to the appropriate revenue heads during the period as a result of inadequate information. This made it difficult to determine the actual amounts outstanding.

It was understood that the DPR is only able to match payments to the revenues due during reconciliation meetings or through correspondence with the oil companies.

6. Lack of independent gas production and sales data

Gas royalties due to the nation are determined using volumes of gas sold during the period which is in line with the Petroleum Act.

The Task Force was unable to determine if a shortfall existed per the DPR records as the officials of the DPR explained that there is currently no process in place to independently track gas volumes produced and sold by the operators. This has resulted in the DPR relying heavily on the oil and gas companies for information. There were no records or information for the year ended 31 December 2011.

7. Outstanding reconciliation of gas royalties due to the Federation from Shell, Mobil and Agip

Gas royalties information provided by the DPR was considered incomplete as details were available for Chevron and Total only. No gas production or sale information was available for any other company, in particular Shell, Mobil and Agip. It was explained that reconciliation discussions have been concluded with Chevron and Total but is pending for all the others.

19. Gas Flare Penalties

1. Overview

Gas flare penalty is one of the revenue streams collected by the DPR through the CBN. It should be computed in line with the Associated Gas Reinjection Act of 1979, which compels every company producing oil and gas in Nigeria to submit preliminary programs for gas re-injection and detailed plans for its implementation.

The legislation banned the flaring of gas after 1 January 1984 without the permission of the Minister of Petroleum Resources. Although where the Minister is satisfied after 1 January 1984 that utilization or re-injection of the gas produced is not appropriate or feasible in a particular field or fields, the Minister may issue a certificate in that respect to a company engaged in the production of oil or gas and permit the company to continue to flare gas if the company pays a sum as the Minister may from time to time prescribe for every 28.317 standard cubic feet (scf) of gas flared.

In January 1998, the penalty fee for flaring of gas was increased from 0.50 kobo to N10.00 per square cubic feet (scf). This was later increased to \$3.50 on 15 August 2011 (April 2008). The operators have failed to comply with the new directive and have continued to pay based on the N10 per scf. The discrepancy between the amounts due to the Government based on the new Ministerial directive and the amounts paid by the operators based on the old rates, have resulted in a revenue loss for Government amounting to at least N515 per scf assuming that \$1=N150 for the period after the new Ministerial directive.

21. Findings

1. Incomplete records of volumes of Gas Flared

The volumes of gas flared were obtained from both the Revenue and Production Units of the DPR. The situation in respect of gas flare penalties is similar to that of gas production mentioned previously. The DPR is currently unable to independently track and measure gas volumes produced and flared. It depends largely on the information provided by the operators.

There were no available records or information in respect of gas flare volumes for the years 2005 and 2011. This implies that the current records as they exist are incomplete.

2. Inconsistencies noted in gas flared information

Differences were noted between the gas flared data provided by DPR's two units. These differences are yet to be resolved as at the time of reporting.

3. Delayed gas flare volume reconciliations

The DPR carries out periodic reconciliation meetings with the operators. It was noted that of the 36 operators in their listing, reconciliations have been completed for only 6 of them. This implies that the Nation may have made losses due to the delay in

confirming the amounts due and enforcing payments in line with the laid down statutes.

4. *Outstanding Gas Flare penalties due to the government*

CBN statements and reports of inflows were also obtained in order to corroborate the payment information received. Per the information obtained from DPR, total revenue from gas flaring during the review period was \$175million.

The balance outstanding as unpaid was approximately \$58million. This indicates that \$115million had been received in respect of gas flare penalty by the DPR. The Task Force however reviewed CBN statements and noted that \$137million was received between 1 January 2005 and 31 December 2011. The DPR was not able to reconcile the \$115 million to the \$137million.

5. *Non – compliance with the new gas flare penalty regime*

The Minister issued a directive which was signed on 15 August 2011 increasing the gas penalty fee from N10.00 to \$3.50. However, the oil companies have failed to comply with the directive and have continued to flare gas without compliance with the new rate as communicated in the Minister’s directive. Using the DPR gas flare information (irrespective of the inherent errors arising per the factors earlier stated) to compute the potential revenues for the relevant years at the rate of \$3.50 per scf is \$4.1billion versus the \$177million computed by the DPR using the N10 per scf.

The records at the DPR reveal that none of the companies have paid any gas penalty fee in 2012.

6. *The detrimental effect of gas flaring*

See table below for the trend of percentage of gas production flared:

GAS FLARED	2002	2003	2004	2005	2006	2007	2008	2009
Gas flared	891	820	810	770	769	737	623	488
Gas produced	1,702	1,862	2,120	2,141	2,272	2,606	2,607	2,028
% of production flared	52%	44%	38%	36%	34%	28%	24%	24%

Table 31 - Gas flared

Although there has been a steady decline in the amounts of gas flared, the numerous deadlines to implement the Zero gas flaring policies and fine for oil companies have been repeatedly postponed, with the most recent deadline, being December 2012. In 2009, the government developed a Gas Master Plan that should promote new gas-fired power plants to help reduce gas flaring and provide a source for the much-needed electricity generation. However, progress is slow largely due to the lack of infrastructure to produce and market gas.

Gas flaring has both environmental and economic impacts. The value of gas flared over the 10 year period is estimated at about US\$44 billion. Environmental impacts resulting from gas flaring include:

- Environmental pollution
- Adverse climate changes
- Food insecurity
- Diseases
- Unemployment
- Deforestation

20. Miscellaneous Oil Revenues

22. Overview

Miscellaneous Oil Revenues are all other revenues due to Nigeria through the DPR which do not fall into any of the other major types of revenue classes documented above. Examples include drilling permits/licenses, fuel station permits, renewal of licenses etc.

23. Findings

7. No comprehensive miscellaneous oil revenue schedule

The Task Force was unable to obtain a comprehensive miscellaneous oil revenue schedule from the officials of DPR.

Our reference point for the purpose of determining the amounts earned in respect of miscellaneous oil revenues was the schedule of revenues presented by the DPR to the members of the Special Task Force on 13 April 2012. The presentation indicated total miscellaneous oil revenues for the period 1 January 2005 to 31 December 2011 to be approximately N102.5billion.

Receipts issued for the various licences and permits were initially provided by the DPR as a basis for determining the total revenues received and only N640million worth of receipts were made available.

Subsequently, CBN statements (Miscellaneous Oil Revenue Account statements) for the period were provided N102.3billion was traceable. Upon conclusion of the review there was an unexplained reconciliation difference of N151million.

Lack of transparency of license-level earnings and costs inhibits oversight and enables manipulation. The record keeping of the DPR calls to question the completeness and accuracy of reports generated as there was no way to determine if there were miscellaneous oil revenues due to the Federation which were yet to be collected.

Also, the DPR has not provided an analysis of the miscellaneous revenues by type and amounts due.

8. Outdated oil licensing fee regimes

The amounts due in respect of the various fees relating to the miscellaneous oil revenues are not reflective of the current economic realities. For example, the fee to apply for the operation of a petrol station ranges from N5,000 to N250,000 and the license to operate a drilling rig costs between N20,000 to N100,000.

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the 1990s, the number of people in the world who are under 15 years of age is expected to increase from 1.1 billion to 1.5 billion (United Nations 1998).

There are a number of reasons why the number of children in the world is increasing. One of the main reasons is that the number of children who are surviving to adulthood is increasing. This is due to a number of factors, including improved medical care, better nutrition, and a decrease in child mortality rates.

Another reason why the number of children in the world is increasing is that the number of children who are being born is increasing. This is due to a number of factors, including a decrease in the age at which women are having children, and an increase in the number of children who are being born to women who are already mothers.

The number of children in the world is increasing, and this is a cause for concern. There are a number of reasons why this is a cause for concern, including the fact that the number of children who are living in poverty is increasing, and the number of children who are being abused is increasing.

There are a number of things that can be done to help reduce the number of children in the world. One of the most important things is to improve the health care of children, and to ensure that all children have access to education.

Another important thing is to ensure that women have access to family planning services, and that they are able to make their own choices about when and how many children to have.

It is important that we all work together to help reduce the number of children in the world, and to ensure that all children have a chance to live a better life.

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6. Revenue Losses in the Nigerian Petroleum Industry

21. Overview

This section of the report presents the Task Force's findings on the revenue losses in the industry, with a view to identify opportunity areas for major reform in boosting resources obtainable from the sector for national development. Of these findings, losses arising from inadequate security and enforcement are significant. As a result, new enforcement initiatives have been developed and recommended as part of this report to combat revenue loss in the petroleum industry.

22. Security Issues and Theft in the Nigerian Petroleum Revenue Value Chain

The illegal activity of hydrocarbon theft in the petroleum industry is both an organized and on-going enterprise. The phrase "vandalization" should be expunged from the reporting of this activity because it tends to trivialize the purpose and severity of hydrocarbon theft. Hydrocarbon theft is a major source of loss of revenue to the Federal Republic of Nigeria. Accordingly, the examination of the incidence, recommendations for the protection against and the enforcement measure in respect of the organised robbery of this resource are within the terms of reference of the Special Task Force.

Hydrocarbon theft was found by the Task Force as being a major and chronic source of revenue loss to Nigeria. From the Task Force's review and briefings received, it was evident that small scale pilfering of crude and refined products, illegal refining, and large-scale theft involving barges and boats have been endemic since at least the late 1990s. Significant "over-lifting" at crude export terminals is also alleged, as is theft from tank farms, refinery storage tanks, jetties and ports. In these latter cases, submissions to the Task Force alleged that officials and private actors disguise theft through manipulation of meters and shipping documents.

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Bunkering operations can be complex. Consider this sketch of a typical larger-scale Niger Delta oil theft ring:

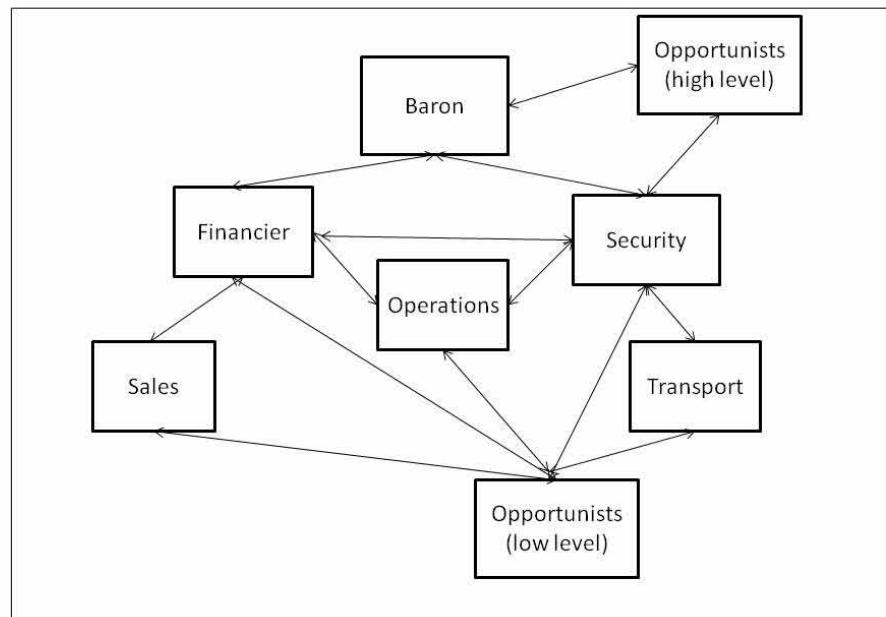


Figure 5: Illustrative sketch of a typical larger-scale Niger Delta oil theft ring

Past attempts to address theft have made only limited progress. Criminal prosecutions to date have reached no higher than the level of transport or operations. The recent arrest of 22 Ghanaians and five Nigerians caught stealing 25,000 MT of crude in two boats is laudable, for instance, but law enforcement efforts need to reach much higher.

Protecting Nigeria's petroleum infrastructure from theft and sabotage presents a tremendous challenge. No one actor can secure everything—PPMC alone maintains 5120km of above-ground pipeline. Difficult terrain, poor community relations, and high operating costs all complicate matters further. Yet there is also evidence that members of the security forces condone and, in some cases, profit from theft. The void in effective security likewise appears to increasingly hand over control of coastal and inland waterways to undesirable elements.

In view of the rising costs described below, a review of available policy options together with serious commitment to act is needed urgently.

24. Volumes of crude oil theft and associated revenue losses

Theft of crude oil and refined petroleum products may be reaching emergency levels in Nigeria. The Task Force has received reports suggesting that volumes stolen have risen dramatically in the past 12-18 months. The Royal Dutch Shell Company, Shell in its presentation to the Task Force stated that an estimated 150,000 barrels of crude oil are stolen per day (about 6% of Nigeria's total annual production) causing a revenue loss of \$13.5 million per day (at \$100 per barrel) which amounts to \$5billion per year of lost revenue.

On the other hand, high ranking Officials and Executives in the Federal Government tasked with the management of the nation's strategic Oil and Gas assets have several times stated the existence of large-scale on-going theft of Nigeria's crude oil. This represents government acknowledgment of the magnitude of the loss. Mr. Leke Oyewole, a Senior Special Adviser to President Goodluck Jonathan on Maritime Affairs, disclosed to the media in March, 2012 that Nigeria loses about 40 million metric tonnes of petroleum products amounting to about \$20 billion (N3 trillion) to crude oil theft and illegal bunkering; while NNPC has publicly stated that it spent \$1.2billion in the last ten years on pipeline repairs.

Further to the above, the Honourable Minister of Petroleum Resources had also stated at a media briefing in May, 2012 that the country was losing about \$7billion annually to crude oil theft in Nigeria, at the rate of 180,000 barrels per day. Indeed, President Goodluck Jonathan has acknowledged the scale and seriousness of crude oil theft in Nigeria as being incomparable to anywhere else in the world, describing the occurrence as being cancerous to the nation's economy. The Ministry of Finance has taken a middle ground, stating theft claimed 17 percent of daily production nationwide in April. Overall, estimates of crude oil stolen or spilled reviewed by the Task Force ranged from 6 to 30 percent of production, with 35 percent claimed for one especially troubled area. Based on these estimates, the Task Force believes Nigeria could be losing over N1tn per year to crude oil theft.

The Task Force does not endorse any of the numbers it received as solely authoritative. The bases for many were unclear, and the decentralized, secretive nature of oil theft makes it difficult for any one party to know the full extent of losses. There is a lack of consensus on the actual loss, naturally public records are not satisfactory in this regard but it could actually be as high as 250,000 barrels per day closer to 10% of daily productions.

However, submissions to the Task Force on oil theft suggest that the problem needs immediate attention.

NNPC and oil company data shows dramatic recent rises in theft and sabotage. For example, Shell claims it found at least 50 tap points on its 90km Nembe trunk line in January 2011 alone. Shell submissions to the Task Force showed average total losses in its operational areas climbing from 10,000bpd in late 2009 to over 50,000bpd in March 2012. Chevron reports 29 tap points for the year so far, and claims volumes lost from its operations in Q1 2012 exceeded losses for all of 2011. The NNPC put its total losses from 2009 to Q1 2012 at over 20mn barrels.

It appears small-scale theft and illegal refining are also becoming more decentralized and wide spread, though losses from such practices remain relatively small compared with the more sophisticated large-scale theft rings. In one striking example of rising costs, NNPC data shows the value of stolen crude along the 60km Forcados-Warri refinery supply pipeline was 600 percent higher in 2011 than in 2010. Total losses were N60 billion from this pipeline alone—or N1bn of oil stolen per km of pipeline.

These incidences of crude theft also delay realization of revenues by deferring production. Shell has declared force majeure on onshore liftings five times since early 2011, all reportedly linked to illegal bunkering. One December 2011 stoppage, allegedly caused by two failed pipeline taps, took a month to fix and deferred over 4 million barrels. Damage to infrastructure also causes long-term production deferrals. Government data shows dozens of fields sabotaged before the amnesty still sit idle. Shell's onshore output—currently around 600,000bpd—is barely half of 2005 levels. In Delta State, Chevron still produces one third less oil than it did in 2008.

25. Volumes of Lost Refined Products and Associated Revenue Losses

The Task Force did not receive comprehensive figures documenting volumes of refined products stolen or spilled, but NNPC reports that thieves stole 3.2 million metric tons of products from its pipeline network between 2001 and 2010. Stolen amounts appear to be growing; in NNPC's submissions the Task Force was informed that about 40 percent of products currently channelled through pipelines are lost to theft and sabotage.

Wilful damage of downstream infrastructure has also spiked as of late. PPMC recorded 4,468 product pipeline breaks in 2011, 98 percent of them from sabotage. This is a sharp increase over 1,746, the average number of sabotage cases logged between 2001 and 2010.

Theft of products at import points also appears endemic. For example, submissions to the Task Force claimed that as much as 5,000 MT of a typical cargo of petrol can be stolen at ports and jetties, offloaded into light vehicles.

In a worrying trend, organized theft of products has also spread far beyond the Niger Delta. PPMC recorded sizable losses on its Mosinmi-Ibadan-Lokoja line in 2011. The Jos-Gombe-Maiduguri line also saw theft, and pipeline sabotage around Atlas Cove in Lagos is chronic.

Organized theft of refined products also denies Nigeria significant revenues, though the Task Force did not receive comprehensive figures. PPMC values the products stolen from its pipeline network between 2001 and 2010 at N178 billion. It is alleged that when products are stolen at ports and jetties, inspectors sign discharge sheets for the full landing amount, which allows importers to collect fuel subsidy on stolen products.

26. NNPC Withholdings for Costs Associated With Theft and Sabotage

NNPC withholds oil revenues from the Federation Account to cover costs associated with theft and pipeline sabotage. Data from the Corporation shows huge increases in recent periods:

Product losses (Jan-Dec 2009)	9,750,000,000	Audited/not validated
Product losses (Jan-Dec 2010)	123,072,000	Not validated or audited
Product losses (Jan-Dec 2011)	18,000,000,000	Not validated or audited
Product losses (Jan- May 2012)	335,000,000,000	Not validated or audited
Pipeline Security and repairs (2006-2009 Feb)	83,657,522,776	Not validated/not audited
Pipeline Security and repairs (2010-2012 May)	344,852,000,000	Not validated/not audited

Table 32 - NNPC claims against FGN for failure to provide security, 2006-date

Beyond the obvious damaging impact of these revenue losses to the Nigerian economy, crude oil theft also impacts the nation in other major ways, some of which include the following.

23. Pioneer Status granted to Indigenous Companies

The Task Force has been informed that at least five companies: Allied Energy, Midwestern Oil & Gas, Britannia Oil Nigeria Limited, Suntrust Oil Company Nigeria Limited; and Niger Delta Petroleum Resources Limited¹² have been granted pioneer status by the Nigerian Investment Promotion Commission (with others pending or undetected) for their exploration and production activities.

Pioneer status is a form of five-year tax holiday to qualifying industries anywhere in Nigeria. The grant of pioneer status, gives a company a preferred position in getting established, usually through exemption from income tax. Pioneer companies are companies engaged in manufacturing, processing, mining, servicing and Agricultural industries whose products have been declared pioneer products on satisfying certain conditions.

In granting a company pioneer status the industry or product is regarded as one that is not already carried on in the country or the existing industry is not producing enough to meet the current or expected requirements. The concept is further broadened to include any industry or product for which there is a favourable prospect of development. The policy relating to pioneer industry is based on the desire of the Government to encourage the development of new or relevant industries that will reduce the country's dependence on imports. The pioneer industries and products are identified by a list published in the official gazette.

The law governing the operations of the pioneer companies was first laid out under the Aid to pioneer Industries ordinance No.10 of 1952. This was repealed by the Industrial Development (Income Tax Relief) ordinance No.8 of 1958. This ordinance was subsequently repealed by the Industrial Development (Income Tax Relief) Act 1971, otherwise known as CAP 179 LFN, 1990 which is the current legislation governing the operations of the pioneer industries. The Act empowers the Federal Executive

¹² The argument that the status is appropriate for "exploration" and not "production" is untenable and self-defeating because once it is accepted that "production" is "already being carried on" in Nigeria the same goes for "exploration"

Council to publish from time to time a list of Industries or products as pioneer Industries or products.

The revenue implications though well-known bear some repetition:

- No tax shall be payable during the pioneer period on the profit and consequently no capital allowance could be claimed on all the qualifying capital expenditure incurred starting from the production date.
- Dividend can be declared out of the pioneer account profit but not more than the balance standing in that account.
- Dividend paid out of the pioneer profit shall not be subject to tax in the hand of the first recipient
- The net qualifying expenditure for capital items during the pioneer period are accumulated and are qualified for both initial and annual allowances in the new business.
- Losses incurred by the pioneer company during the pioneer period and certified, may be relieved after the pioneer period since such loss is deemed to have been incurred on the first day of the new business

It cannot be a correct exercise of incentive for oil operators to be given pioneer status for an activity that is well established for over 40 years and which to any commercial consideration is a profitable venture. The loss of revenue from the grant of pioneer status to oil operators is an avoidable loss. The Task Forces recommends that any further consideration of the industry for pioneer status be stopped forthwith. Indeed to the extent that the application of the Act has been extended to oil exploration it is ultra vires and ought to be set aside and or revoked. To the effect that all tax and exemption be reinstated; from the date of the initial grant and payments be made to FIRS accordingly.

24. Collateral Social Costs of Theft

The following social costs, while outside the Task Force's immediate remit, deserve mention. They also arguably result in decreased Government revenue by increasing the perceived risks of investing in Nigeria's oil sector.

27. Environmental Pollution and Associated Socio-Economic Impacts

Crude oil theft is surely a major cause of Niger Delta oil pollution, though again there are no reliable nationwide figures. SPDC claims that illegal bunkering caused 118 spills around its facilities in 2011, at a loss of 11,806 barrels. Figures are scarce for the

resulting water and soil pollution, or secondary impacts on human health, livelihoods or food and fuel stocks.

Mixing highly unstable stolen condensate with kerosene, diesel and petrol damages automobiles and generators, and causes frequent explosions. These may have killed several hundred Nigerians over the past decade. PPMC recorded 376 fires around its product pipelines between 2000 and 2010, and press reports record several thousand deaths from pipeline fires since 1998. Illegal refineries explode frequently, incinerating works and bystanders.

28. Armed Maritime Piracy

37 piracy incidents logged in 2011 involved hijackings of petroleum products tankers. In over a dozen cases, pirates stole all or part of the ship's cargo. Although the locus of attacks has shifted to the Bight of Benin, pirates steered several of the hijacked tankers to rendezvous points near Escravos and Bonny, where waiting vessels came alongside to siphon products. The value of products lost in these attacks, or secondary costs like cargo insurance and demurrage, is unknown.

The International Maritime Organization now refers to the Bight of Benin as the world's second most dangerous piracy enclave, after Somalia.

29. Lost Investment Leading to Revenue Loss

Illegal bunkering, together with the insecurity surrounding it, also discourages investors owing to increased operational risks and costs. The oil sector Foreign Direct Investment fell significantly between 2005 and 2011.

Nigeria's petroleum sector infrastructure vulnerability and frequent damage to crude transport capacity has resulted in long-term production deferments across the country. Presently average daily production countrywide is barely at the levels in 2005, even though NNPC estimates an achievable national capacity of 3.7m bpd given the observable state of affairs.

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7. Debt Collection

25. Debt Analysis

Based on the detailed review of outstanding debts owed to the Federation for the various revenue streams discussed above, the

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Task Force supported by its consultants developed Table 33 showing outstanding amounts for royalties, signature bonuses and concession rentals.

On the basis of its initial interpretation of TOR2 and the information thus compiled the Task Force through the Security and Enforcement subcommittee invited the relevant government agencies to assist in a debt collection drive pursuant to the ToR 2 of the PRSTF. As stated under the Terms of Reference above the Task Force on further reflection decided to make recommendations to Government on collection so that it may be able to conclude its work within the rather engaging time frame.

26. Debt Collection Efforts

Invitation and demand letters were sent out to over forty seven (47) Oil companies who were alleged to be indebted to the Federal Republic of Nigeria as royalties, signature bonus, gas flaring etc.

It is appropriate to mention that these efforts were carried out based on an initial understanding of ToR 2 of the PRSTF. However on further reflection the task force considers that its recommendation to government on measures that could and should be taken to recover debt is more in accord with a proper interpretation of ToR 2.

27. Debt Reconciliation

However during the debt reconciliation exercise, the sum of USD\$5,830,261 was paid into the treasury of Government with evidence of payment. Several companies made undertakings to pay at later dates; this lends credence to the need to make concerted and focused efforts to recover revenue.

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Table 33: Petroleum Revenue Special Task Force Oil royalties by operator Period under review: 2005 -2011

*The analysis above was arrived at based on data provided by the DPR. This information has not been corroborated by the operators of the various concessions. ** Also, the analysis does not consider payments relating to royalties due from prior periods nor does it consider subsequent payments (2012) in respect of royalties

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8. Cross Debt Matrix

1. Debt Matrix

This section presents a review of the cross debt matrix showing the key stakeholders involved in the generation and management of Nigeria's petroleum revenues and their financial transactions.

29. Debts Profile

The table below presents a summary of outstanding debts found by the Task Force in the course of its review:

DEBT ISSUES	AGENCIES TO BE DEBITED + AMOUNT	AGENCIES TO BE CREDITED+ AMOUNT	BALANCING + AMOUNT
DOMESTIC CRUDE SALES	NNPC \$4.6b from 2002-2011 arising from discrepancies in pricing.	FGN \$4.6b to be collected from NNPC	
EXCHANGE RATE DISPARITY	NNPC N77.5b from 2002- 2011 arising from exchange rate discrepancies	FGN N77.5b to be collected from NNPC	
SIGNATURE BONUS	DPR \$560m unpaid from the bid rounds of 2005,2006 and 2007	FGN \$560m to be collected from DPR	
CONCESSION RENTALS	DPR \$183m for concessional allocation of 2008, 2009 and 2010. \$2.9m outstanding amount to be collected from various concessionaires	FGN \$183m to be collected from DPR FGN \$2.9m to be collected by the FGN for the outstanding amount on the various concessionaires	

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DEBT ISSUES	AGENCIES TO BE DEBITED + AMOUNT	AGENCIES TO BE CREDITED+ AMOUNT	BALANCING + AMOUNT
ROYALTIES	DPR \$3.027billion being outstanding from the operators as at Dec. 2011	FGN \$3.027billion being the outstanding as at Dec. 2011	
GAS FLARING	DPR \$58m balance outstanding in respect of gas flare penalty	FGN \$58m to be collected from DPR being the outstanding in respect of gas flare penalty	
SUBSIDY	NNPC \$0.9b as at 31 st December arising from the debt owed the supplier of petroleum products	NNPC to pay the suppliers of Petroleum Products arising from amount outstanding for over 365days	
Miscellaneous Debt	DPR N102.5b being miscellaneous amount due to be paid	FGN to collect the miscellaneous amount from DPR	Of the N102.5b, N640m was reconciled
LOANS TO BPE	FGN N798.6m being loan granted to BPE by NNPC as directed by the FGN	NNPC N798.6m to be collected from the FGN	
LOAN TO SAO TOME & PRINCIPE	FGN N700.5m being loan directed to be given by NNPC	NNPC N 700.5m to be collected from FGN	
PRESIDENTIAL CHOPPER	FGN N2.230b paid by NNPC	NNPC N2.230b to be collected from FGN	
ROYAL SWAZILAND SUGAR COY	FGN N2.421b paid by NNPC	NNPC N2.421b to be collected from FGN	

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DEBT ISSUES	AGENCIES TO BE DEBITED + AMOUNT	AGENCIES TO BE CREDITED+ AMOUNT	BALANCING + AMOUNT
FED. MIN OF SCIENCE+TECH (RTCOM- GALAXY BACKBONE)	FGN N11.466b paid by NNPC	NNPC N11.466b to be collected from FGN	
FED. MIN. OF SCIENCE+ TECH SKILLS G- SCIENCE + TECH	FGN N4.185b paid by NNPC	NNPC N4.185b to be collected from FGN	
FED. MIN. OF SCIENCE + TECH WIND ENERGY (LAHMEYE, INT); FMS&T)	FGN N128.9m paid by NNPC	NNPC N128.9m to be collected from FGN	
PHCN INDEBTEDNESS	A total of N17b debt was incurred out of which N10.6b had been paid a at end 2011	NNPC to collect the outstanding debt of N6.4b from FGN	
SPONSORSHIP OF WORLD CUP + OTHERS	FGN N866.2m directed that NNPC pay for the sponsorship of world cup	NNPC N866.2m to be collected from FGN_	
NIG. CONTENT DEVELOPMENT MONITORING BOARD (NCDMB) LOCAL CONTENT BOARD START UP OPERATION	FGN N673.0m paid by NNPC for local content board	NNPC N673.0m to be collected from FGN	
STORAGE COST ON ILLEGAL BUNKERING	FGN N563.9m paid by NNPC	NNPC N563.9m to be collected from FGN	
LEGAL EXPENSES (SOUTH ATLANTIC V) MIN. OF PET. RESOURCES	FGN N250.0m paid by NNPC	NNPC N250.0m to be collected from FGN	
PAYMENT TO DPR	NNPC N651.0m	DPR N651.0m to be collected from NNPC	

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DEBT ISSUES	AGENCIES TO BE DEBITED + AMOUNT	AGENCIES TO BE CREDITED+ AMOUNT	BALANCING + AMOUNT
EXPENSES OF THE FED. MIN. OF PETROLEUM RESOURCES	NNPC N521.0m incurred on behalf of the Fed Min of Petroleum Resources	FGN N521.0m to be paid to NNPC	
PICOMSS PHASE1	NNPC N19.878b incurred on behalf of the Presidential Implementation Committee on Maritime Safety and Security	FGN N19.878b to be paid to NNPC	

Table 34: Summary of Outstanding Debts found by the Task Force in the course of its review, as at April 2012

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9. Automation and Technology Integration

1. Introduction

30. Overview

Part of the main objectives of the Petroleum Revenue Special Task Force when it was inaugurated was to:

- Develop automated platforms that would enable tracking, monitoring and online validation of income and debt drivers for all parastatals and agencies in the Federal Ministry of Petroleum Resources, and
- Ensure the integrity of payments to the FGN through the integration of systems and technology across the production chain in order to determine and monitor crude oil production and exports.

1. Summary of Work Done

In order to achieve the objectives highlighted above, the members of the PRSTF carried out the following:

- **IT automation gap assessment:** The Task Force identified Information Technology and business automation gaps, by carrying out Current Position Assessments of the stakeholders within the Oil and Gas production value chain, including government regulatory parastatals. To achieve this, it was necessary to identify key operational processes within the focal organizations or scoped-in entities.
- **Workshop on Oil and Gas Metering and Measurement:** A workshop was organized for Metering & Measurement in the Oil & Gas Production Value Chain. This was to provide a better understanding of the challenges in the industry, identify industry best practices and create a road map to facilitate the achievement of industry-wide consensus and implementation options.
- **Review of all Automation presentations made to the Task Force:** The IT and Automation sub-committee also reviewed all the related presentations made to the Task Force to

ascertain current industry practices and benchmark practices in the Nigerian Oil and Gas industry against these practices.

- **Development of Recommendations:** Following the detailed review and assessment carried out by the Task Force, specific processes and systems were identified that the Ministry of Petroleum Resources and the relevant government agencies should implement to cover the identified gaps.

1. IT Automation Gap Assessment

The assessment scope covered three broad categories namely: Core Business Systems, Reporting Capabilities and Automation Capabilities of the entities within the Oil and Gas Production value chain. The entities in scope for this review were the DPR, NNPC (Finance Department, PPMC, COMD, and NAPIMS), CBN (Trade and Exchange Department), Customs and Inspection Agents.

- *Core Business Systems*
This review focused on determining the required business/operational application functionality required for each in-scope entity to discharge its duties within the production value chain by evaluating the suitability of implemented applications (if any) and the modules in use.
- *Reporting Capabilities*
This review focused on determining reporting requirements for each entity by evaluating:
 - Existing reporting relationships especially with third parties
 - Third party information inputs (information inflow) into the entity's operations and processes
 - Third party information outputs (information outflow) in form of reports generated for other entity's in the production value chain or for regulatory requirements
 - The ability of each report or information provided to serve as a "single view of the truth" and is thus consistent across entities.
- *Human Capital*
The review also evaluated the adequacy and capability of human capital in the public sector organisations within the Oil and Gas industry. This is a prerequisite for any deployment of IT and Automation in the sector. Particular attention was paid to the DPR.
- *Automation Capabilities*

This review focused on determining the level of automation maturity (i.e. automation support for each entity's business and reporting processes).

32. Findings

32. Department of Petroleum Resources

The Department of Petroleum Resources (DPR) is the regulator of the oil and gas industry in Nigeria. Its functions are wide and varied. DPR's responsibilities/ powers include:

- Overseeing the lifting of oil, gas and condensates exported from the country's terminals.
- Overseeing the lifting of finished petroleum products from depots to service stations throughout the country and monitoring the quality of products and compliance with regulations.
- The issuance and renewal of permits and licences, inspection of operational sites and conducting of licensing rounds leading to the allocation of oil blocks. DPR, on behalf of the Nigerian government collects licensing fees and signature bonuses.
- Imposing fines and closing down non-compliant operations.
- Advising the Federal Government and relevant agencies on technical matters and public policies which may have impact on the administration and control of petroleum.
- Custodian of data, information, and reports necessary for investment and operational planning, revenue monitoring and management, and industry regulation.

The Task Force's review showed that:

- **Rudimentary Automation in DPR:** MS Excel is utilised to process about 80% of the DPR's information. This is very rudimentary and falls far short of requirements. The Payroll software was developed by the NNPC and is used to process payroll and other compensation related computations.
- The DPR significantly lags the rest of the petroleum industry in technology appreciation and adoption.
- DPR has infrastructural (power) and operational challenges that necessitated them to shut down the servers at night.
- Current storage measurement is mostly done manually with staff deployed at tank farms and choke points.

- The DPR stated in their presentation at the workshop that a National Production Monitoring system (NPMS) and a National Data Repository exist. These two systems appear not to meet industry standards and are yet to be successfully implemented.
- DPR has challenges with capacity to manage complex IT systems & Infrastructure
- IT does not appear to be recognized and positioned as a strategic imperative for the effective and enhanced functioning of the DPR.
- The DPR appears not to fully appreciate its role as the custodian of all production information and other key performance indicators that will enable planning, monitoring, and other imperatives of this strategic national asset.

33. Nigerian National Petroleum Corporation

The NNPC is involved in oil and gas exploration activities, refining, petrochemicals and products transportation as well as marketing.

In 1988, the NNPC was commercialised into 12 strategic business units, covering the entire spectrum of oil industry operations: exploration and production, gas development, refining, distribution, petrochemicals, engineering, and commercial investments. Currently, the subsidiary companies include:

- National Petroleum Investment Management Services (NAPIMS)
- Nigerian Petroleum Development Company (NPDC)
- The Nigerian Gas Company (NGC)
- The Products and Pipelines Marketing Company (PPMC)
- Integrated Data Services Limited (IDSL)
- Nigerian LNG limited (NLNG)
- National Engineering and Technical Company Limited (NETCO)
- Hydrocarbon Services Nigeria Limited (HYSON)
- Warri Refinery and Petrochemical Co. Limited (WRPC)
- Kaduna Refinery and Petrochemical Co. Limited (KRPC)
- Port Harcourt Refining Co. Limited (PHRC)

The Task Force's review showed that:

- The NNPC is in the process of implementing SAP as the Corporation's ERP. The Current SAP deployment is at later stages of the deployment will include regional/zonal office. The SAP Modules being implemented are, financial accounting, controlling, sales and distribution, materials management, plant maintenance and project systems. SAP Implementation at NAPIMS is still yet to commence, the main business application used by NAPIMS is SUN systems (version 5). The current stage of implementation supports only partial automation of key processes relevant to exchanging data between internal & external parties.
- Challenges with change management are a big hindrance to the NNPC wide adoption of SAP.
- An independent evaluation of the SAP project should be undertaken by MPR given the importance of this project and the enormous resources expended to date.

1. Central Bank of Nigeria

These are the functions of the CBN as it is relevant to the petroleum industry:

- the banker and financial adviser to the FGN.
- provides information required for revenue reconciliation with the various collecting agencies (FIRS, DPR, NNPC etc.)
- in charge of the Nigerian Export Supervision Scheme (NESS)

The Task Force's review showed that:

- The matching/reconciliation of the amounts received by the CBN to revenues due per the collection agencies are predominantly manual.

- The processing of exports proceeds (using NXP forms) is manual which is cumbersome and introduces bottlenecks in getting accurate and timely reports.

35. Nigeria Customs Service

These are the functions of the NCS as it is relevant to the petroleum industry:

- Intercept contraband
- Assess and collect customs duties and other taxes on goods and services
- Enforce import and export restriction and prohibitions
- Collect accurate import and export data for economic statistical usage and planning
- Physical checks on containers, vessels or travellers.
- Prosecute offenders.

The Task Force's review showed that:

- The NCS has a Government Executive Vision™ (GEV), for the monitoring of revenue, cargo dwell time, customs performance and business intelligence analytics. The GEV should have capabilities (could be customized) to integrate with external systems such as the proposed central repository residing at DPR.
- The manual process of collating the proceed repatriation of oil & Gas Products is cumbersome and introduces bottlenecks in getting accurate and timely reports.

1. Pre – shipment Inspection Agents

As the name implies, the PIAs were commissioned to oversee and monitor the export terminals. Their main function is to carry out a pre - shipment inspection of oil and gas liftings and certify the exported quantities.

The certification process is manual as all the forms are processed manually which introduces bottlenecks in getting accurate and timely reports on exports.

37. The current metering and measurement regime

On 24 May 2012, the Task Force hosted a stakeholder workshop on metering and measurement in the oil and gas value chain. The workshop participants identified certain challenges with the current metering and measurement regime.

The challenges identified with the current metering and measurement regime can be summarised as a lack of adequate vision and ownership required to articulate and drive a cohesive implementation of IT and Automation in MPR and DPR. The diagram below presents the detailed components of these challenges:

:

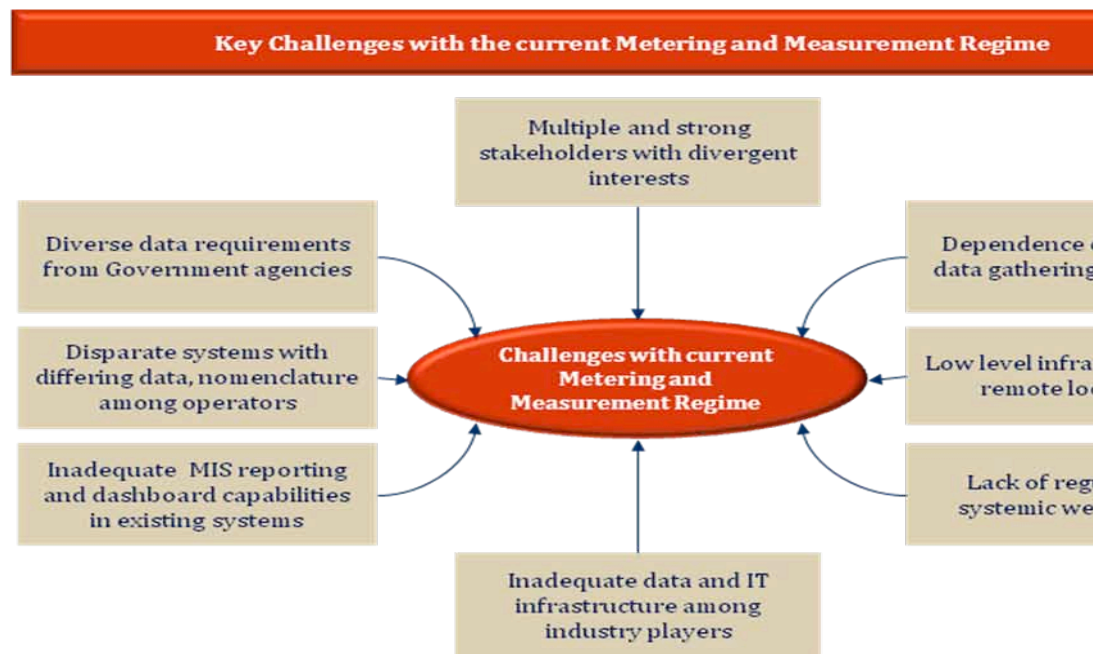


Figure 6: Key Challenges with the current metering and measurement regime

38. Inconsistent oil and gas data across the petroleum industry

A number of the findings in Section 2 – Revenue review and debt verification of this report evidenced inconsistencies in the

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information sighted across the major agencies and parastatals of the MPR as well as with the oil and gas operators themselves.

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10. Recommendations

33. Introduction

On conclusion of the Task Force's review and the findings presented above, recommendations have been developed which Government should implement to address the issues identified and their root causes.

The recommendations are a mixture of quick wins and those with short, medium and long term impact.

34. Strategic Management Recommendations

From a strategic viewpoint of the Task Force's review and the findings discussed above, the Task Force recommends the following immediate and practical quick wins to be implemented in ending the revenue losses in the Nigerian Petroleum Sector. Timeline for implementation should be 3 months.

39. Reduce NNPC-related debts and losses

- Set up a process, independent of NNPC, to review the use of oil traders and NNPC's system for selling crude, on grounds of value for money and probity.
- Undertake a strategic review of all NNPC subsidiaries before the PIB passes, with a view to privatizing, repositioning or scrapping non-performing, redundant or irrelevant business units.
- Require a full public report by NNPC of the amount, cost and terms of all cash call debts; improve reporting of this information to the National Assembly as part of the annual budget process.

1. Attract investment, build trust and deter corruption

- Pass an oil sector transparency law that requires all oil companies active in Nigeria to report all payments, costs and earnings for each license or transaction, and to publish all contracts and licenses.

- Create a special, properly-trained Oil and Gas Sector Financial Crimes Unit.
- Appoint a new NEITI Board, now long overdue. Members should be sector experts with a commitment to transparency, and civil society should appoint their own representatives.
- In order to keep fidelity with the acknowledged need to reform the sector FGN should establish an embedded and independent “**office of transformation**¹³” for the sector with a fixed term and specific mandate to carry through recommendations and transformational reforms accepted by government. This will reduce the possibility of missing the opportunity that addressing the ToR’s of the task force presents.

41. Increase Government revenues via Debt Collection and Cost Control

- Implement an aggressive debt collection process for outstanding signature bonus payments; revoke blocks from non-paying firms; sanction those agencies that failed to collect.
- Conduct an independent process audit of all upstream cost control rules and mechanisms, including the use of cross-country price benchmarking.

1. Combat theft of crude oil and petroleum products and insecurity in the Niger Delta

- Amend the 1984 Special Tribunal (Miscellaneous Offenses) Act to strengthen the legal framework for oil theft and other sector crimes.
- Arrest and prosecute the barons and financiers of illegal bunkering rings.
- Continue with and sustain the Federal Government Amnesty Programme.

¹³ While the Task Force is aware of the existence of a management-led transformation initiative within NNPC, this recommendation is targeted at ensuring an independent sector-wide transformation office focused on reform implementation.

35. Transition Mechanisms

Many of the problems the Task Force's work uncovered are complex, long standing, and lacking in instant fixes. Beyond the quick wins already listed, Government should endorse the following coordinated series of longer term steps and processes to ensure Nigeria captures full value for its oil and gas endowments within this decade.

First, to improve the rules and processes governing revenue collection and management across the sector:

- The Petroleum Ministry should set up an independent advisory process to design a government-wide oil revenue management framework in line with international best practices.

More specifically, in the critical area of NNPC crude oil sales:

- The Petroleum Ministry should set up an independent process to redesign the domestic crude allocation.
- NNPC should develop and publish guidelines for setting crude oil prices, allocating crude cargoes among buyers, and renewing buyer contracts. Appointment of selling agents should be based on an open competitive procurement policy which is the industry best practice.
- NNPC, in consultation with the Petroleum Ministry, should step up the process of developing a full-strength trading arm that can sell Government's crude directly to end users at full and fair prices.

As further steps towards decreasing NNPC-related debts and improving oil revenue performance more generally:

- The Presidency, in consultation with BPE and/or the NCP, should hire consultants to perform a financial due diligence review of NNPC before the PIB passes.
- Also prior to passing the PIB, the Presidency, with guidance from the Petroleum and Finance Ministries, should develop a road map for fully commercializing NNPC so that it has incentives to minimize costs and maximize earnings. The final PIB should contained detailed transition provisions that enshrine the roadmap in law.

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At the same time, to aid the development of rules, systems, and processes that ultimately will reduce debts and others losses associated with oil company operations:

- DPR, together with the Petroleum Ministry and the Ministry of Justice where needed, should resolve outstanding legal and policy disputes over assessment of royalties and gas flaring penalties. In particular, royalties should be paid on the basis of production rather than lifting and sales volumes. The relevant point of measurement should be the flow station, not the terminal as is the case now.
- NNPC should develop a policy framework to streamline and open up the NAPIMS contract approval processes to reduce costly delays and opportunities for abuse. A performance management methodology such as the Balance Scorecard should be implemented in NAPIMS.
- The Petroleum Ministry should articulate a medium-term strategy for discharging cash call debts and joint venture expenses, including in the post-PIB era.
- DPR should award all acreage through open, competitive bid processes, and curb license awards to local companies with no oil sector experience.
- DPR should work with Galaxy Backbone to hire outside consultants to review and improve the content of the National Data Repository, and standardize access to data.
- The Presidency should introduce an amendment to the 2007 Fiscal Responsibility Act 2007 that would criminalize withholding payment of petroleum revenue after due date and assessment and a notice of demand.

Meanwhile to guarantee lasting progress on the fight against illegal oil bunkering:

- The Presidency should convene a multi-stakeholder task force to develop a Security Master Plan to combat theft and sabotage.
- The Petroleum Ministry should set up a multi-stakeholder committee, to develop an implementation framework and roadmap for the transition to full automation of measurement and metering of oil and gas production.

In the same vein and to ensure public systems for managing oil revenue become fully automated and accessible:

- The Petroleum Ministry should work with Galaxy Backbone¹⁴ the Government IT Company to appoint suitable consultants, to design, develop and implement a centralized portal for collating and disseminating hydrocarbon production information among the relevant government and industry stakeholders in a standardized format.
- DPR should implement a solution, including a portal to automate the tracking of royalties, licenses, permits, and other revenues it monitors and collects.
- At the back-end of both portals recommended above, DPR should build a functioning Data Warehouse to serve as a main hub for gathering vital sector information. Management of the Warehouse should be outsourced.
- NNPC should complete its on-going implementation of SAP to fully automate key processes relating to revenue management. The final system should have flexibility to push and pull information in specified formats to the new DPR Data Warehouse, all NNPC zonal offices, and other relevant revenue collection bodies. The SAP implementation in NNPC should be subject to independent oversight from the Ministry to ensure that the strategic objectives of this important project are being met. This can be achieved through consultants appointed by the Ministry.

36. Revenue and Debt Verification

43. Production

9. Production data for fiscal purposes should be obtained at the flow stations

The Task Force deems it more appropriate that production measurement for the purpose of royalty computation should be taken at the flow stations where crude oil is stabilised and not at the terminals as is currently the practice. This is in line with the Petroleum Act Chapter P10, which says Crude Oil Royalties should be determined based on production figures.

The DPR and operators broadly use the figures measured at the terminals to determine production data for Royalty purposes. The Task Force deems it more appropriate to determine production for Royalty purposes at the flow stations. This would require that the

¹⁴Galaxy Backbone is a wholly owned government establishment with critical ICT resources reporting to the Hon Min for Communications

output at flow stations be metered henceforth. It would also mean that Royalty is due on all the oil in the pipeline network between the flow stations and the terminals.

If this is implemented, and assuming that the oil in the pipelines between the flow stations and terminals is the equivalent of 20 million barrels, at an estimated oil price of \$50/bbl and average royalty rate of 10%, monies potentially accruable to the Federation is in the order of \$100million.

44. Domestic Crude Sales

1. No deductions should be made from the amounts payable to the Federation Account

No deductions should be made from the amounts payable to the Federation Account, and amounts due to the Federation Account should be settled gross.

Furthermore, in the determination of subsidy amounts, a proper review of the Domestic Crude Oil allocations scheme should be made. The current basis of calculation does not seem to take into consideration, all of the elements involved in the domestic crude allocation and utilisation. These include proceeds from sale of refined products, proceeds from sale/exchange of unutilised domestic crude, proceeds from sale of other by-products of refining crude oil, cost of domestic crude, cost of refining, cost of importation of refined products, other incidental selling costs.

2. Domestic crude oil should be sold at international competitive prices

The findings clearly show a pattern of under-pricing. This practice should be stopped forthwith and domestic crude should be paid for at competitive international market prices. Preferential prices should not be given to NNPC subsidiaries.

The FGN should also block the leakages within the conversion process to refined goods in order to make the business of conversion profitable and worthwhile.

3. Compliance of NNPC with prevailing CBN exchange rates for remittance of crude oil proceeds

The practice of remitting domestic crude oil payments to the Federation Account using exchange rates different from the CBN's should be stopped forthwith. The duty to comply with the

prevailing CBN exchange rates should be enshrined in a suitable legal enactment such as the proposed amendment to the Fiscal Responsibility Act. NNPC should ensure full compliance accordingly on the exchange rates to be used for the conversion of Crude Oil proceeds. This should be monitored by the MPR on behalf of the FGN and where discrepancies are noted, reimbursements should be enforced.

4. Revisit the Domestic Crude Oil Business Model

The rationale behind the allocation and utilisation of the Domestic Crude Oil allocations should be revisited. It is hardly acceptable that in an industry as viable as the petroleum industry, the company is unable to break even from the purchase and conversion of crude oil and sale of petroleum products.

45. Equity Crude Oil Sales

1. Restructure NNPC for single point accountability for Petroleum Revenues

NNPC, as a corporate entity needs to be repositioned and restructured to be a national oil company capable of making well calculated business decisions that will optimise revenue and cost for the Federation from its upstream operations. This will only be achievable if it has an appropriate overview of the government's investments and it is able to make timely decisions based on a complete and accurate flow of information.

2. National investment in the oil and gas upstream sector must be managed from a strategic focal point

The Federation's investment must be managed from a strategic focal point to ensure accountability for financial soundness and investments. This must be underpinned by a robust and centralised overview of production, sales, investments, taxation etc.

This should be separate from NNPC operations.

3. Ensure full compliance of all agencies and companies with existing legislation

Pending the passage into law of the proposed Petroleum Industry Bill which would update the current legislation and ensure more clarity, the Federal Government needs to take advantage of the provisions in current legislation that would immediately improve Government revenues.

4. Regularise Crude Oil Lifting Under Contract

Due process must be followed and only traders with valid and formal contracts that have gone through an open competitive trader selection process under a documented procurement process should be allowed to lift crude oil on behalf of the nation. Where there are breaches to this policy, the approving officer should be held accountable.

5. Open Competitive selection process for crude oil sales

The list of crude oil traders should be optimised to ensure that where the country cannot utilise uniquely its trading companies (Calson, Dukoil, Napoil, and Nigermed), only traders with renowned expertise and technical know-how are used.

6. Review of the nominations process for all the Joint Ventures

A proper review should be performed, examining the processes around NNPC's nominations in the joint ventures, actual production, the split of production losses or gains and liftings, to determine whether the Federation is receiving their entitlements in line with the joint venture agreements.

7. Proper review of draft contractual agreements

Immediate steps should be taken to closing the skills gap between the private sector and government officers in the drafting and negotiating of all contracts involving upstream operations. Inappropriate wording could cost the Federation huge losses in oil revenues.

It is important that the implied costs of these arrangements (cost of carry), depicted by the proportionate share of the shared oil

needs to be carefully examined for all agreements, to ensure that cost is reduced to the minimal necessary level.

An immediate and comprehensive legal audit should be carried out with external counsel reviewing and standardising legal processes, protocols, contracts and contract administration methods. Legal audits should be carried out periodically thereafter.

8. Adequate funding of the Federation's investment obligations

It would be cheaper for the country to avoid these alternative funding arrangements as the costs seem really high. The FGN should set aside adequate funds from the proceeds of crude oil sales to finance cash call obligations under the joint operating agreements, rather than entering into carry agreements.

Carry arrangements generate an additional cost over and above the interest on finance, which serves to reduce the federation's revenue. Therefore, where NNPC must have alternative funding, these should be entered into directly and not through carry arrangements. A market structured financing platform would support the strategic and financial objective of NNPC.

9. Create standard terms and conditions and uniform terms of contract agreements

FGN should procure for NNPC the drafting, issuance and implementation of standard terms and conditions and uniform terms of contract agreements. These should be reviewed on a periodic basis to ensure uniformity in the interpretation of contracts and remove ambiguity.

10. Proper and realistic budgets and approvals should be prepared annually

More emphasis should be placed by NNPC on the budget and work plan preparation and approval, under all contract types (JV, PSC and SC) to ensure that the budgets represent realistic estimates of costs of production. NNPC should maintain a database of benchmark costs that can serve as reference for the verification of budgets, work plans and costs.

In terms of cost verification, emphasis should be laid on expenditures that are unreasonably higher than the established benchmarks or extra budgetary expenditures.

In addition, the process of budget/work plan approvals might need to be revisited, to ensure that NNPC is in a position to properly review the budgets and work plans and propose revisions, where the budgets are unrealistic.

11. Capacity Building for NAPIMS

The calibre of staff deployed to NAPIMS need to be accredited to ensure that they possess the required technical competence and skills to review the operations of the contractors. Furthermore, they should be provided with the optimal number of staff, capable of getting the reviews done in a timely manner. Review and certification of costs should normally not exceed a year following the reporting year.

12. Ensure uniformity of the realisable prices used by all parties

The method used in the determination of realisable prices should be more specific. Once prices have been determined using this method, the resulting prices should be published to all partners and enforced, to avoid disparities in the prices used by the various parties in these transactions.

13. Carry out adequate review of the purchase or lease option for production equipment

For the lease or purchase provisions to yield optimum benefits to the Federation, there has to be a careful analysis of the costs and benefits of the purchase or lease options for equipment to be utilized in petroleum operations.

46. Sale of the National Entitlement (Gas)

1. Draw up master agreements for the development of all potential gas reserves in Nigeria

It has been established that Natural Gas reserves exist in commercially viable quantities in OPL 212. This has been developed and produced since 2007, to that effect; the FGN should facilitate the execution of a master contract that is agreeable to all parties in this respect.

Also, the amount of \$946.878million said to be due from SNEPCO should be paid immediately.

The gas situation with SNEPCO may not be one – off, the FGN should develop standard agreements with respect to gas production when found in commercial quantities.

2. FGN should ensure that written consents exist for gas for all assets

The Federal Government should ascertain that there are validly approved prior written consents for all gas used as fuel gas, gas injection, gas lift make- up.

3. FGN should intensify efforts to get the other LNG projects up and running

Government should intensify efforts to bring the other LNG projects on board, as this will reduce the quantity of gas flared, amongst many other economic advantages. The generous pricing mechanism advanced to NLNG needs to be reviewed as the current prices being paid are way below economic realities.

4. FGN to carry out a comprehensive review of its NGL/LPG entitlements under the Agip and Shell Joint Ventures

The Federal Government should carry out a comprehensive review to understand how the revenue streams from the Federation's entitlements of gas produced for NGL/LPG under the Agip and Shell joint ventures are accounted for and remitted.

47. Signature Bonuses

1. Expedite and enforce collections of amounts due with respect to Signature Bonuses

The oil blocks in litigation are currently inactive and of no benefit to the FGN in their current state. The FGN should expedite action with respect to the blocks in dispute in order to ensure that the \$321million outstanding is collected.

Also, the DPR should take further actions against the concessionaires that are yet to pay the amounts due (\$167million) within the remit of the law. Proposed actions would be to charge

interest on the amounts outstanding, revoke the company's license etc.

2. Proper record keeping should be enforced at the DPR

The documentation and records for all awards of concessions should be domiciled with the DPR to ensure that all amounts due to the FGN are collected accurately and promptly.

48. Concession Rentals

1. Expedite and enforce collections of amounts due with respect to Concession Rentals

The DPR should take action against the concessionaires that are yet to pay the amounts due (\$2.9million) within the remit of the law. Proposed actions would be to charge interest on the amounts outstanding, revoking the companies licenses etc.

2. DPR should ensure consistency and accuracy of custodial information

The DPR is the custodian of the information relating to oil and gas concessions for the nation it is imperative whatever information obtained can be relied upon. The DPR should put in place measures to ensure consistency and accuracy of oil and gas information throughout the organisation. The use of a co-located offsite data centre should also be considered for risk management and back up.

49. Royalties (Crude Oil and Gas)

1. Expedite and enforce collections of amounts due with respect to Crude Oil Royalties

The DPR should take action against the operators that are yet to pay the amounts due of \$3.027billion within the remit of the law. Proposed actions would include charging interest on the amounts outstanding.

2. Demand of outstanding Addax/NNPC Royalties' payments

The situation where Addax and NNPC continue to use legal interpretation as basis for non-payment of statutory revenues due to the Federation is not acceptable. The joint or several liabilities of NNPC and/or Addax in the outstanding amount of approximately \$1.5billion is undeniable. A demand should be made on behalf of the Federal Republic of Nigeria and the consequences of default should (if found liable) immediately be visited on the contract and the relevant parties.

3. Prompt and proper reconciliations for all revenue remittances

The DPR should instruct the CBN and operators to ensure the proper description of all revenue remittances in order to facilitate the ease of reconciliation. Also, operators and other oil and gas companies should be instructed to provide timely information for all revenue remittances to the CBN.

4. DPR should independently track and record gas production and sales data

The DPR should develop a proper process to independently track and record gas sales and production figures. This would ensure that there are no losses of revenues due to the Federation. It would also provide the important data necessary for reservoir management.

5. Reconciliation and collection of gas royalties from all gas producing companies

DPR should ensure that the reconciliation process with all the outstanding gas producing companies is concluded before the beginning of the next fiscal year. The companies should be asked to provide a self-assessment to the DPR within a stipulated timeframe. Where defaults of this directive is experienced, adequate penalties should be levied.

50. Gas Flare Penalties

1. DPR should independently track and record gas flare volumes

The DPR should develop a proper process to independently track and record gas flare figures. This would ensure that there are no losses of revenues due to the FGN. It would also provide the important data necessary for reservoir management.

2. Automation of the record keeping system at the DPR

The DPR should employ the use of proper IT systems and databases to keep its records and ensure consistency and integrity of information across the organisation.

3. Reconciliation and collection of gas flare penalties from oil and gas operators

The reconciliation process should be expedited for all operators to ensure timely collection of the gas flare penalty amounts due. Self-assessment should also be encouraged where possible.

4. Expedite and enforce collections of amounts due with respect to gas flare penalties

The DPR should take action against the operators that are yet to pay the amounts due within the remit of the law. Proposed actions would be to charge interest on the amounts outstanding.

5. Enforce the new gas flare penalty directive as a disincentive to gas flaring

Annually it is estimated that Nigeria flares 14.9 billion cu ft of gas. At a rate of \$11.8/thousand cu ft (average price in 2011) this implies an estimated \$166.582 million in lost revenues (FGN entitlements, royalties, taxes etc).

The Minister has powers to prescribe to any company permitted to flare gas any such sum from time to time for every 28.317 scm of gas flared under section 3b of the Associated Gas Reinjection Act of 1979. Accordingly, the regulators and the Ministry should enforce full compliance by all operators with the new gas flaring tariff regime.

6. The FGN should enforce a zero gas flare policy

More efforts should be put in to ensure that the zero gas flare¹⁵ policies are implemented, by the beginning of the next fiscal year. This will improve government revenues and also reduce the adverse environmental effects of gas flaring.

51. Miscellaneous Oil Revenues

1. Automation of the record keeping system at the DPR

The DPR should employ the use of proper IT systems and databases to keep its records and ensure consistency and integrity of information across the organisation. Also, the DPR should develop adequate processes and procedures to enable the units charged with the responsibility to collect the various miscellaneous oil revenues track and collect all revenues due.

2. Update the fees and licensing regimes to reflect current economic situation

The Fee and Licensing regimes for operating in the Oil and gas sector should be revisited and reviewed periodically to ensure that it reflects the current economic realities in the Oil and Gas industry.

37. Reducing Revenue Losses in the Nigerian Petroleum Industry

1. Fingerprinting of Nigeria Oil to enable tracking

Fingerprinting can be used to ascribe the status of “Legal Oil” to oil that has been obtained and sold by the Nigerian authorities and its licensed operators. A national database of known components can be quickly created in order to “check the register” for Legal Oil status once it is placed on the market. National policy should adopt the use of this technology and require operators to submit known samples to build and sustain the database. If properly standardized this technology will be a veritable tool for identifying stolen oil from Legal Oil.

¹⁵ The technical considerations are recognised however the achievement of zero gas flare should be the rule and exceptions to be made only on technical grounds

53. Establishment of a transparent whistle blowing and information portal

The Task Force recommends the establishment of a website for Petroleum Revenue (“PetRev”) Vigilance such as www.PetRev-ombudsman.ng.org as a standing independent accessible and transparent repository of information on revenue losses, sabotage, and illegal activity affecting the petroleum industry.

54. Policy on market ban of participants in crude oil theft

A deliberate policy that results in the ban from the Nigerian market of corporations and individuals that have either been found culpable of:

- Receiving stolen oil from revenue theft in the Nigerian petroleum industry or;
- Insufficiency in providing information of its participation (legal or otherwise) in petroleum sector transactions or;
- Unresponsive in its attention to request for transparent surrender of information regarding Nigerian petroleum sector transactions.

1. Amendment of Fiscal Responsibility Act regarding Petroleum revenues

The Fiscal Responsibility Act 2007 should be amended to criminalize withholding payment of petroleum revenue after due date and assessment and a notice of demand. This amendment is strongly recommended.

38. Automation of the Nigerian Petroleum Industry

1. Department of Petroleum Resources

- The DPR should work with Galaxy Backbone and competent consultants to review on-going projects, NDR and NPMS, and also develop a strategic IT blueprint for the organization. This should include:
 - Web-based license application portal with work flow and approval features
 - Hydrocarbon accounting solution with interfaces with IOCs, LOCs, etc

- Robust production data repository with online-real time data collation and dissemination features
- Operational data warehouse with dashboard reporting features for monitoring and revenue recognition
- A strategic organizational and human capital development plan to ensure that DPR builds capacity to manage and leverage its IT and technology investments and also has capacity at par with the industry it regulates.
- DPR and MPR should commence the implementation of a portal that aggregates and presents in real time all relevant information about the operations and performance of the oil and gas industry.
- An ERP Solution should be put in place to capture and automate the identified backend processes in DPR.
- DPR, based on its mandate should build a Data Warehouse which would serve as a hub for gathering vital data about the industry and disseminating reports in various formats to government stakeholders. The implemented system should be “owned” at DPR and managed by an outsourced party and hosted at a Government Data Centre. It is necessary to develop a framework and implementation roadmap for the transition to full automation of measurement and metering of oil and gas production and focalization. This will be a collective effort involving DPR and the operators with oversight from MPR.
- A phased approach should be adopted with emphasis on good record keeping, timely collation and dissemination of data and accessible to internal & external parties.

57. **Nigerian National Petroleum Corporation**

- The implementation of SAP should be expedited to fully automate key processes especially relating to revenue generation, processes feeding and pulling data to external parties:
 - It should facilitate oversight of group activities and enable operational efficiency for revenue recognition and other internal processes
 - There should be an appropriate interface with selected oil and gas industry stakeholders for supervisory purposes

- The SAP system should have flexibility to Pull & Push information in specified formats to the recommended central Data repository to be administered by DPR
- The NNPC's culture, end user work ethics and employee resistance to change all need to be managed extensively for the SAP implementation to be a full success.
- The SAP implementation should be independently monitored from the Ministry to track and ensure that the strategic objectives are met.

58. **Central Bank of Nigeria**

- A quick win solution would be to study & automate the NXP forms with a view to track shipments, track repatriation of export proceeds, and serve as an early warning system where a company has defaulted.
- The existing CBN systems should be interfaced with other systems in the various relevant agencies in order to provide an overview of all revenue reporting and enable timely reconciliation between organizations:
 - Access to customs, banking and agency activities with respect to shipment documents generation and FX demand
 - Access to industry operational data warehouse for oil & gas production and related information to facilitate supervision and intervention efforts

59. **Nigeria Customs Services**

- The existing NCS system should be integrated with other systems in the various relevant agencies in order to provide an overview of all revenue reporting and enable timely reconciliation between organizations:
 - Automated platform to monitor international trade transactions
 - Document management system for trade documents (i.e. manifests, etc.)
 - Reporting dashboards to monitor revenue and customs performance

1. **Pre – shipment Inspection Agents**

- A quick win solution would be to study & automate the NXP forms with a view to track shipments, track repatriation of export proceeds, and serve as an early

warning system where a company has defaulted. Online forms should be developed for export agents, NCS, DPR as wells as Oil & Gas Exporters to facilitate efficient processing, tracking and review of transactions and information. Specifically :

- o Access to up-to-date information on shipping schedule, planned loading activities, etc.
- o Automated portal for NXP reporting process among relevant agencies (i.e. DPR, exporters, customs, etc.)

1. Full automation of the Petroleum Industry

The PRSTF has recommended a way forward; this recommendation is based on identified critical building blocks and guiding principles to achieve the desired outcome of increased revenue and efficiency for industry players.



Figure7: Building Blocks for achieving full automation to the Petroleum Industry

As part of the automation initiative, one of the main components of the new system is the metering and measurement regimes. The key features of the proposed metering and measurement regime have been identified along with key automation considerations in Figure 8 below.

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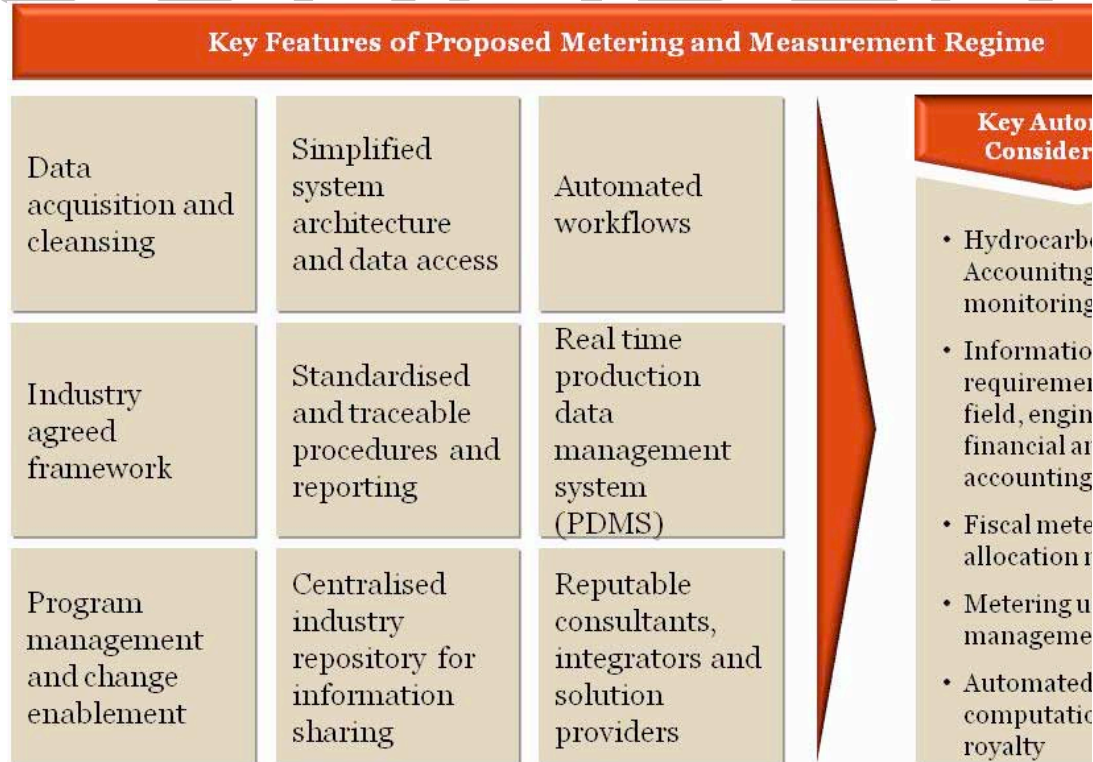


Figure 8: Features of proposed metering and measurement regime

As a number of activities have to take place in order to fully digitise oil production measurement and achieve industry-wide integration, the Task Force recommends a four-phase approach (Figure 9). The Task Force has also identified proposed key activities to be performed during the first phase. The key activities for phases 2 – 4 will be determined upon the conclusion of Phase 1 based on defined requirements and target architecture.

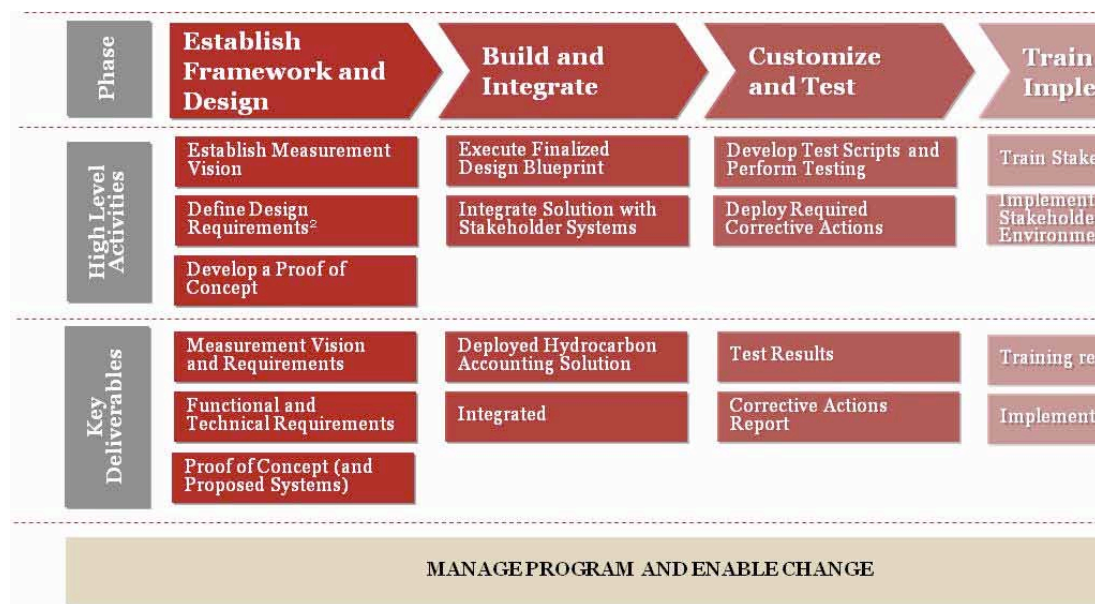


Figure 9: Proposed Four (4) – Phase Approach

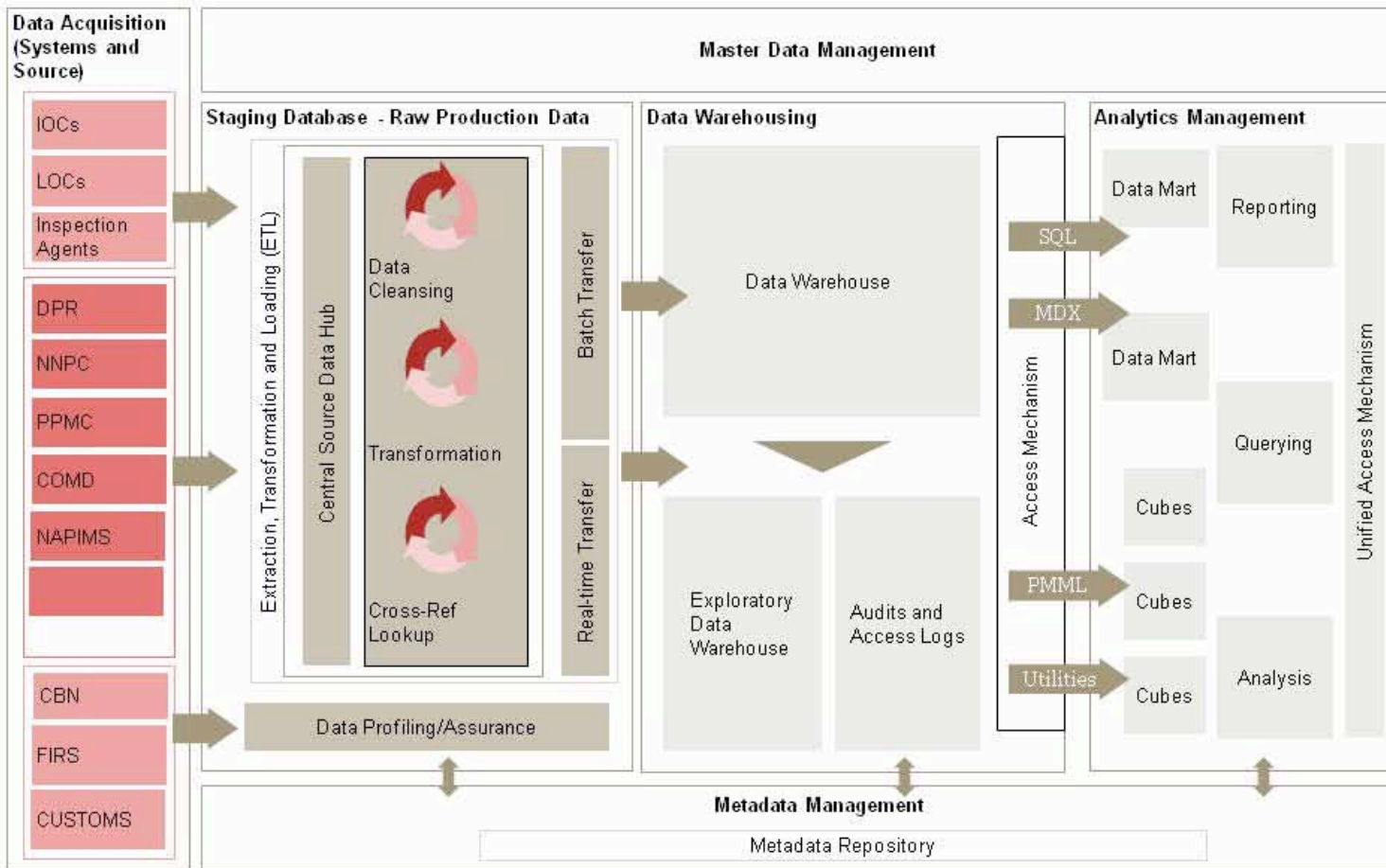
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Finally for Industry wide integration of data and information, the Task Force has proposed a Management Information Architecture as depicted in Figure 10 below.

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Figure 10: Schematic of the Proposed Architecture



Key terms used in depicting the Management Information Architecture have been explained below:

Data Acquisition (Systems and Source)

- Data sources from various stakeholders will be fed into a staging database for the extraction, loading and transformation (ETL) of captured data

Staging Database - Raw Production Data

- Central source data hub feeds the data warehouse and can be availed for operational needs
- Collection of metadata starting from source system extracts to the presentation

Data warehousing

- Data warehouse is the source system for all DSS reports with the exception of operational reports
- Exploratory data warehouse supports long running jobs that require persistent data view
- Use of open standards such as SQL, MDX, PMML to access data warehouse

Analytics Management

- Consolidation of access mechanisms into a single sign-on platform

Strategic Decision Making (Output to Ministry of Petroleum Resources and other Stakeholders)

- Dashboards are created for the use of pre-specified recipients including the Minister of Petroleum Resources and other stakeholders.

Connectivity Infrastructure

All of the above will be underpinned by industry-wide connectivity infrastructure that will ensure the secure and reliable transmission of data from wellheads through field offices to corporate and MPR headquarters. This will be independently implemented with central coordination and project management from professional project managers engaged by the Ministry.