

The Niger Delta: Defusing The Time Bomb

By Jean Balouga*

Introduction

Nigeria is the largest petroleum producer in Africa and the sixth largest producer of sweet crude oil among OPEC member countries. Nigeria is the most populated African country and its size, together with its oil and gas wealth, provides it with both political and economic clout. The advantages of location and the quality of Nigeria's crudes usually yield price premia. Since Nigeria is at some distance from the Middle East, both geographically and politically, the wars and conflicts there which have caused oil supply interruptions in the past decades have had no impact on its production.

Oil is central to the development of Nigeria and constitutes the backbone of the economy. In the early 1990's petroleum production accounted for 25% of GDP, oil exports accounted for over 95% of its total export earnings, and about 75% of government revenue. Petroleum production in fact provides the only immediate hope for the development of the rest of the economy. And while the oil industry received much attention from successive Nigerian governments, and foreign oil companies received the necessary incentives to ensure their continued presence, the land from where the oil was (and still is) prospected and exploited and her people were neglected by successive governments (Khan, 1994:1) and so with reckless abandon.

The Niger Delta region is Nigeria's largest wetland, and the third largest wetland in the world. With a steadily growing population now put at over 40 million people as of 2006, it accounts for more than 23% of Nigeria's total population of over 140 million (National Population Commission, 2006). The Niger Delta has one of the highest population densities in the world, with 265 people per square kilometre. The area, which measures over 2000 square miles, covering nine states in Nigeria's federation, has the highest crude oil resources in the Gulf of Guinea countries. Oil was first discovered in commercial quantity in 1956 at Oloibiri now in Bayelsa State.

But despite these huge resource potentials, it is said that 70% of the people of the Niger Delta region live below the poverty line, less than \$1 a day with a clear absence of the basic amenities. Although well endowed with intelligent human resources as well, the region is also said to have the largest illiteracy and unemployment rates in Nigeria, and one of the largest in the world. A survey revealed that 73% of the households have five or more dependents without a job. Its educational system has been continually collapsing over the years; while the infrastructure vital for quality education is grossly lacking leading to high school dropout rates. The result of this is low skills and un-employability of the region's people. Social life has also been generally low in the region, with lack of health facilities and social amenities. Many years of oil production in the Niger Delta has led to environmental degradation. Gas flaring has seriously affected its ecosystem with human and aquatic life seriously at risk.

Under infrastructural challenges, the region has epileptic or non-existent utilities: there are no roads and potable water is absent. Environmental challenges include coastal erosion and rising sea level, which has led to large portions of the landmass being eroded. Oil and gas production has caused farming and fishing outputs to be on the decline, due to widespread pollution. Pollution of the ground water for instance portends danger both to the present and future generations. Acid rain resulting from gas flaring damages roofs and causes respiratory and other medical problems. There has been a poor impact assessment procedure; increased deforestation and biodiversity loss as well as losses in sewage and municipal solid wastes has occurred in parts of the region.

On the socio-political challenges, the Niger Delta has experienced weak governance; poor service delivery by successive governments at both state and local government levels; lack of transparency, which contributed to making a limited impact on the people's welfare, despite substantial receipts from the federal government. There is also the exclusion of civil society groups, communities and ordinary citizens of the region in the government process. As a result the people have developed mistrust on government's intentions thereby leading to rising impatience with agencies of development. The big issue is lack of co-operation and partnerships between the states of the region and the various agencies of development. For instance many major projects cannot be undertaken by any one state or Local Government Area (LGA) without collaboration among the stakeholders. This wastage through project duplications has depleted funds and made efforts at development inadequate over the years.

* Jean Balouga is a Research Student in the Department of Economics at the University of Lagos.

Consequences

Many of Nigeria's problems can be traced to the advent of oil production

half a century ago. The prize of capturing the flood of dollars accruing to the state turned politics into a no-holds-barred contest that fostered coups and a secessionist civil war in the 1960s. Oil encouraged a culture where political connections rather than business acumen were the key to overnight riches.

Nigerian history shows the passion that oil can ignite. Until recently, the news of attack on petroleum pipelines had been restricted to that of refined petroleum products as some Nigerians try to gain access into the pipelines to steal petroleum products. In the last three years however, crude oil theft and illegal bunkering have become a recurring decimal in oil operations in the Niger Delta. Shell Petroleum Development Company, SPDC, first drew the attention of Nigerians to this ugly development in November, 2000, when it suddenly discovered a shortfall of a staggering 30,000 barrels per day (bpd) in crude oil being pumped from its oil fields to the Bonny terminal. The power of those engaged in this business could be traced to the support they get from the top constituting a powerful ring. Crude spills due to theft in 2007 were 242, but human error caused a mere six incidents while equipment failure was responsible for 32, according to SPDC records. The resort to sabotage and hostage-taking is causing a huge toll on the economy of the country. Sources say sabotage has caused 98 per cent or 35,000 bpd of spills in 2008, compared to about 19,000 bpd in 2007.

Shell has lost count of its woes in terms of cost and revenue loss but the Nigerian government latest worry is what huge funds coming into the coffers of the gangs mean to security and national stability. It is believed that the profit from this illegal oil business is attracting criminals from the West Coast of Africa with a larger network and sophistication, people who have no care for life and safety of Nigerians. In taking oil by force, the gangsters put more money in the hands of arms dealers, open avenues for enemies of Nigeria in disguise, and import evil men who may never go away, even if the local grievances are resolved. Organized crimes are taking root and terrorists may not be far from joining the fray. This is the disaster waiting to happen.

Experts say many factors aid bunkering especially “lax enforcement of law and order”. There have been allegations of compromise and charges of security personnel becoming rich after a posting to police crude.

Attacks on installations, and the general insecurity in the region coupled with the Federal Government’s inability to adequately finance its commitment to joint venture with international oil companies, was causing a drastic reduction in the flow of new investments for upstream projects. If the lack of new investments continued, it could lead to a dramatic decline in the level of upstream activity and reduce Nigerian production by as much as a third within the next seven years.

As of now, Shell is recording a production shut-in of about 200,000 bpd in its western base. When the violent attacks escalated in the western base in 2006, the company lost production of 447,000 bpd. It was forced to shutdown production from its fields in the western Niger Delta while crude loading from the Forcados terminal was suspended. This year, the crisis has forced Shell to declare force majeure on its crude exports from Nigeria twice within two months.

Central Bank figures indicate that the country lost some 600,000 bpd to militant insurgency in 2006, while the Federal Ministry of Finance estimates that Nigeria lost almost US\$ 14.4 billion in tax and royalty income that year. The situation in terms of loss of production and revenue has not changed much this year.

It is said that insecurity in the Niger Delta has led to an astronomical increase in the cost of production. In 1986, the technical cost per barrel of oil was US \$1.80 in Nigeria. Currently, it ranges between US\$8 and US\$10 per barrel.

Reports that at least 3,500 workers would be laid off in the on-going re-organization in SPDC is the latest poignant indication that the continuing instability in the Niger Delta, with incessant attacks on oil installations, is having profound, adverse effects on the Nigerian oil industry.

These developments have led to fears of Nigeria losing its credibility as a steady and reliable supplier of crude oil. Prior to the escalation of the violent campaign of militants in the Niger Delta, Nigeria produced about 2.6 million bpd (mbpd) of oil. But in 2006, the nation lost an estimated N570 billion in revenue as crude oil sales fell by 3.2 percent below the projected target, while petroleum profit tax fell by 10.9 percent. Production capacity saw a drop of 600,000 bpd.

The earliest signals that the campaign of violence in the Niger Delta was beginning to adversely affect the industry emerged in late 2006 when industry reports noted reluctance on the part of some companies in the oil field service sub-sector to continue working in Nigeria. Some oil service companies notably from the United States and Britain were reported to have rejected contracts to do with exploration of oil and gas resources in Nigeria as a result of the incessant kidnapping of expatriate workers in the Niger Delta. Asian companies whose workers were also victims of hostage taking by militants and other

elements in the region were becoming increasingly reticent about accepting contracts from producing companies in the Nigeria upstream sector.

The Nigerian government's gas development and utilization targets are threatened by the problem of insecurity with Shell tying progress of the company's various domestic gas projects to the availability of funds and peace in the region. But with the insecurity which has dogged the Niger Delta this decade, the resultant intermittent loss in production and the gradual loss of confidence of upstream players in the region, its desire to raise the country's realization of that projection appears far from feasible. The situation in the region also frustrates government's desire to raise the country's reserves to 40 billion barrels and producibility to 4 million barrels daily.

It is believed that the Niger Delta issue which is fundamentally political must first be successfully addressed, if security and stability are to be restored in the region. If this is assured, attention could then be directed to the issue of increasing Nigerian assets in terms of oil and gas reserves.

Efforts Made So Far

In the pre-independence era the colonial government tried out some palliatives to address the Niger Delta problems. Some of them were the Willinks Commission of 1958, which proclaimed the Niger Delta as "Special Area" in 1959; and subsequently the Niger Delta Development Board of 1959, the post-independence governments set up the Niger Delta Basin Development Authority (NDBDA) in 1976; the Special Fund for Oil Producing Areas by the Revenue Act of 1981; the Presidential Task Force for the Development of Oil Producing Areas (which approved 1.5% Special Fund for the region).

This was followed with the Oil Mineral Producing Areas Development Commission (OMPADEC) which received 3% oil derivation revenue in 1992. Perhaps the greatest effort was the 13% derivation fund in 2000. There was also a committee under Alexander Ogomudia in 2002, which recommended 50% oil derivation for oil producing states; but this was strongly opposed by elements from the northern states, who saw it as giving too much to the oil communities.

Also, in 2006, the Federal Government raised a committee under Goodluck Jonathan to empower the people of the Niger Delta. There was the Nigerian National Petroleum Corporation (NNPC) emphasis on Local Content Development Initiative in the oil industry. The bill to provide a legal framework for this is still pending at the National Assembly. By far the last gasp to remedy the myriad of the problems in the Niger Delta was the Niger Delta Development Commission (NDDC) established by an Act in 2000. The NDDC was established by former president, Olusegun Obasanjo, with the mandate to develop the oil-rich Niger-Delta region through carrying out projects designed to improve the worsening social and environmental conditions of the region.

On their part, oil companies operating in Nigeria have given scholarships to students in secondary and tertiary institutions, in addition to carrying out projects within their operational environments.

But evidence abounds that these efforts have generally failed to solve the Niger Delta multifarious problems for a number of reasons, some of which are poor crisis management approaches to project conception and delivery, discontinuity in government and policies / programmes inconsistency; grossly inadequate funding; white elephant projects syndrome and duplications; official recklessness and saddening corruption; lack of political commitment; minimal partnering and non-engagement of civil society groups; weak coordination and, therefore, low synergy between tiers of government and development agencies. Up till now there has been lack of a coherent and integrated master plan for a holistic, all-inclusive development of the Niger Delta.

By far, the failure by governments in the country to adequately attend to the Niger Delta problems, coupled with a despoiled environment and traditional livelihoods have combined to throw up varied reactions from the people. The youths mainly have been formed to vehemently agitate for a share in the oil profit. In the last couple of years groups such as the Movement for the Emancipation of the Niger Delta (MEND), Niger Delta People's Volunteer Force (NDPVF), Martyrs Brigade, Coalition of Militant Action in the Niger Delta, Niger Delta People's Salvation Front, Joint Revolutionary Council and Militant Camps Across the Niger Delta, among many others, have carried out violent activities against companies, destroying their facilities and installations. The official response has been the deployment of troops and police. For instance, since 2004 the Joint Military Task Force (JTF) was deployed to states like Rivers, Bayelsa and Delta combating militancy, whose activities have combined to cause Nigeria's crude oil output of drop from 2.4mbpd to about 1.8mbpd since the second quarter of 2008, thereby moving Nigeria's crude oil production into second position in Africa after Angola.

The Way Forward

The heightened violence in the Niger Delta, the widespread and telling damage to oil and gas installations; the resultant negative (local and international) economic impact as well as the continued life of deprivation that the people of the region are undergoing, demand an urgent and definitive solution to the crisis.

There was optimism at the outset of the Musa Yar'Adua administration that the constructive engagement strategy announced by the President would succeed. It failed. It is now time to explore other options outside the basic Yar'Adua peace strategy. New ideas are emerging from concerned quarters for an all-time resolution of the crisis. The ideas relate to the charting of a path for sustained development and the implementation of projects and programmes that will redress the abuses of the past and have positive impact on the quality of life of the people and the environment.

Promoters of the ideas believe existing structures such as the Niger Delta Development Commission, the Niger Delta Peace and Security Strategy and the Niger Delta Coastal State Council could be utilized to implement workable strategies with the Niger Delta Master Plan providing a good framework. They, however, point out that for any strategies and solutions to work they must take account of the causes of degradation and insecurity in the region. They must also appreciate the major features of the existing reality in the region and the economic consequences of the prolonged state of crisis. The strategies must be such that attack root causes of disenchantment while promoting programmes and projects that empower the people to have a meaningful life.

Within the framework of Jacoby's (1973) social environmental model which explains corporate behaviour as a response to both market and non-market forces that influence costs, revenues and profits, corporate concern with social responsibility is viewed as consistent with enlightened self interest. However, profit seeking corporations cannot be expected to absorb all the costs to society that are incidental to their production activities unless government regulations or fiscal policies encourage them to do so.

References

- Green, M. (2008): "Crude Realities"; BusinessDay, 1 September 2008; pp.47-48
- Ike-Okoh, C. (2008): "Guiding Niger Delta Entrepreneurs into legitimate operation"; BusinessDay, 18 August, 2008, p.12
- Ignatius Chukwu (2008): "Oil communities bubble with skills and new competences", BusinessDay, 21 July, 2008, pp.42-43.
- Jacoby, N.H. (1973): *Corporate Power and Social Responsibility*; MacMillan Publishing Co. Inc., New York, USA.
- Khan, S.A. (1994): Nigeria: *The Political Economy of Oil*; Oxford University Press, Oxford; pp. 1-2.
- Obasa, R. (2007): "Fresh Ideas Emerge for Niger Delta"; Nigeria's Oil and Gas Monthly, Vol.13 (12), pp.24-27.
- Obasa, R. (2008): "Time to Halt the Decline"; Nigeria's Oil and Gas Monthly, May, 2008; pp.24-27.
- Obasa, R. (2008): "Niger Delta Crisis: Out-of-the-box Solutions"; Nigeria's Oil and Gas Monthly, June, 2008; pp.17-19.
- Ogunfuyi, R. and L. Adefioye (2005): "Crude oil theft: Who's fooling who?" Nigeria's Oil and Gas Monthly, Vol.11(2); pp.24-27.
- (2008): "Consequences of blowing up oil pipelines in the Niger Delta" BusinessDay, 25 July, 2008, p.59.
- (2008): "Challenges of providing social and environmental solutions in Niger Delta"; BusinessDay, 21 July, 2008, pp.58-59.
- (2005): "Niger Delta: The Search for Peace"; Nigeria's Oil and Gas Monthly, Vol.11 (2); pp.22-23.
- (2008): "SPDC's discreet survival strategy in the Niger Delta"; BusinessDay, 26 August, 2008, p.41.