Nigeria: Gaunt Energy

By Olugbenga Adesanya*

Nigeria, a net importer of fuel products, a global leader in gas flaring, distributing 3,200 megawatt of electricity through a superannuated transmission network to 40% of 138,283,240 citizens, has to climb rapidly from a factor, to an efficiency driven economy in less than twelve years before attempting transiting into an innovation driven economic class presently occupied by thirty one nations including the G8 countries whose stage of economic development makes Nigeria a pedestrian economy yet to overcome political and executive meddlesomeness. The least case rescue scenario recommends an annual energy sector investment level of US $20 billion until 2030, addition of 25,000 mw of electricity yearly, economic pricing of energy products and services, full privatisation of the energy sector and an innovative industrial policy that transcends those of the BRIC countries i.e Brazil, Russian Federation, India and China. Gaunt energy infrastructure remains a major impediment to growth in a country where 1% of the population benefit from 80% of hydrocarbon revenue, 70% of inhabitants are below the thick poverty line, fuel subsidy consumed N74 billion or 1.42 % GDP in 2003 rising to N450 billion or 3% of GDP at the end of 2007, gross fixed investment standing at 24.9% of GDP (2007), a public debt representing 14.5% of GDP and a current account balance of US $1.205 billion (2007). Fifteen developing countries including Nigeria are more vulnerable to oil price increases as the terms of trade effects of the joint food and energy price hikes since January 2007 are beyond 10% of GDP thus limiting macroeconomic flexibility. The country's status as the eleventh largest producer of crude oil in the world, numero uno in Africa and a valuable member of the Organisation of Petroleum Exporting Countries (OPEC), has not translated into an emerging and efficiency driven economy, a prerequisite for a higher quality of living.

Global Competitiveness: The UNDP ranking of 159 out of 177 economies and a global competitiveness 2007 ranking of Nigeria as 102 out of 128 scoring 3.5 on a scale of 1-7 should press home the need for economic leapfrogging in our march through the leading economy in Africa, surpassing 45th placed South Africa out of 128 economies and transforming into a full fledge industrial innovation driven economy by acquitting our dear nation, Nigeria, on the four factor driven economy basic requirements of institutions, infrastructure, macroeconomic stability and health/primary education by 2012 thus paving the way for an aggressive transition that would focus strongly on the six key efficiency driven enhancers namely, human capital development, goods and services market efficiency, labour market efficiency, enabling financial markets, appropriate technology and market development from 2012 till 2020 to compete favourably with Mexico, South Africa, and the BRIC economies.

Millennium Development Goals: Growing and unpredictable food and fuel prices would definitely take inflation to intolerable limits in real terms and cut down on fiscal expenditures for Nigerians living under the poverty datum. This development would hinder global economic stability and growth and could threaten the MDG of cutting poverty by 50% by 2015, as growth achieved in Nigeria as a result of a decade of reforms could get erased.

This is worrisome as the fast growth of the global economy in the past five years has handcuffed oil market capacity pressurising the market to ride on the crescent of price increases. From 2001, oil price moved to $140 from $20 per barrel within six years making oil prices higher in real terms than any period in the 21st century. Market tightness could persist in the nation due to a crawling supply response scenario.

Against this backdrop, Nigeria should reactivate her energy market along the lines of investment friendliness, parity pricing to recover cost, zero subsidy program spread over three years till 2012 that would prove more sustainable than the Multi-Year Tariff Order proposed to take off in January, 2008 with a huge subsidy mandate that appears more socialist than Gasprom gas supply within the Russian federation, to ensure efficient and disciplined exploitation of her hydrocarbon resource endowments, full private sector ownership, and a huge renewable energy development program for the key shift towards energy security and sustainability needed to power and fire an industrial economy. An ambitious renewable energy program that transcends buying ethanol technology approaches from the likes of Brazil should be put in place by 2010 while future energy researches covering in part, Fuel Cells technologies, Hydrogen economy and even Hydrates development possibilities should be flagged off on the journey to future energy supply security.

Gaunt energy infrastructure: Nigeria's modern energy products and services

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consumption mix has oil at 58%, natural gas at 34% and hydro power at 8%. Coal, largely bituminous, nuclear and other renewable sources are yet to contribute to the mix. As of January 2007, proven oil reserves stood at 36.2 billion barrels with plans to expand to 40 billion barrels come 2010. Most of the reserves occur within the restive Niger Delta and offshore in the Bight of Benin, Gulf of Guinea and Bight of Bonny. Nigeria's production capacity (ignoring shut ins) of three million barrels daily is split as two million onshore and the balance of one million offshore. Of the 22 private refinery licences issued, none has come on stream, whilst the hindered and ill managed four government owned refineries cannot satisfy 35% of local fuel needs. Natural gas utilisation projects should be encouraged in addition to liquefied natural gas and other planned ventures. The time is ripe for fast tracking the Lagos – Algiers Gas pipeline project expected to supply homes and industries in Europe, a vertical colleague of the Chevron led West African Gas pipelines whose combination should ensure regional/continental market development as well as tackling gas flaring.   Darkness almost took over as the nation battles to share, at the worst of times, 800 mw of electricity, forcing debilitating own power generation by industrialists, the informal private sector businesses, and households fuelled by out of reach diesel oil which by global standards should be cheaper than premium motor spirits (PMS). Power outages and system collapses are regular features of the electricity landscape. With total installed electricity capacity of 5.9 gigawatts, 19 billion kilowatt-hours optimal consumption and a production level of 23 billion kilowatt-hours, the power generation fuel source mix should expand to include nuclear capabilities, solar, geothermal, wind and a coordinated small hydro revolution as opposed to the existing twin sources of interruptible thermal and highly inefficient hydro power installation. By its own admission, to raise earnings from natural gas exports to 50% of oil revenues by 2010 excluding the existing and planned LNG ventures, an estimated $15 billion private sector investments should be injected into an economy classified as one of the most difficult territories for doing business.

Limiting Factors:The challenge is in freeing the investment climate of Nigeria from the shackles of fourteen most limiting investment factors which include access to finance, inadequate infrastructure, corruption, policy instability, inflation, crime and theft, bossy and inefficient bureaucracy, unresponsive governance, poor labour work ethics, clumsy foreign currency regulations, inadequately educated workforce, multiple taxation, tax regulations and restrictive labour regulations.

Encumbrances: Pipeline vandalism, kidnappings, and sustained militant occupation and blowing up of oil facilities resulted in about 587,000 bbl/d crude oil shut-in with 115,000 bbl/d happening offshore. Since December 2005, an estimated $22.5 billion export revenue has been lost to shut-in oil production; handy money that could have been injected into industrialising the largely agrarian economy. Militancy in February 2006, made Nigeria's domestic refinery capacity prostrate, forcing a near total reliance on imported fuels for mobility, industrial and household consumption. The virulent militant attacks should become one of the major investment risk factors to be considered by the international oil corporations and other corporate existences in the troubled hydrocarbon fields of the Niger Delta.

Starting Blocks: The proposed reforms in both the oil/gas and power sectors should be reviewed to avoid a hapless situation in which direct state control in the commercialisation plans for the National Oil Company and the reversed Power Holding Company of Nigeria would yield so little dividends that would not match the aspirations of a leadership that hopes to belong to the big economy league globally. What is needed is not state control of the economy but liberalisation whose aim should be to increase net state revenue through transparent asset sales and divestitures of fiscally failing state companies. A three year delay of privatisation of energy infrastructure as announced recently should be reworked as it could send wrong signals to the international business community in terms of policy consistency. The route to an E20 economy in 2020 requires a well articulated sustainable energy development program that is aggressive, ambitious and symbiotic enough to attract massive investment and technology achievable only through private sector led local and offshore business partnerships, This is the avenue for prosperity and wealth creation for Nigeria on the critical path of rediscovery and undiluted resolve to grow her economy on the wheels of modern energy products and services supply security and sustainable energy infrastructure able to induce a consistent two digit annual growth rate. E-branding might not be enough, perspective planning and globally tenable strategies backed with appropriate political will would ensure Nigeria births on the shores of competitive economies as adequate energy resources are exploited and the ensuring products and services are available and accessible via a robust, largely private sector run energy infrastructure.