International Oil Companies (IOCs) are selling onshore assets in the Niger Delta at an accelerated rate, and leaving without adequately addressing the legacies of environmental pollution, social strife, and governance problems created by their operations over the past 60 years.

Domestic oil companies (DOCs) are taking over, with less experience and resources. There are already signs that the environmental, social and governance (ESG) performance could be worse, so the problems that communities face will continue, and they will have fewer options to seek accountability and justice in international courts.

The Federal Government of Nigeria (FGN) is facilitating the divestments, and doubling down on oil and gas, when in reality, there is an urgent need to design strategies to manage the industry’s decline, take actions to protect communities in the Niger Delta, and hold IOCs accountable for their historic liabilities.

Introduction

Nigerian domestic oil companies (DOCs) are taking over the country’s onshore oil and gas industry, while international oil companies (IOCs) are steadily moving offshore, or out of Nigeria altogether. This transition has justified a lot of attention, since the industry has historically been immensely profitable for IOCs and the Federal Government of Nigeria (FGN), but has failed to improve economic, social, and environmental wellbeing for the majority of citizens in the Niger Delta. This report discusses emerging questions around the legacies of IOCs, and whether DOCs can improve on their performance, or if new dynamics could emerge, exacerbating the impacts on citizens and the environment in the Niger Delta.

The first section depicts the trend of investments and divestments. Recent statements by IOCs have caused alarm, so it is important to get a clear picture of the rate of divestments, and the proportions of ownership and operatorship in the industry.

The second section discusses the changing context driving divestments. The third and final sections discuss some of the potential implications of this transition for communities in the Niger Delta, and Nigeria.

Given the significant impact of this changing dynamic, a comprehensive and urgent discussion is needed - among citizens, government, civil society, the international community, the oil and gas industry and others - on what needs to be done to ensure historic injustices experienced by communities are addressed, that an exit from operations is done responsibly including proper provisions for clean-up and decommissioning as relevant, and that whatever comes next does not result in a worsened situation for host communities.

This paper aims to contribute towards discussions, and we welcome comments and contributions from others on this topic. Contact SDN at: info@stakeholderdemocracy.org
**Section one: Divestment trends**

Between 1990-2010, there were three broad waves of investments that paved the way for reduced IOC participation onshore, and an increased role for DOCs. The first took place in the 1990s, as offshore licenses were granted to politically affiliated business people and IOCs at rates that were “almost too good to be true”. Most sat on these assets until they became more valuable in the 2000s. The second wave was the sale of marginal fields, first in 2001, and again in 2021. The bidding was open solely for DOCs, and led to their entry into small fields in larger blocks that were thought to be no longer productive. The third was the IOCs’ divestment from major onshore blocks, which continue to date.

Between 2010-2021, 26 major divestments were finalised, with all but one involving the sale of equity from IOCs to DOCs. Despite this huge transfer of assets to DOCs, IOCs continue to hold the majority of equity and operatorships in OMLs – but only marginally. In terms of equity, while actual values are not publicly available, a simple average of equity share shows that IOCs hold an average of 32.0% equity per concession, compared to 31.5% held by DOCs. This means that any sale from an IOC to DOC will tip the balance of equity share to a DOC majority.

In terms of operatorships, IOCs are involved in the operation of 47% of OMLs, while DOCs are involved in 45%. If IOCs hand over operation to DOCs in two blocks, then they will cede their lead as operators too.

The overall divestment trend is in line with the strategy of IOCs to move away from onshore production. There are 113 oil mining licenses (OMLs) in Nigeria – split almost evenly between onshore and offshore (57:56). Out of all 26 sold in the last 21 years, more than three quarters (77%) were located onshore. Delta State witnessed the highest number of divestments, with all of the ten blocks divested in the state sold by the end of 2014, indicating a strategic decision by IOCs to rapidly move out of the state, possibly in response to intense militant activity in the 2000s.

In line with the strategy of IOCs, and with fiscal incentives heavily stacked in the favour of DOCs, it is inevitable the latter will become the majority operators of oil blocks in Nigeria in the coming years. Divestment of onshore blocks remains a strategic priority for most IOCs. Several assets are advertised on the market, there are ongoing negotiations for others, and more are set to enter the market, including six OMLs set to expire before the end of the current presidential administration in 2024. IOCs are also increasingly looking to sell their offshore assets, so DOCs may also extend their operations here too.

---

**Fig. 1. Average percentage equity per concession for domestic, international, and national oil companies.**

**Fig. 2. Terrain of oil blocks divested in Nigeria (2011-2021)**
Section two: Drivers

**Economic drivers**

Arguably, the primary factor underpinning divestment is the deteriorating business case. On the domestic front, operational costs are mounting, and internationally, fossil fuel projects are becoming increasingly unfavourable among investors and insurers.

The fixed costs of operating in the Niger Delta have always been high. But over time, additional costs have emerged, including private security, pipeline repairs, and losses from crude oil theft. The IOCs have endured these, but it has reached a point where the business case is becoming harder to justify. Moreover, prospects for new costs are on the horizon, including long overdue upgrades to the aging infrastructure used to extract and transport crude oil to export terminals. Meanwhile, to limit emissions and global heating, policy and market forces are driving the ‘decarbonisation’ of the global economy, and transition to cleaner energy sources. Fossil fuels will need to remain in the ground to achieve these targets, so investments are at risk of losing value, or becoming ‘stranded assets’, no longer able to earn an economic return. All these factors are forcing the IOCs to evaluate their portfolios, and cut back on high cost and risk ventures – two factors that Nigeria scores highly in.

**Social drivers**

The OMLs divested are mainly onshore, and overlap with large populations, in thousands of urban, rural, and riverine settlements. The IOCs have not had an easy time managing their relationships with locals, and the entrenched hostilities towards their operations across the region are only worsening.

In attempts to establish a social license to operate, IOCs provide corporate social responsibility projects. But in the widespread absence of services provided by the government, communities have become increasingly dependent on these projects to meet their fundamental needs. This fortifies the IOCs position of power, but also burdens them with expectations. As a way of handling these demands, IOCs formed complicated, flawed, and opaque relationships with local leaders and gatekeepers. This reinforced a system where IOCs can purchase the social license to operate at the lowest price, but where elites can capture rent streams, divert resources from intended beneficiaries, and sponsor violent contests to retain power. Staying onshore would require further funding via CSR projects and opaque channels of power, which IOCs are increasingly struggling to fund and manage effectively.

**Security drivers**

Since oil and gas production began, the Niger Delta has been characterised by constant low-intensity conflict, escalating in waves and pockets, that are intimately linked to the operations and revenues of IOCs. As a result, the IOCs are often at the centre of conflicts, and while they have endured several waves, overall insecurity continues to rise, and the government of Nigeria shows few signs of controlling the situation.

Manifestations of insecurity that have a direct impact on operational costs and risks include pipeline attacks, crude oil theft, the artisanal refining industry, kidnapping for ransom, and sea piracy and robbery. While IOCs argue the insecurity is driving them to divest, they arguably perpetuated many of the issues they are struggling to tolerate. For example, IOCs typically award service and security contracts to companies associated with local elites and conflict actors, despite their involvement in community conflicts, attacking pipelines, syphoning crude oil, or other acts of militancy against the IOCs. By offering short-sighted palliatives for peace, some worth millions of dollars, the IOCs have catalysed conflict, complicated the local political economy, and the operating environment has collapsed around their operations.
Environmental drivers

Environmental impacts of oil production are an important factor in the social and security drivers outlined above, and are also starting to compound the financial pressure on IOCs to divest.

The IOCs have historically evaded cleaning up their pollution and compensating impacted communities, which has fuelled division and conflict. But this is changing, and following legal judgements in the UK and the Netherlands, there is an increased likelihood that communities could hold IOCs accountable for clean-up, remediation, and compensation for oil spills. In addition, as highlighted earlier, the extensive network of pipelines and other assets is aging, and in dire need of maintenance and upgrades. But rather than diffusing this environmental and financial timebomb, they are taking the easier route of passing this responsibility to others through divestment. On a global scale, there is mounting pressure to change corporate behaviour in line with carbon targets. As a result, many IOCs are being forced to outline plans to cut down production, and Nigerian assets are prime candidates, so this is speeding up their exit.

Political and legal drivers

The political and legal context has been tumultuous in Nigeria since IOCs started operations sixty years ago. Historically, the policy chaos arguably favoured the IOCs. But ironically, it has started to hamper operations and investments into the sector, making other countries far more attractive for investment.

Weak governance, and by extension, the regulation of operations, enabled IOCs to maintain favourable fiscal arrangements, and avoid accountability for environmental and social violations. But as a result of weak governance, political decision-making and legal frameworks for the sector are inconsistent, and lag behind other countries, stunting development, causing uncertainty, deterring investors, and encouraging transfer of investments overseas. The recent handling of a number of industry bills – especially the Petroleum Industry Bill and another affecting deep offshore contracts – brings these issues into sharp focus, and the uncertainty is surely factored into divestment decisions as a risk.

Section three: Implications

Economic implications

As IOC divestment continues, a key question is how this will impact investment and production in the Nigerian oil and gas sector, and by extension, revenues accrued by the FGN, and spending in host communities. A less productive oil and gas sector could have significant, widespread economic impact in the country, as the FGN relies on revenues for around half of its income, almost all its foreign exchange, and for the functioning of a political economy heavily based on patronage. This is an opportunity to focus on a clean energy transition and economic diversification, but the possibility of declining revenues will need to be reckoned with and would have real-world consequences for those living in the Niger Delta.

The DOCs do not currently have the same ability as IOCs to raise capital for operations, and many are already overburdened by debt, which indicates that production at existing fields, and expansion of new projects, could reduce. In the Niger Delta, significant reductions in revenues and operating budgets would have a number of impacts, including reduced allocations for federal and state government budgets, services and projects; less resources for the management of environmental impacts, maintenance and decommissioning of oil and gas infrastructure; and even an increased risk of political and violent conflict as actors vie for control of ever reducing resources. This could - and should - be seen as an opportunity to reduce dependence on the sector, and turn attention towards supporting other sectors to diversify the economy, align with the global transition towards renewable energy, and remediate environmental damage left by operations.
Yet the current policy direction suggests the FGN is doubling down on fossil fuels, for example, the NNPC set a target to increase oil production by 50% over ten years, and simultaneously expand gas production and utilisation under a ‘Decade of gas initiative’. As IOCs divest, the FGN is welcoming DOC investments, but this is an irresponsible short-term fix that increases exposure to an inevitable decline in fossil fuel economics, and by extension the health of national finances.

**Social implications**

With divestment, the IOCs are abandoning the complex relationships developed with residents. This raises questions around whether DOCs can handle these social dynamics better, avoid replicating the divisive systems of engagement, and credibly establish the social license to operate.

At present, examples can be found at both ends of the spectrum, with some DOCs receiving plaudits for their approach to community relations. They argue they know the communities better, and are therefore best placed to form equitable relationships, cooperate, and give host communities the benefits they need and demand. On the other hand, many DOCs have faced similar protests and accusations as the IOCs, especially following a few years after entry. With this in mind, DOCs may be able to provide early benefits for communities to purchase the social license to operate, but struggle to meet mid-to-long-term promises, especially if they are less productive and profitable. At this early stage, there are open questions around how this trend affects host communities, and further research is needed in communities to understand how their experience has changed since DOCs took over from IOCs.

**Security implications**

The DOCs have reportedly had just as many problems with security as the IOCs had previously — and it has cost them a lot to deal with. IOCs learnt lessons from developing comprehensive security structures to protect their assets and personnel globally. DOCs on the other hand are just starting, so will need to develop their own strategies, adjusted to the different risks, such as smaller operations, with fewer expatriates, and with less financial resources available to placate communities and hostile groups.

What is clear is that DOCs have to pick up where IOCs left off - which includes funding flawed private security models, and tolerating disruption to operations from communal conflict and pipeline attacks. Without international stakeholders sensitive to conduct, DOCs may also be more willing to support security responses that violate human rights. But these factors were established by IOCs, so there may be little direct change. The most worrying implications could come from second order effects, triggered by other changes outlined in this report, including increased pollution or disruptions to patronage flows. On a wider scale, if the DOCs fail to sustain productivity, then it would reduce contracts, employment, and CSR opportunities, as well as the amount paid to the FGN, and thus available for investment into the region. This could activate community protests, and energise local conflict actors to orchestrate attacks against the DOCs.

**Environmental implications**

At least two major questions arise from IOC divestment: 1) what happens to legacy oil spill pollution that is yet to be properly cleaned-up? and 2) how might environmental practices and impact differ under DOCs?

On the first question, legal liability for historic pollution should still remain with IOCs, even after divestment - although there are ways in which IOCs could theoretically transfer this liability through sale of their subsidiaries. However, as IOCs leave, the Niger Delta may become ‘out of sight, out of mind’, and the international spotlight on the region could potentially diminish and reduce pressure for retroactive clean-up. On the second question, current data suggests we could see yet worse environmental performance by DOCs than IOCs. Our analysis shows that IOCs had the highest
number and volume of spills, but they perform better than DOCs when compared on a per-unit of production basis. This also relates to the aging infrastructure and the ability of DOCs to raise sufficient capital to maintain and replace it. Other important questions relate to transparency and regulation. For example, for all the failings of the IOCs, companies like Shell and Eni regularly publish data on oil spills from their operations - at present, it is hard to imagine many DOCs following similar practices, especially where the kind of shareholder activism and trends toward Environment, Social and Governance (ESG) investing may be lower. In a context where a number of operators may have weaker environmental management practices, and even fewer internal checks and balances on their operations, the need for stronger regulation and proper funding of a regulator - which has been urgently needed for decades - is perhaps even more important than ever.

**Political and legal implications**

Divestment is accelerating just as legal, political, and investor pressure is mounting on IOCs to improve their ESG, leaving DOCs that face less scrutiny in their internal governance and external engagements.

A major implication will be the lack of independent checks and balances in areas such as financial transparency, which have become mandatory for IOCs registered in the UK, EU, and other jurisdictions. These are not required of DOCs in Nigeria, and it is unlikely they will voluntarily enforce these standards on themselves. Similarly, as legal jurisdiction will sit solely in Nigeria, the prospect for communities to hold companies to account is diminished. Their only option will be to file cases in the domestic legal system, which has repeatedly failed to issue judgements or enforce orders against IOCs. Without the insight that transparency brings, and attention targeting international companies generates, activists, civil society, and the media will find it harder to attract attention to environmental and human rights abuses in the Niger Delta, which will further diminish the power of communities to hold DOCs accountable.

**Conclusion**

IOC divestments have been underway for decades, and we are now on the verge of majority DOC operatorship and ownership of OMLs. Yet the IOCs leave many problems behind, which may be more challenging to address with DOCs at the helm.

The DOCs have weaker policies, which could cause environmental pollution to worsen, new security dynamics to emerge, and enflame contests with communities who are used to receiving extensive CSR packages. The DOCs have accumulated large debts, which makes it harder to fund operations and other costs of doing business. They also lack the same level of scrutiny as internationally registered companies, and may therefore be more likely to engage in actions that test social and environmental rights.

Yet even if the sale of assets continues, the IOCs will remain major players in the sector, as they control the export and processing terminals, which all oil and gas must pass through. In addition, international legal action is starting to hold them accountable for past environmental pollution. With this in mind, the attention for social and environmentally responsible behaviour must remain with the IOCs, as they have a huge role to play in remediating their toxic legacies, and mediating the transition.

One of the most important factors in the transition is the role of the FGN. Better policies and regulators are needed to support the DOCs to establish improved operations compared with their predecessors. But the bigger issue is that the sector needs to be de-prioritised, with actions to rebalance the economy before it is too late. Instead of incentivising further investments into the terminally declining sector, the FGN should be re-investing capital into non-fossil assets, and creating incentives to stimulate sustainable growth.

*To read the full report, go to our website www.stakeholderdemocracy.org*
SDN supports the efforts of those affected by the extractives industry and weak governance. We work with governments, companies, communities, and other stakeholders to ensure the promotion and protection of human rights. Our work currently focuses on the Niger Delta.

Email: info@stakeholderdemocracy.org
Website: www.stakeholderdemocracy.org
Twitter: @SDNNigerDelta

Readers are encouraged to reproduce material for their own publication. As copyright holder, SDN requests due acknowledgement and a copy of the publication. For online use, we ask readers to link to the original resource on the SDN website. The views presented in this paper are those of the author(s) and do not necessarily represent the views of SDN or our partners. This work is licensed under a Creative Commons Attribution Non-Commercial License (CC BY NC 4.0).

© Stakeholder Democracy Network 2021.

SDN reserves intellectual property rights for information and materials provided under this policy, including those materials distributed under an open license.