Divesting from the Delta

Implications for the Niger Delta as international oil companies exit onshore production

Published October 2021

SDN supports those affected by the extractives industry and weak governance. We work with communities and engage with governments, companies and other stakeholders to ensure the promotion and protection of human rights, including the right to a healthy environment. Our work focuses on the Niger Delta.

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Abbreviations

CAPPA	Corporate Accountability and Public Participation Africa
CEO	Chief Executive Officer
CSR	Corporate Social Responsibility
°C	Degrees Centigrade
DOC	Domestic Oil Company
DPR	Department of Petroleum Resources
EITI	Extractives Industry Transparency Initiative
ERA/FoEN	Environmental Rights Action/Friends of the Earth Nigeria
ESG	Environment, Social, and Governance
EU	European Union
FGN	Federal Government of Nigeria
FSPO	Floating Production, Storage, and Offloading vessel
GBP£	Great Britain Pound, with the exchange rate £1:₦600 for this report
HOMEF	Health of Mother Earth Foundation
IOC	International Oil Company
JV	Joint Venture (contract type)
NEITI	Nigeria Extractive Industry Transparency Initiative
NGN₦	Nigerian Naira
NGO	Non-Governmental Organisation
NM	Nautical Miles
NNPC	Nigerian National Petroleum Corporation
NOC	National Oil Company (i.e. NNPC and subsidiaries)
OML	Oil Mining License
PIB	Petroleum Industry Bill
PSC	Production Sharing Contract
SDN	Stakeholder Democracy Network
SPDC	Shell Petroleum Development Company
SR	Sole Risk (contract type)
UK	United Kingdom
USD$	United States Dollar, with the exchange rate $1: ₦411 for this report
USIP	United States Institute for Peace

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Executive Summary

Divestment from onshore oil and gas operations in the Niger Delta by international oil companies (IOCs) is accelerating. This is a major shift in the Nigerian oil and gas industry, requiring an equivalent shift in the thinking and actions of government, civil society and the international community. This report assesses the drivers of this dynamic, and analyses some of the existing and emerging implications, particularly for the Niger Delta and its citizens, with the aim of provoking and informing action on this issue. In summary, our analysis shows that:

IOCs are leaving toxic legacies of environmental pollution, social strife, and economic damage in the communities where they operated. Domestic oil companies (DOCs) are taking over, and they will soon become the dominant owners and operators. However, they are starting operations from a difficult position, with less experience and resources to handle the toxic legacy of IOCs, which raises a number of concerns around the next phase of oil and gas production in Nigeria.

IOC divestment will not mean an end to the challenges communities face. There are open questions around how DOCs will perform on environmental, social, and governance (ESG) issues in comparison to IOCs. There are signs that DOCs with high levels of local ownership can get off to a good start on community relations, however unfulfilled promises and poor practices are also easy to find. Past SDN research shows that DOCs pollute more for every barrel of oil they produce, and may not face the same pressures from shareholders and the FGN to improve their practices, or be held to the same standards of transparency that international initiatives require.

IOCs are divesting for a range of reasons, including insecurity and oil theft, that ultimately contribute to the high costs and risks of continued operations. They publicly disclose that these issues are making their Nigerian assets a divestment priority when rebalancing their international portfolios. But IOCs have played a role in creating the conditions which perpetuate many of these issues over the past sixty-five years of operations onshore across the Niger Delta.

Recent progress in the ability of communities to seek justice for historical oil spills could be reversed. International courts are starting to hold IOCs accountable for past spills, but will lack jurisdiction over DOCs solely registered in Nigeria, or potentially over the subsidiaries of IOCs if they are sold, an option Shell is exploring. The only option for communities will be the Nigerian legal system, which has repeatedly failed to enforce judgements of this kind.

As the global energy transition takes shape, the Federal Government of Nigeria (FGN) remains heavily reliant on oil and gas revenue, and is prioritising further growth, through a domestic oil and gas industry which is highly indebted. This is out of step with Nigeria's climate commitments, distracts from efforts to diversify the economy, and exposes the FGN to a very high level of risk. If DOCs cannot maintain the production levels of IOCs, for example, this will put a strain on government finances, and an oil-fuelled system of patronage which maintains a delicate peace.

The divestments are a reminder that the global economy is decarbonising, and hydrocarbon resources will be worth less in future. The FGN needs to redirect resources towards diversifying from oil and gas, investing in renewable energy, and standing by impacted communities as they seek justice from the IOCs. If, however, the FGN continues forging ahead on the current path, the role of an independent environmental regulator for the oil and gas sector is needed more than ever to monitor the transition, and enforce safeguards for communities and the environment.

Meanwhile, the IOCs must not be permitted to simply 'buy their way out' of the problem, for example by using subsidiaries to agree cash settlements with communities. They have a responsibility to fund environmental remediation, decommission disused infrastructure, and pay fair compensation for other damages, whilst ensuring proper consultation and thorough consideration of community needs throughout this process.

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 been immensely profitable for IOCs and the Federal Government of Nigeria (FGN) over the past sixty years, but has failed to improve economic, social, and environmental wellbeing for the majority of citizens in the Niger Delta. This report will discuss the legacies that IOCs are leaving behind, 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.

Globally, divestment campaigns have recorded enormous achievements by encouraging investors - such as pension funds, investment banks, and universities - to withdraw an estimated USD$14.6 trillion in funding to the extractive industries.[1] As a result, the IOCs are changing their operations, and divesting from oil and gas fields worldwide. In Nigeria, and the Niger Delta specifically, there are also a host of other factors that are driving divestment by the oil majors. Yet while this is reducing the role of the IOCs in the sector, it does not guarantee that fossil fuels will remain in the ground. In Nigeria, despite the departure of the IOCs, the government is doubling down on oil and gas, and is incentivising DOCs to lead the expansion of the industry. The environmental, social, and governance (ESG) problems that the IOCs created are not going away with their exit, but rather the entry of new companies is creating new dynamics for host communities to confront, entrenching Nigeria's dependence on the oil and gas sector, and complicating the global effort to decarbonise.

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 this, and we welcome comments, discussion and contributions from others on this topic (contact SDN at: info@stakeholderdemocracy.org).

Outline of the report

The first section of this report will depict the trend of investments and divestments in Nigeria. For more than sixty years, operations were dominated by IOCs, who were the only ones with the technical expertise and financial capacity to run projects. But starting around thirty years ago, the IOCs started to invest in offshore operations, and around ten years ago, they started to divest from onshore operations. Recent statements by IOCs on their departure have caused alarm among civil society because of what this might mean for holding them to account for the environmental and social damage caused to host communities. Therefore, it is important to get a clear picture on the rate at which IOCs are leaving, and what proportion of the industry remains under their control.

The second section will discuss the changing context driving divestments. The IOCs state that increased costs, uncertainty, and risks, especially at the domestic level, make business unpalatable. But there are various factors driving this, which are arguably caused, or at least exacerbated, by their operations. It is important to have a good understanding of these contextual challenges, to understand the range of motivations, and answer questions around where responsibility lies to address legacy liabilities.

The third and final section will discuss the implications of this transition for communities in the Niger Delta, and Nigeria writ large. The entry and expansion of DOCs is facilitated by FGN policies for privatisation and 'indigenisation' of the industry, but they fall short of supporting DOCs to adapt throughout the transition. This raises concerns because DOCs are inheriting complex legacies that they are relatively less equipped to deal with. They are being thrust into a system structured by the conduct of IOCs over sixty years, which they will have to operate within from a disadvantaged position, with less financial resources, technical expertise, and operating experience. The conclusion will provide a short summary.

Section one: Divestment trends

This section provides a brief background on past dynamics shaping the current balance of investments in Nigeria's oil and gas sector. Specifically, the rise of DOCs, the expansion of IOCs offshore, and the current situation where IOCs are moving out of Nigeria altogether, and selling their assets to DOCs.

1.1 Overview of trends 1990-2010

The IOCs dominated the sector from the start of production in the 1950s, but in the last 30 years, three broad waves of investments have increased DOC participation. The first took place in the 1990s, and involved sole risk contracts for offshore oil mining licenses (OMLs) being awarded to DOCs owned by *"individual 'Ogas' and 'big men' who were friendly with [then President] Babangida"*[2] - i.e. politically connected business people with little industry experience. Simultaneously, in an attempt to encourage further investments offshore, the FGN began offering licenses to IOCs at fiscal rates that were *"almost too good to be true"*.[3] The further offshore, and the deeper the well, the less royalties they paid — for anything deeper than 1,000 metres, the rate was 0 percent. These deals were very attractive to the IOCs, and OMLs were purchased by many of the 'supermajors' - Chevron, Eni, ExxonMobil, Shell, Total, and ConocoPhillips. But because offshore operations at the time were high cost and risk, the IOCs and DOCs sat on these fields for at least a decade, and only started exploration and production in the early 2000s.

The second wave came with the sale of marginal fields in 2001, which opened the door for increased participation of DOCs in onshore operations. This involved 24 small fields, never thought to have had many resources, being 'parcelled out' from larger fields, to people with political connections. At the time, the oil price was so low that the new operators sat on these fields for about ten years, and only started to invest when the oil price began to rise. A second round with 31 marginal fields was announced in 2013, but the sales were never concluded. A new round with 57 marginal fields was announced in 2020, and despite several setbacks, licenses were awarded in June 2021.[4] While the marginal fields are small, this lowered the costs of entry, and as they are solely awarded to DOCs, this increased their participation in the sector.

The third wave was the divestments of major onshore licenses by IOCs, which continue to date. Many were put on the market in the mid-2000s, but did not start to sell until the 2010s, *"which is when the oil price was just going in one direction (up)"*.[5] As the IOCs began selling up onshore assets they no longer wanted in their portfolio, an *"army of indigenous players"*—or DOCs—was ready to take over.[6]

1.2 Analysis of divestment trends 2010-2021

In 2010, Shell completed their divestment from four onshore oil blocks, leading a wave of sales by other IOCs in the following years. By the end of 2015, 24 major divestments were finalised. All of the OMLs were acquired by DOCs, apart from one by China's Sinopec. The rate of sales slowed in the subsequent years, likely influenced by the drop in global oil prices after 2014, and subsequent difficulties in raising funding to back acquisitions, which is dependent on a good crude oil price forecast. Two further major divestments have been completed since 2015 - both bought by DOCs - bringing the total to 26 (Annex 1).

Despite this huge transfer of assets to DOCs, IOCs continue to hold the majority of equity in OMLs - but only marginally. As illustrated by *figure 1* below, the average percentage equity per concession is almost evenly split between IOCs, DOCs, and the National Oil Company (NOC), NNPC (see *Annex 2* for *Methodology)*. The latter retains equity in the majority of projects, and thus has the highest average percentage equity. Yet it is much closer between IOCs and DOCs: IOCs retain a marginal lead with 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 ownership to a majority DOC share[7].

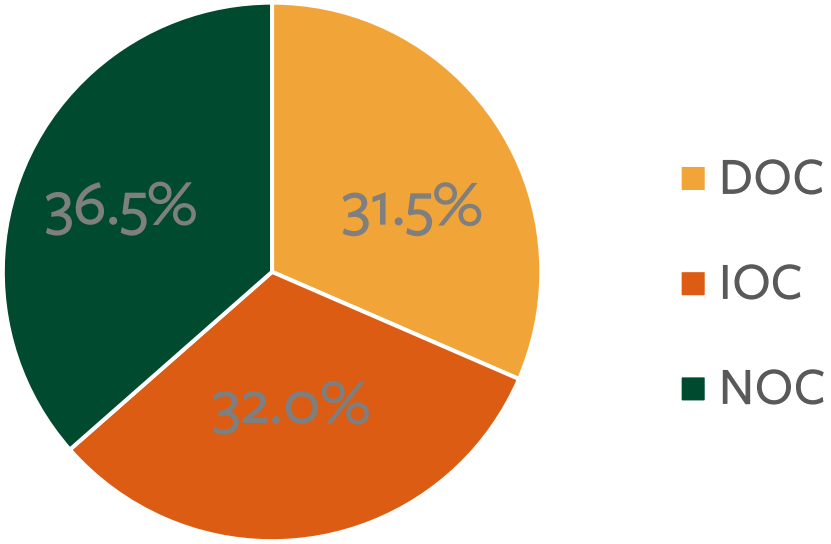

Fig 1: Average percentage equity per concession for domestic, international and national oil companies (DOCs, IOCs, NOCs).

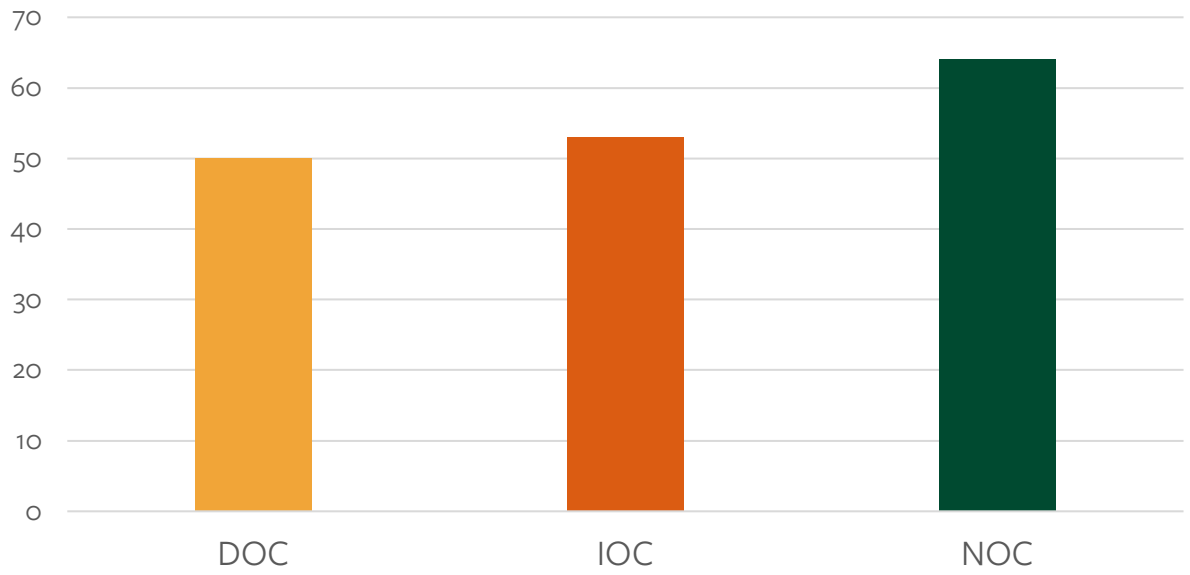

Fig. 2. Total number of OMLs in which DOCs, IOCs, and NOCs are operators.

Similarly, the IOCs maintain a marginal lead in the operatorship of OMLs. As *figure 2* above illustrates, out of all 112 OMLs in this analysis, IOCs are involved in the operation of 53 (47%), while DOCs are involved in the operation of 50 (45%). Looking at the type of contracts in *figure 3* below, we see that OMLs operated by DOCs-only are mostly sole risk (SR) contracts (19), followed by production sharing contracts (PSCs) (10). While OMLs operated by IOCs-only are mostly PSCs (12), followed by joint venture (JV) contracts (4). There is only one OML operated under a DOC-IOC partnership, and this is an SR contract. For both DOCs and IOCs, the majority of their operations are under JV contracts with the NNPC, 19 and 35 respectively.

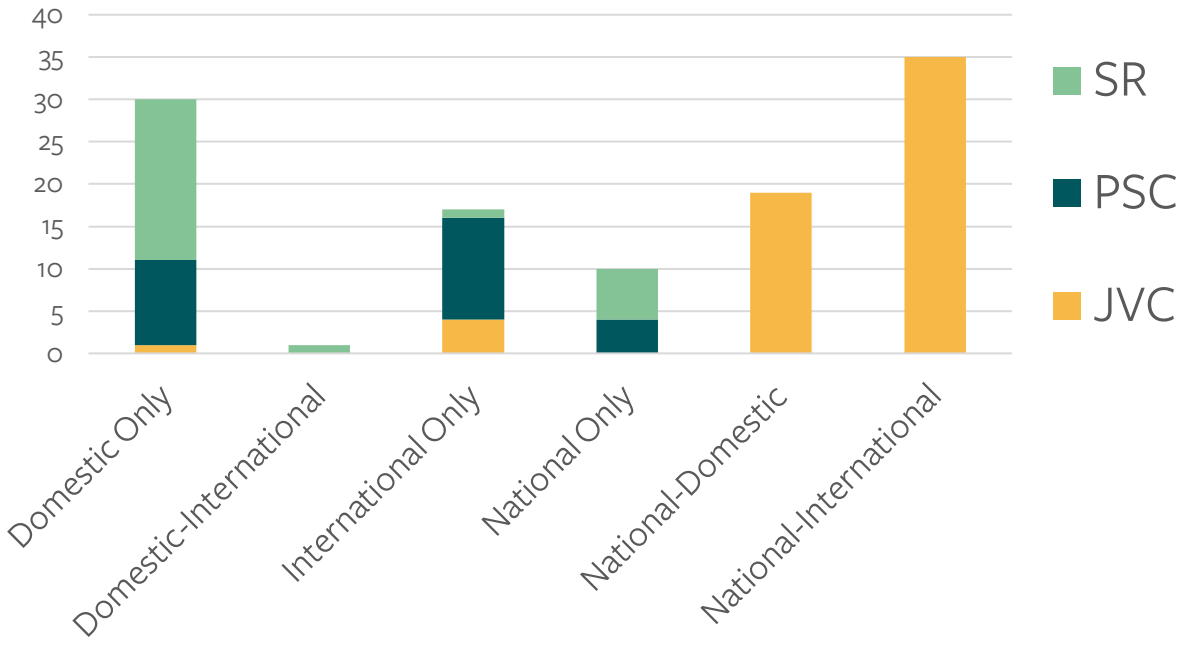

Fig. 3. Total number and type of operatorship contracts, by type of company and arrangement.

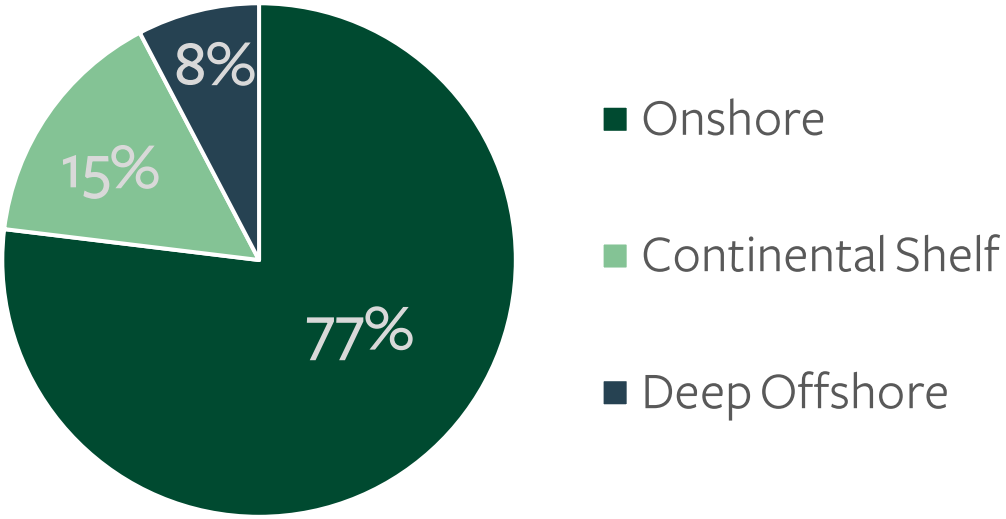

Fig. 4. Terrain of oil blocks divested in Nigeria (2011 - 2021)

The overall trend is in line with the strategy of IOCs to move away from onshore production. Out of all 113 OMLs in Nigeria[8], roughly half are located onshore and half offshore (57: 56). As illustrated in *figure 4* above, out of all 26 OMLs sold in the last 21 years, more than three quarters (77%) were located onshore. Out of those sold offshore, the majority were located on the continental shelf, close to the coast, with just two (8%) located deep offshore. As illustrated in *figure 5,* Delta State has 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 a number of IOCs to rapidly move their operations out of the state, possibly in response to the intensity of militant activity there in the 2000s.

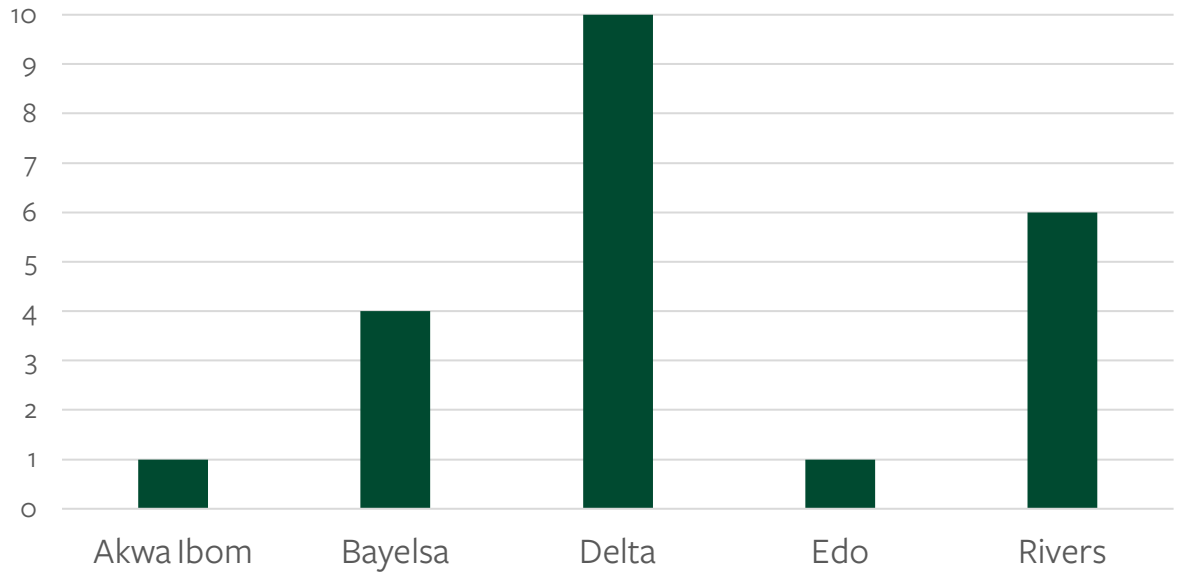

Fig. 5. States where onshore blocks were divested (2011 - 2021)

1.3 Trajectory of future divestment trends

Divestments peaked with the international spot price in 2014, but plummeted shortly after. Yet this trend is expected to rise again and 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. It is therefore expected that there will be more sales soon, either voluntarily before the end of their lease, or through revocation and relicensing once they expire.

There are signs that the IOCs may look to sell their entire portfolio of onshore operations by listing their subsidiaries for sale. This includes Shell, whose total equity across 19 OMLs, held under Nigerian subsidiary Shell Petroleum Development Company (SPDC), is valued at USD$2.3 billion (NGN₦ 945.3 billion).[9] It is not clear whether any domestic players will have the capital to make such a huge acquisition, so this could open the door for other international players like China to invest in a major expansion of their operations in Nigeria, or alternatively, for these portfolios to be broken up and sold separately to a number of different DOCs and the NOC. Shell reportedly has a preference to avoid individual negotiations for OMS, and according to Wood Mackenzie it *"is seeking buyers for asset packages in the eastern, western and shallow water delta."*[10] IOCs are also increasingly looking to sell their offshore assets too. For example, Total is seeking to sell its share in OML 118, while Chevron has launched the sale of OMLs 82, 85, 86 and 88.[11] Therefore, DOCs may also start acquiring more offshore OMLs. Yet it is important to note that the IOCs are committed to many offshore projects, and also dominate the processing and export terminals, so they will remain significant players in Nigeria's oil and gas sector for the foreseeable future.

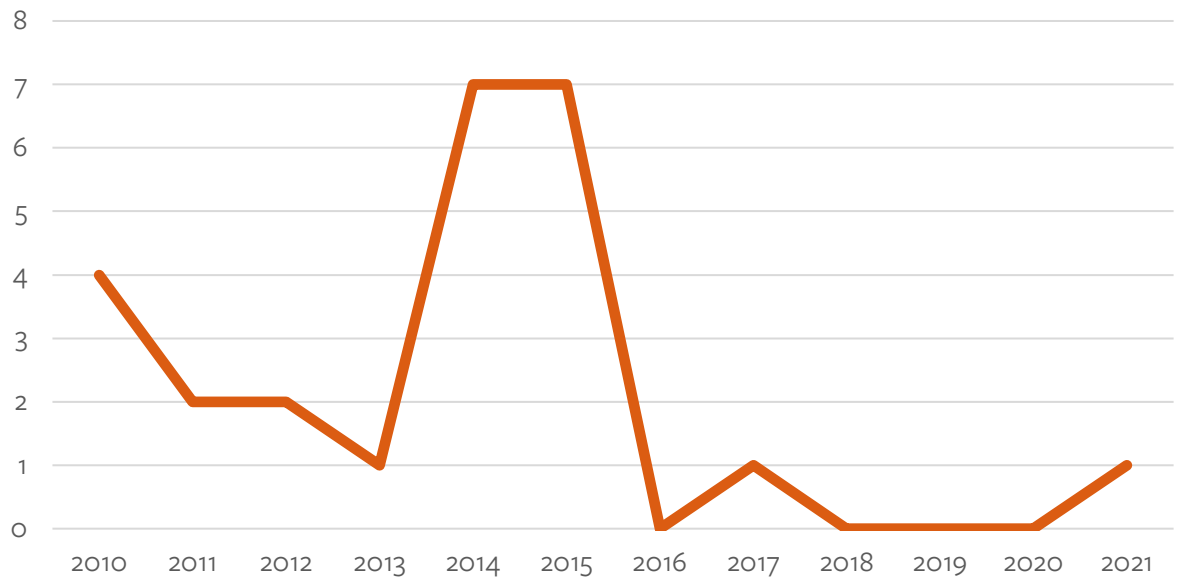

Fig. 6. Number of divestments by year (2010 - 2021)

Section two: Context driving divestments

This section discusses the changing context driving divestments, to explore the range of motivations, and questions around where responsibility lies to address legacy liabilities. Specifically, it examines issues that IOCs argue make business unpalatable, as well as issues arguably caused, or at least exacerbated, by their operations.

2.1 Economic

The primary factor underpinning divestment is the mounting cost of onshore operations - and ultimately, the drivers we have listed under *social, security, environment* and *political/legal* below can all be seen as threatening the economic viability of IOC operations. However, this section considers some financial issues directly associated with operations. Over time, additional operational costs have emerged as the context has changed. The IOCs have endured these, but it has reached a point where the business case is becoming harder to justify. Their ability to finance operations and expansion is further hampered by the global shift away from fossil fuels, which is resulting in less appetite among banks, insurance, and other financial service providers to back their projects. Thus as IOCs are reviewing their global portfolios, and looking for ways to balance their investments, it is those with the highest costs and risks that they select to divest from first, such as Nigeria.

Rising operational costs

The fixed costs of operating in the Niger Delta have always been high. This includes navigating a geographically vast area of mangrove swamps inaccessible by road, and also a bureaucratically murky system, notorious for inefficiency and corruption. But Nigerian oil and gas projects now cost more to get started – about 69% more than the global average, according to one DOC[12] – and the cost of production is also significantly higher - between USD$20-30 per barrel, according to the Minister of State for Petroleum.[13]

Operational costs driving up budgets include the high rate of oil spills, mostly caused by operational leaks in the aging infrastructure, the theft of an estimated 5-20% of daily crude production, and attacks by third parties. In addition to the value of lost products, pipelines must be repaired. As an indication of the scale of this cost, the NNPC spends roughly NGN₦75 billion (GBP£125 million) per year on pipeline repairs and management.[14] This figure is reducing year on year, but does not capture the scale of future pipeline liabilities. A contractor with many years' experience of laying pipelines reported that nearly three-quarters of all pipelines in the Niger Delta are *"more than a decade overdue for replacement"*[15] – a huge logistical and financial exercise to factor into future operational budgets.

Another rising cost is insecurity, which is forcing companies to pay more for private security, insurance, other contracts to 'buy off' local actors, and in some cases the ransom to release kidnapped staff. Insurance costs are rising, and in the shipping industry companies operating in Nigeria are charged a 'war surcharge', estimated to cost up to an additional USD$1 billion per year (NGN₦411 billion).[16] This is compounded by the fact that fewer insurance companies are willing to back projects associated with fossil fuel production, making it progressively harder and more expensive to find insurance providers.

Declining financial interest

In the same vein, fewer banks and insurance firms are willing to back fossil fuel projects. Exploration and production are capital intensive activities that require constant access to capital, so if the supply or access is disrupted, projects can become uneconomical, and the value of companies can fall.[17] This is becoming a reality faster than many IOCs predicted, as market and policy forces continue to undercut hydrocarbon economics worldwide. Meeting the Paris Agreement target to restrict temperature rise to 1.5℃ above industrial levels will force IOCs to leave oil and gas in the ground, leaving them with what are known as 'stranded assets' – the assets currently contributing to the market value of companies, *"that at some point prior to the end of their economic life, are no longer able to earn an economic return."*[18]

In this scenario, over 80% of hydrocarbon reserves are predicted to become worthless worldwide, currently worth USD$900 billion (or NGN₦ 370 trillion), equivalent to one-third the current value of the top 13 oil majors (by reserves).[19] Stranded assets are already lowering the overall valuations of IOCs, with Chevron recently announcing a USD$10-11 billion write-down (NGN₦ 4.1 – 4.5 trillion).[20] As projects in Nigeria are associated with high costs and risks, IOCs are compelled to sell these first when reorganising their portfolios to reduce their exposure to the forces outlined above, and move their capital to areas with lower costs and risks.

2.2 Social

The OMLs being 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 communities, and the entrenched hostilities towards their operations across the region are only worsening. IOCs are seen to have spent decades exploiting local resources, polluting the environment, destroying local livelihoods of fishing and farming, while revenues generated have not led to expected investments in communities, and have diverted attention away from other productive economic activities, towards oil and gas rent streams. This has undermined trust in IOCs, and complicated the operating environment, to a point where they are admitting they cannot resolve the problems.

Rising CSR costs

In attempts to establish a social license to operate, IOCs provide corporate social responsibility (CSR) projects that range from community water, electricity, and other infrastructure projects, to scholarships, training and enterprise opportunities. In the widespread absence of services provided by the government, communities have become increasingly dependent and expectant on oil companies to meet their fundamental needs. This fortifies the IOCs position of power over the community, and gives leverage over leaders in negotiations. IOCs often defend their CSR record in communities, but admit that what they provide is insufficient, and difficult to maintain. As recently stated by Shell CEO, van Beurden,

> *"We cannot solve community problems in the Niger Delta, that's for the Nigerian government perhaps to solve. We can do our best, but at some point in time, we also have to conclude that this is an exposure that doesn't fit with our risk appetite anymore".*[21]

As one respondent noted, *"[the IOCs] don't want projects where they have an issue to deal with every two weeks, because they are built for large scale, high yielding, consistent investment"*.[22] By moving operations offshore, IOCs still need to negotiate the country's bureaucracy, but can escape these ongoing onshore disputes and focus operations solely on production.

Deteriorating trust

The reality is that all the benefits returned to communities are small compared to the revenues generated by the sale of the subterranean resources. Furthermore, both the IOCs and FGN have failed to ensure that the rent streams and opportunities are safe from elite capture, diversion from intended uses, and intensifying contests for power. As a result, IOCs have formed complicated, flawed, and opaque relationships with representatives of local communities, to purchase (or enforce) the social license to operate. As one source noted, as a result *"there is a lot of mistrust"* within communities of the IOCs, adding that protests and attacks on facilities are triggered by this mistrust, *"and other issues they are facing with development in those regions"*.[23] Staying onshore would require further funding via CSR projects and these opaque channels of power, which is not as easy when oil prices and profits are down.

2.3 Security

The Niger Delta is characterised by constant low-intensity conflict, escalating in waves and pockets, that are intimately linked to the operations and revenues of oil and gas companies. 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.

Impact of militancy

IOCs started to be targeted during a pronounced period of armed militancy in the late 2000s, as a protest against their operations onshore, the failure of the government to protect and develop local communities, and to agitate for greater resource control. To raise awareness and leverage for negotiations, pipelines and other infrastructure were attacked, and expatriate workers were kidnapped. An amnesty was agreed in 2009-10, and the threats decreased. Yet divestments began, indicating that the turmoil of the militancy years, and the risk of resumption, encouraged the IOCs to reduce their exposure to these onshore threats.

Impact since militancy

Since the amnesty, the threats to onshore operations continue, and have worsened over the past five years. Pipeline attacks persist, and while those aimed solely disrupting the industry have subsided, this has been overtaken by industrial-scale theft of oil from pipelines. The artisanal oil industry, which feeds on this oil, appears to have grown too, becoming more organised, productive, and profitable.[24] Kidnapping has also evolved into an industrial-scale phenomenon, no longer solely targeting IOC expatriates, but anybody with the financial or corporate backing to afford ransom. Added to these issues, and closely related, is the rise of sea piracy and robbery, which has extended the risk of attacks and kidnappings to offshore vessels.

Role in perpetuating insecurity

While IOCs argue that insecurity is driving them to divest, they arguably perpetuated many of the manifestations they are struggling to tolerate. For example, IOCs typically award service and security contracts to companies closely associated with local elites and conflict actors, many of whom were involved in community conflicts, attacking pipelines, syphoning crude oil, or other acts of militancy against the IOCs- further complicating local dynamics.[25] In addition, communities heavily involved in the artisanal oil industry repeatedly narrate how the practice started following an oil spill, which damaged arable land and fisheries and was not cleaned up and remediated adequately, leading to a localised collapse of economic activity.

2.3 Environmental

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 properly compensating impacted communities, which has fuelled division and conflict. But this is changing and there is an increased likelihood of successful legal action that could hold IOCs accountable for clean-up, remediation, and compensation for oil spills. As highlighted earlier, their 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 DOCs through divestment.

Legal pressure

In 2021, the UK's Supreme Court ruled that Royal Dutch Shell in the UK could be taken to court to determine its potential liability for the operations of its Nigerian subsidiary (SPDC) relating to oil spills in two Niger Delta communities.[26] This is part of a growing legal precedent - a similar case has already been heard in the Netherlands, which Shell lost.[27] Coincidently, the legal action in both cases started to gain traction around the same time that divestments were peaking between 2010-2015. If more cases follow, this could lead to judgements that order IOCs to pay vast sums in clean-up and compensation costs.[28] Unsurprisingly, this has led many people to think that by selling their assets, the IOCs are "*running away from their mess*".[29] This was the reaction of local CSOs when the news was released, who said *"the footprints that Shell wants to run away from are open wounds that cannot be healed by evading responsibility."*[30] This was echoed later by a pan-regional group of elders – the Niger Delta Congress – who stated that Shell's divestment plans were *"to avoid taking responsibility for the environmental carnage it has supervised in the Niger Delta since Nigeria's independence"*.[31]

Yet even as the IOCs seem to be running away, they may still be held liable for negligence leading to environmental damage in the past, since the environmental regulations and penalties are outlined in established laws. Divesting and distancing themselves from the context will at best reduce attention for past spills, and remove liability for future spills from the assets offloaded onto DOCs. That is unless they sell their Nigerian subsidiaries, in which case there is the potential that they could escape liability.

Climate pressure

On a global scale, there is mounting pressure on corporations to change their behaviour in line with climate change targets, which is another reason that IOCs are offloading their assets in Nigeria. For decades, these arguments were assiduously dismissed by IOCs, but the evidence is now too robust to ignore. Governing boards are insisting that executives develop plans for a future where policies and markets change the way hydrocarbons are valued, and increase penalties for polluters. As a result, many of the supermajors have outlined plans to illustrate how they will evolve to remain relevant after the energy transition, such as by investing in renewable energy and achieving net zero emissions. Shell outlined their own plan to reduce carbon emissions by 20% from 2019 levels by 2030, but this was recently contested in court by NGOs, who argued they should do more. The court ruled in their favour, ordering Shell to reduce its emissions by 45%.[32] As IOCs are compelled to review their portfolios to bring down emissions, the analysis highlights countries like Nigeria as prime projects for divestment, since they are also the most costly and risky ventures.

2.4 Political and Legal

The political and legal context has been tumultuous in Nigeria since IOCs started operations sixty years ago. This has favoured the IOCs up to a point. As the oil and gas sector has been the main source of government income and foreign exchange, the IOCs have historically had an outsized influence over decision-makers. Weak governance, and by extension, the regulation of operations, has 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 to other countries. The recent handling of a number of industry bills brings these issues into sharp focus, and is factored into divestment decisions.

Failure to enact industry legislation

The Petroleum Industry Bill (PIB), which would overhaul the entire sector and its regulation, is notoriously symbolic of political and legislative problems in the sector, and Nigeria writ large. The PIB has struggled to pass through the National Assembly since it was first introduced in 2008. After finally being transmitted to the President of the FGN for assent in 2018, it was returned for further amendments. At the time of writing this report, the latest version of the PIB had recently passed through both chambers of the National Assembly, and was assented to by the President. But the process was controversial, opaque, led to widespread consternation across the Niger Delta, and it is not clear what the implications will be. The industry suffered from the uncertainty, as it deterred investors, with one recent report by a Nigerian think tank – later quoted by the President upon the passage of the PIB – estimating the delays cost USD$15 billion in lost investments per year (NGN₦ 6.2 trillion).[33]

Selective enactment of legislation benefiting government

Other legislation affecting the sector has been clumsily handled, to the dismay of IOCs.[34] For example, the production sharing contracts awarded for offshore operations in the 1990s gave the FGN options to review the generous royalty rates once the price of crude oil surpassed USD$20 per barrel. Prices surpassed this level in 2004, but the rates were never reviewed, which is estimated to have lost Nigeria between USD$16 to 28 billion over ten years (2008-2017, NGN₦ 6.6-11.5 trillion).[35] As these contracts started to come to an end, the FGN sought to recover these fees, claiming that oil companies had underpaid USD$62 billion (NGN₦ 25.5 trillion).[36] The IOCs kicked against a Supreme Court ruling supporting the FGN, claiming it does not allow them to collect arrears. While that judgement is still hanging, new legislation was hastily rushed through the National Assembly and signed by the President. The Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Act, 2019, *"introduces a combined production and price-based royalty system",* that increases royalties by 10%.[37] The combination of higher royalty rates and the poor handling of their introduction illustrates that IOCs cannot escape Nigeria's political and legal issues by moving offshore. Rather, these issues risk pushing them out of Nigeria altogether.

Section Three: Implications

In this section, we highlight the current impacts, and consider some of the potential future implications, of IOC divestment and the growing presence of DOCs. The Niger Delta has endured decades of negative impacts from the oil and gas industry, as well as the broader impacts of poor governance that have evolved with it. It is therefore crucial that civil society, government and impacted communities understand and respond to these new dynamics, to ensure historical injustices can be righted, and to guard against the potential negative impacts of this new phase of oil and gas production in the Niger Delta.

3.1 Economic

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 invested into 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, the majority of its foreign exchange, and for the functioning of a political economy heavily based on patronage. 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, simultaneously expand gas production and utilisation under a 'Decade of gas initiative', and expand exploration into the North East of the country via the 'frontier fund' in the PIB. 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.

Loans

The takeover of the oil and gas industry by DOCs further exposes the country's economy to the risks associated with declining global demand for fossil fuel production. This is because the DOCs borrowed a lot of money to fund acquisitions, particularly from domestic banks – an estimated USD$10 billion between 2012-2014 (NGN₦ 4.1 trillion).[38] This quickly became a liability when the oil price crashed in 2015. As most of the lending was through large syndicated loans, almost all commercial banks in Nigeria are exposed to DOC debt[39] - which is estimated to represent around 40% of their collective loan assets.[40] The total has reportedly creeped up since the COVID-19 pandemic – increasing by NGN₦600 billion (USD$1.5 billion) to NGN₦ 5.2 trillion (USD$12.7 billion) between December 2019 – December 2020.[41]

The impact on banks is compounded by loans made to domestic power companies, who are also struggling with large debts after borrowing in USD$ to acquire assets the government had privatised.[42] If DOCs become insolvent, this will be a huge blow to banks, and have a knock-on effect on the entire economy.

Funding ventures

The poor financial situation for DOCs puts them at a disadvantage in operations too. They have a more limited ability to raise funds for operations than the IOCs do, and this is especially problematic given the nature of working with NNPC in joint ventures. As explained by an industry analyst:

> *"The NNPC is really well known for its bureaucracy, and it doesn't have any money either, and under the joint venture, NNPC is supposed to pay 60% of the costs, because it owns 60% of the oil, of the joint venture. In practice, the IOCs have been carrying them for a lot of it, and then they've racked it up in arrears, and paid it off. An IOC has a deep pocket so it can survive this, but the indigenous companies (DOCs) with all their debts are really suffering."*[43]

The DOCs could therefore struggle to operate at the same level as IOCs, resulting in less revenue remitted to the FGN, fewer contracts issued to local service companies, fewer employment opportunities, and an acceleration of the negative impact on the domestic banking industry.

Stranded assets

More broadly, the fundamental transformation underway as the global economy decarbonises is increasing the prospect of Nigerian oil and gas projects becoming 'stranded assets'. This prompts questions around why the FGN is incentivising and facilitating further investment and expansion in the oil and gas industry. Analysts predict that countries heavily reliant on fossil fuel production will be hit hard by declining revenues, job losses, capital flight, and economic recession.[44] This will have a direct impact on the FGN, since it is still financially dependent on the NNPC, which retains the majority equity share in operations after divestment. The Carbon Tracker Initiative estimates this could create a 70% shortfall in revenue for the FGN over the next two decades.[45] In this scenario, it is possible that the FGN will become insolvent and unable to fund public services and recurrent expenditure. Research by the US Institute for Peace (USIP) warns this could "inadvertently upset political balances and potentially ignite violent conflicts in a swath of nations", including Nigeria, and recommends immediate actions to avoid 'traumatic decarbonisation' of their economies.[46] Yet the FGN shows few signs of taking the steps required to reduce the impact: diversifying its income base, investing in renewable energy, and winding-down oil and gas production.

3.2 Social

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, while others have faced similar protests and accusations as the IOCs. Therefore, there are open questions around how greater DOC involvement affects host communities, and further research is needed in communities to understand how their experience has changed since DOCs took over from IOCs.

Positive examples

DOCs argue that 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. Communities generally buy into this vision, and steps towards indigenisation are commonly seen as progress. One DOC that appears to be viewed favourably by host communities in its area of operation is Belema Oil, which acquired Chevron's equity in OML 55 in 2015, and has had an operator agreement with Shell in OML 25 since 2019. Belema has reportedly delivered benefits for residents, including scholarships, skills training, employment, electricity, roads, potable water, and even plans to import a floating refinery.[47] However, in providing services that are essentially the responsibility of the government, Belema Oil and others risk replicating the type of relationship that international companies formed, leading host communities to remain reliant on their support, and further perpetuate patronage and division. If they do not have the same amount of funds to invest into these types of schemes as IOCs, it may lead to a worsening situation where they cannot match local expectations.

Negative examples

Other DOCs have demonstrated difficulty keeping up with promises, and this has led to protests against their operations. For example, the DOC operating OML 30 in Delta State – Shoreline Natural Resources – has faced several protests over the years from local communities. The latest in November 2020 shut down the Afiesere flow station, with protesters accusing the DOC of failing to fund its CSR strategy for two years, and not implementing a number of promises outlined when it started production, including ensuring 70% local employment across its facilities.[48] Similarly, six years after entry, Belema Oil is yet to deliver the floating refinery it promised on entry, and has made questionable investments in other parts of the country, including building a hospital in the hometown of President Buhari, who also serves as the Minister of Petroleum.[49] With this in mind, DOCs may be able to provide early benefits for communities to buy the social license to operate, but struggle to meet mid- to long-term promises. They may also be more willing to engage in backchannel negotiations to advance their interests, rewarding officials who facilitate their entry, further complicating the political economy of the sector.

Designing a different model

To improve will require sensitive messaging and handling from the new entrants. As advised by one source, communities also *"need to understand that it is a new operator coming in with a different culture and protocols compared to what may have been established with the*

former operator".[50] But these perceptions of entitlement are engrained, as is the dependence, and it will be challenging for the DOCs to chart their own course. A positive outcome hinges on whether the Nigerian run companies can define a different operating structure, which can be genuinely better for host communities, and Nigeria writ large. Or whether they will continue business as usual, replicating the approach of IOCs at the outset, but slowly deteriorating the quality of delivery, as financial pressures eat away at their capacity to sustain services.

3.3 Security

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.[51] IOCs learnt lessons from developing comprehensive security structures to protect their assets and personnel globally. Many 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 fund operations and 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. The most worrying implications could come from second order effects, triggered by other changes outlined in this report, including increased pollution, reduced production, and disruptions to patronage flows.

Private security

In line with their indigenisation approach, DOCs are likely to re-award security contracts to ex-militants to provide pipeline surveillance and other services, and may extend this practice into new locations. Yet these arrangements were established by the IOCs, and facilitated by the FGN, so it would be a continuation of that approach. Internationally, shareholders and stakeholders are increasingly firm in their demands for improved ESG performance from IOCs. Yet these issues do not currently rank as high in the priorities of the DOCs, and therefore there are concerns that they may be more willing to support security responses that violate human rights. DOCs also promise to employ more indigenes, but sources suggest that their existing recruitment practices are less rigorous than for IOCs —which are based not only on technical capacity, but also on integrity and other values. One respondent predicts that this could lead to infiltration by individuals interested in corrupt practices, and alleges this is already happening in DOCs.[52] Yet this has also been a challenge for IOCs, with many accusations that their workers are complicit in oil theft and leaking information, so it is not a novel issue for DOCs to tackle.

Second order effects

The main security implications are expected to be a result of second order effects. For example, if the DOCs introduce new engagement strategies with communities, long-standing IOC allies could be abandoned, disrupting patronage flows, and destabilising communities. Similarly, if the DOCs pollute the environment more, then it would lead to the collapse of more livelihoods, and drive more individuals towards illicit income streams. On a wider scale, if the DOCs fail to sustain productivity, then it would reduce their capacity to employ locals, contract local companies, and fund CSR strategies, as well as reducing the amount paid to the government, and therefore their ability to invest in the region.

Emerging offshore threats

Offshore operators, meanwhile, could be confronted with emerging security threats. Pirate attacks to vessels offshore are well publicised, but on a few occasions, they have targeted offshore infrastructure. For example, in April 2020, nine workers were kidnapped from a floating production, storage, and offloading (FPSO) vessel anchored 50 nautical miles (NM) offshore in OML 126, operated by Sinopec/Addax.[53] Ten years earlier, five workers were kidnapped from a rig 7 NM offshore in OML 112.[54] Pirates therefore clearly have the capacity for these attacks, and may be incentivised to follow the expatriates offshore, as they attract a higher ransom value. Attacks to vessels have occurred up to 200 NM offshore, indicating that even the furthest offshore operations would be viable targets. Our source suggests that, with offshore production increasing, new measures must be implemented to monitor security threats such as piracy, *"but we haven't seen these yet—so the response by the government is not much"*.[55]

3.3 Environmental

At least two major questions arise from IOC divestment: 1) what happens to legacy oil spill pollution associated with IOC operations which is yet to be properly cleaned-up? and 2) how will 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. 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 ESG investing may be less for DOCs. 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 an independent environmental regulator - which has been urgently needed for decades - is perhaps even more important than ever before.

Current performance

The current environmental performance of DOCs suggests that they will be worse than IOCs in the future. This point was reiterated by a Nigerian government official, who stated that *"the standard to which the oil majors operate is distinctively higher compared to the indigenous companies"*.[56] SDN's Environmental Performance Index (based on 2018 data) shows that while IOCs had the highest number of individual spills, and the highest volume of oil spilled, they performed better than DOCs when compared on a per-unit basis.[57] In other words, for every barrel of crude oil that DOCs produced, they spilled more oil and flared more gas than their international counterparts. If DOCs scale-up their operations to the same level as IOCs, with the same environmental protocols in place, it is therefore expected that overall pollution will be higher.

Environmental management strategies

As the finances of DOCs are predicted to become stressed, they may not have the resources to respond, and may be willing to cut back on environmental management strategies, including investments to upgrade the aging infrastructure they inherit, increasing the risk of pollution.[58] Just like the IOCs, they will operate to the standard that they are held to, and in Nigeria, the checks for environmental performance are weak without penalties, so adherence falls well below international best practice. While the record of the IOCs is extremely poor, their violations were well publicised by international watchdogs, and their shareholders have increasingly called for environmental impacts to be addressed. However, the DOCs will not attract the same level of international attention, if finances are stressed their shareholders may have less interest in reputational damage, and there will be less leverage over their behaviour. But there are opportunities for the DOCs to do better, as raised by one respondent: "*If the companies are able to put in place proper environmental management systems and competent personnel, because of their relatively smaller size of operation, they should be able to do it better [than the IOCs]".*

Inheritance of infrastructure

The DOCs are inheriting infrastructure that is typically old, neglected, requires updating, and in many cases decommissioning. DOCs will struggle to fund this, and it is already causing tensions with their predecessors. For example, Aiteo is taking Shell to court seeking a total of USD$4 billion (NGN₦1.6 trillion)over the poor condition of an asset it bought back in 2015, the Nembe Creek Trunk Line, a pipeline used to move crude oil towards Shell's export terminal.[59] This raises an important point on legacy – the dilapidated infrastructure, and decades of environmental damage, should be the responsibility of the IOCs. But the FGN did not build this into contracts, nor does national legislation require action.[60] Therefore, the IOCs are dumping this onto DOCs, who have neither the resources, technical expertise, or incentives to act.

Offshore pollution

Meanwhile, regulating and responding to oil spills from offshore operations is a relatively new challenge. The national regulator has a strategy in place to respond at different levels.[61] This was tested in 2011, when a major oil spill of over 40,000 barrels occurred at the Bonga FPSO. The regulator activated their strategy, UK contacts were engaged for support, and in 24 hours, all the resources that were needed to deal with the spill were mobilised. But the response has not been put into practice regularly, and our source raises concern over Nigeria's capacity to respond to anything bigger, especially to one a similar size as Deepwater Horizon in the Gulf of Mexico, which spilled over three million barrels of oil in 2010.

> *"I am confident that would overwhelm us [...] And the potential for something like that to happen in the Gulf of Guinea is great, especially with more companies moving offshore"*, adding *"we can't [even] deal with 250,000 barrels—that would wipe off a lot of communities in the West African region"*.[62]

Moreover, Nigerian regulators do not have the capacity to regularly monitor for spills from onshore infrastructure, let alone offshore. They rely on reporting of spills by impacted communities, CSOs, the media, or companies themselves, and investigations can be delayed until logistics can be sourced, typically from the oil company operating the OML. As IOCs have demonstrated their reluctance to clean-up and remediate spills onshore, this is

expected to be the case offshore too, despite the presence of clearly laid out response strategies. Without the presence of community members and others to report spills, it is unlikely that IOCs will.

Carbon emissions and prospects for a clean energy transition

While IOCs have for decades contested and resisted the need for a transition to renewable energy, they are increasingly investing and coming under pressure to transform. On the other hand, Nigerian policy appears to be going in the opposite direction, with a heavy focus on the growth of a domestic oil and gas industry. It is hard to predict exactly how this might play out, but one possibility is that Nigeria will find itself in an even weaker position to adapt, while missing an opportunity to invest in the creation of a strong domestic renewables sector, and a wider enabling environment for sustainable growth.

3.4 Political and Legal

Divestment is accelerating just as legal, political, and investor pressure is mounting on IOCs to improve their ESG performance, 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 (unless, for example, they are also listed on the stock exchange in those jurisdictions), and it is unlikely they will voluntarily enforce these standards on themselves. The Nigeria Extractives Industry Transparency Initiative (NEITI) does request companies to report some of the same data, but compliance is not as enforceable.

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 bring 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, the work of activists, civil society, and the media are likely to find it harder to attract attention to environmental and human rights abuses in the Niger Delta, which may further diminish the power of communities to hold DOCs accountable.

Access to Justice

Recent legal precedents are opening up the possibility to seek justice internationally where IOCs are concerned - however, communities have had to resort to this because of the weakness of the Nigerian legal system. Therefore, the prospects to seek justice for the operations of DOCs may be weaker than with IOCs. The DOCs are solely registered in Nigeria, and therefore communities will not have the option to prosecute in other legal jurisdictions. This is problematic as the courts in Nigeria have failed to hold the companies accountable – hence why they needed to be trialled overseas. The DOCs may be able to build the same level of power in the domestic legal process, enabling them to avoid prosecution and enforcement of judgements, leaving communities helpless. With regards to IOCs, as noted under the *environment* section, even once they have divested from onshore assets, they should remain liable for historic oil spills and it should remain possible to seek justice through the courts. However, there are at least two reasons this could become less likely. Firstly, if IOCs sell their subsidiaries, they could theoretically escape liability, and secondly, an exit from the Niger Delta

could help reduce attention on their actions, reducing the likelihood for impacted communities to be able to get the kind of support they need to take these cases internationally.

Contested 'indigenisation' claim

One of the driving factors behind divestment is the narrative that indigenous firms are taking over from international ones, which is in the overall interest of locals. But in a country as large and diverse as Nigeria, where ethnicity is politically charged, how truly 'indigenous' are these companies to the Niger Delta where the oil and gas is extracted? At the level of ownership, most of the DOCs are led by business magnates from other parts of the country. For example, the DOC with the largest share in the country's OMLs, Con Oil Producing Ltd, is owned by Mike Adenuga (Jr.) from Oyo State in western Nigeria. Adenuga is also a telecommunications magnate, and is joined by others with a similar stake in Nigerian industries, such as Aliko Dangote, the cement magnate from Kano in northern Nigeria, and Tony Elumelu, the banking magnate, who has ancestors from Delta State in the Niger Delta, but was born in the middlebelt and grew up in western Nigeria. At the management level, many of the DOCs are run by former IOC staff, roles typically dominated by non-Niger Deltans, and based in Lagos in the west. With this in mind, the DOCs are owned and run by 'outsiders', a continuation of IOC rule. If DOCs cannot be owned by people from the Niger Delta, and they fail to increase their recruitment into executive management positions, this has the potential to become a burning political issue in the future, as the long-standing agitations for a greater indigenous participation in the oil and gas industry are not being addressed by divestments.

Conclusion

The transition to majority DOC operatorship and ownership of OMLs is likely to be a steep learning curve for the companies, regulators, and communities involved. Onshore, the DOCs have weaker policies and financial muscle compared to the IOCs, which could cause environmental pollution to worsen, new security dynamics to emerge, and potential contests with local communities who are used to receiving extensive CSR packages. Offshore, while there are currently good strategies adopted for responding to operational threats, such as piracy and oil spills, the FGN is yet to update these, and equip itself with the capacity to deal with increasing production and pollution.

Yet despite the rapid rate of onshore divestment from upstream production, the IOCs remain major players in the Nigerian oil and gas sector. They will continue to operate a large share of OMLs, and control the downstream sector, as they operate the export and processing terminals, which all the oil and gas destined for the international market must pass through. Moreover, international legal action is starting to hold IOCs accountable for past environmental pollution, which offers hope that they will not be allowed to dump their toxic legacies on inexperienced DOCs to deal with.

With this in mind, the attention for socially and environmentally responsible behaviour must not completely turn away from IOCs towards DOCs. The IOCs still have a huge role to play in mediating the transition, and remediating their toxic legacies. Achieving this will require a stern regulator, independent from the Ministry of Petroleum Resources, as outlined under the PIB. However, now that the PIB is passed, the monumental task of restructuring the industry will commence, and this raises concerns that the divestments will be poorly managed, and IOCs will divest their assets without any formal agreements to address their legacies.

Moreover, there is a fundamental shift underway as the global economy decarbonises. This report reiterates warnings that continuing to invest in upstream oil and gas projects risks creating stranded assets, and wasting capital that would be better spent on developing sustainable new industries. The IOCs are facing this hard truth and rebalancing their portfolios, and the FGN needs to follow, and rebalance the economy before it is too late. Instead of incentivising further investments into the oil and gas sector, it should re-invest capital earned from divestments into non-fossil assets, and create incentives to stimulate sustainable growth.

This report provides an introduction to the topic of changing oil investment trends in the Niger Delta. What is needed now is a deeper investigation into the implications, supported by actions from the FGN, civil society, and international community, to hold IOCs to account for their toxic legacies before they exit the Niger Delta.

Annex 1: Major divestments – 2010-2021

Date	OML	State	Past equity split	New equity split
2010	4	Edo	Shell (30%), Total (15%), Agip (5%)	Seplat (45%)
	26	Delta	Shell (30%), Total (15%), Agip (5%)	First Hydrocarbon (45%)
	38	Delta	Shell (30%), Total (15%), Agip (5%)	Seplat (45%)
	41	Delta	Shell (30%), Total (15%), Agip (5%)	Seplat (45%)
2011	34	Delta	Shell (30%), Total (15%), Agip (5%)	ND Western Ltd (consortium) (45%)
	42	Delta	Shell (30%), Total (15%), Agip (5%)	Neconde Energy (45%)
2012	30	Delta	Shell (30%), Total (15%), Agip (5%)	Shoreline Natural Resources LTD (45%)
	40	Delta	Shell (30%), Total (15%), Agip (5%)	Seplat (45%)
	138	Offshore	Total (20%), Chevron (30%), ExxonMobil (30%), Nexen (20%)	China Petrochemical Corporation (Sinopec) (20%), Chevron (30%), ExxonMobil (30%), Nexen (20%)
2013	18	Rivers	Shell (30%), Total (15%), Agip (5%)	Eroton Consortium (Suntrust Oil, Mart Resources and Midwestern Oil & Gas). (45%)
2014	24	Rivers	Shell (30%), Total (15%), Agip (5%)	Newcross E & P (45%)
	52	Rivers	Chevron (40%)	Amni Petroleum (40%)
	60	Delta	ConocoPhillips (20%), Agip (20%)	Oando Energy Resources (20%), Agip (20%)
	61	Bayelsa/Delta	ConocoPhillips (20%), Agip (20%)	Oando Energy Resources (20%), Agip (20%)
	62	Bayelsa/Delta	ConocoPhillips (20%), Agip (20%)	Oando Energy Resources (20%), Agip (20%)
	63	Bayelsa	ConocoPhillips (20%), Agip (20%)	Oando Energy Resources (20%), Agip (20%)
	131	Offshore	ConocoPhillips (20%), Agip (20%)	Oando Energy Resources (20%), Agip (20%)
2015	29	Bayelsa	Shell (30%), Total (15%), Agip (5%)	Aiteo Group (52.5%)
	53	Rivers	Chevron (40%)	Seplat (45%)*
	55	Rivers	Chevron (40%)	Belema Oil (40%)
	71	Offshore	Shell (30%), Total (15%), Agip (5%)	West African E&P (consortium of FIRST E&P, Dangote Exploration Assets and Dansa Energy Resources) (45%)
	72	Offshore	Shell (30%), Total (15%), Agip (5%)	West African E&P (45%)
	83	Offshore	Chevron (40%)	West African E&P (45%)*
	85	Offshore	Chevron (40%)	West African E&P (45%)*
2017	13	Akwa Ibom	Shell (30%), Total (15%), Agip (5%)	NPDC (45%)
2021	17	Rivers	Shell (30%), Total (15%), Agip (5%)	TNOG Oil and Gas (consortium of Heirs Holdings and Transnational Corporation of Nigeria) (45%)

** Reported in the Department for Petroleum Resources (DPR) Nigerian Oil and Gas Industry Annual Report (NOGIAR) as an acquisition of 40% of Chevron shares, with a 45% resulting share. Either NNPC added 5%, or it is reported incorrectly.*

Annex 2: Methodology

Industry data sources (quantitative)

SDN does not have subscriptions to industry data portals that show, among other things, block ownership and investment trends. Therefore, the research is based on public data released by the Government of Nigeria's Department of Petroleum Resources (DPR) in its Nigerian Oil and Gas Industry Annual Report (NOGIAR). This source has a number of challenges, including that the most recent data released was in the 2018 report, and ownership and operatorship of OMLs is only reported as far back as 2016 (i.e. in three reports). Therefore, investments and divestments since 2018 were identified in public reporting, either direct from oil and gas companies in press releases, or indirectly reported in the media. This is not ideal, and it is therefore likely that some divestment deals are missing (especially for small equity shares <20%), which could create some errors in the calculations made in this report. However, these should be minor discrepancies that do not majorly impact the trends highlighted. Furthermore, there has not been much activity in the last three years where data is missing, and we only found two major deals after 2018 (OML 13 and 17). The collated data used for the analysis is provided alongside the release of this report to show our findings, and we welcome any feedback on corrections needed in this record.

Interviews (qualitative)

Interviews were conducted with industry analysts, civil society, and government stakeholders in Nigeria and London in 2019. This was brief, and based on convenience sampling. The report therefore does not claim to be representative of the views of any of these sectors; these individuals were interviewed to provide insight into the trends. Their contributions remained anonymous to enable them to talk freely.

Divestment definition

Divestment is essentially the opposite of investment - and in terms of OMLs involves the sale of a company's share, and the withdrawal of investments for operating the lease. Multiple companies can own shares in an OML, and one can divest their own share, while other partners retain theirs. Since oil industry investments are dynamic, companies regularly invest and divest their stake in different assets and ventures. Since this happens more frequently when minor stakes are involved (i.e. <20%), the report focuses on major stakes (i.e.>20%). Major divestments are also the focus of this report because it is a better indication of overall investment dynamics.

Measuring OMLs

Every OML is treated as one unit for calculations, and as there are 113 OMLs, the total is 113 units. This means that the calculations are not weighted for factors such as the value, production, revenue, or size of each OML. For example, there is a wide range in the area covered by each OML - from 29km^2 in OML 146 to 3,097km^2 in OML 11 - and therefore there are differences in the number of fields in each OML, the volume of production, the revenues generated, and the equity value of each. The results in this report are therefore limited to showing the number of OMLs that are changing hands, rather than the value or production capacity.

Calculating share of equity

The proportion of equity ownership in each OML is known because it is either recorded in percentage terms in the NOGIAR reports, or during sales and acquisitions. However, public data on the value of this equity is not available. Therefore, the figures we present in this report on the breakdown of equity share between domestic, international and the national oil company, are based on a simple average of the proportion of equity share - by domestic, international or the national ownership - for each OML. A weighted average, which takes into account actual equity value, is therefore not possible. Because IOCs still produce the bulk of Nigeria's oil, the value of their equity holdings is likely to be far higher than DOCs for now. Nonetheless, our calculations still show the significant presence of DOCs across Nigeria's oil and gas industry.

Annex 3: Terminology

Oil mining licenses (OMLs) are essentially permits to drill and extract oil and gas in Nigeria. This research focuses on these OMLs, since they are the major blocks, with the longest history of production, and therefore their ownership provides a good indication of sector-wide trends and trajectories. The Federal Government retains the majority share in most OMLs (≥50%), typically through the Nigerian National Petroleum Corporation (NNPC). The remaining shares are typically split between independent oil companies, who NNPC relies on for the technical capacity and capital to exploit the OML.

Oil prospecting licenses (OPLs) are essentially the precursor to an OML, granting companies the license to explore areas for oil and gas, and highlight opportunities to extract. If the evidence indicates high potential, then the OPL can be relicensed as an OML to permit extraction. This research does not cover the OPLs, since they are non-producing, their owners tend to have short-term visions to find reserves and sell to an operator, or long-term visions to wait until the value of the OPL rises, and so observations are seen to be less reliable indicators of trends and trajectories.

Marginal fields are part of a larger oil block that is separated and sold to a different operator, usually because the field has become dormant, or was never fully explored, but contains potential to produce oil or gas. The research also does not cover the marginal fields, since only indigenous oil companies are considered eligible to operate them, as part of efforts to improve local content in the sector, and the production volumes are relatively small, since the license only covers one field in a larger block. Including marginal fields in our calculations would further exaggerate the limitations outlined in the methodology, since we do not calculate weighted values of OMLs, but rather treat each one as one unit.

Divestment is essentially the opposite of investment - and in terms of OMLs involves the sale of a company's share, and the withdrawal of investments for operating the lease. As noted, multiple companies can own shares in an OML, and one can divest their own share, while other partners retain theirs. This report focuses on the divestments where the majority of the shares in an OML (aside from NNPC's) are sold by an international company to a Nigerian one, resulting in a Nigerian operator owning a higher or equal equity share to international companies. For example, OML 17 sold in January 2021 was formerly a joint venture between Shell (30%), Total (15%), Agip (5%), and NNPC (55%). As all three international partners sold their shares (total 45%) to a Nigerian company (TNOG Oil and Gas Holdings) - it is considered

an international divestment to a Nigerian company. However, if only Total sold its share, the majority operators would still be international.

International oil company (IOC) - Oil and gas companies operating in multiple countries, with operations throughout the value chain (vertical integration). This includes the oil majors, or 'supermajors', Royal Dutch Shell, Chevron, Total, ExxonMobil, Eni, and ConocoPhillips. *NB*: This does not include national oil companies (NOCs) - which are majority or fully owned by national governments.

Domestic oil company (DOC) - Oil and gas companies established and incorporated in Nigeria, with its entire shareholders, directors and asset owners made up solely of persons who are of Nigerian descent. This definition is the same as the Nigerian Oil and Gas Industry Content Development Act, 2010 definition of 'Nigerian Indigenous Companies' - but we did not use the term indigenous, as it implies it is from the Niger Delta. This is problematic as in reality, many DOCs are led by Nigerians from other regions outside the Niger Delta, and moreover, there are hundreds of different 'indigenous' ethnic groups in the region.

Onshore - When referring to OMLs, onshore is simply an OML located within the land territory of Nigeria. This extends across the riverine deltaic area to the coastline of the Atlantic Ocean. In Nigeria, just over half of all OMLs are located onshore (50.44%).

Offshore - When referring to OMLs, offshore is simply an OML located outside the land territory of Nigeria, somewhere beyond the coastline in the Atlantic Ocean. This term encapsulates both the continental shelf and deep offshore (defined below). In Nigeria, just under half of all OMLs are located offshore (49.56%). Out of all offshore OMLs, more than two thirds are located on the continental shelf (67.86%), while less than a third are deep offshore (32.14%).

Continental shelf - The United Nations Convention on the Law of the Sea (UNCLOS) defines this as comprising *"the seabed and subsoil of the submarine areas that extend beyond [a States] territorial sea throughout [...] its land territory to the outer edge of the continental margin, or to a distance of 200 nautical miles from the baselines from which the breadth of the territorial sea is measured".* When referring to OMLs, this would therefore be any OML beyond the land territory, but within 200 nautical miles. In Nigeria, just over a third of all OML are located on the continental shelf (33.63%).

Deep offshore - When referring to OMLs, this is any outside 200 nautical miles of the land territory. In Nigeria, under a sixth of all OML are located deep offshore (15.93%).

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