

# Marginal opportunities in Nigeria

A new marginal field round is under discussion in Nigeria and, while the prospects seem appealing, it is unlikely to be a rapid process, writes Ed Reed

**NIGERIA**

**WHAT:**

There are a number of marginal fields ripe for development.

**WHY:**

Not all discoveries are judged to be economic by majors, with indigenous companies better positioned for small-scale developments.

**WHAT NEXT:**

A round may not come before the election, in February 2019.

PROGRESS in Nigeria is often painfully slow and government plans are frequently derailed by electoral needs. This can be seen in the slow movement of the Petroleum Industry Governance Bill (PIGB) and in hopes for a new marginal field round.

Despite these delays, the country's energy industry is making progress, Akin Gump's Marc Hammerson told *NewsBase Intelligence (NBI)* recently. "Nigeria is moving in the right direction," Hammerson said, with violence reduced in the Niger Delta and the Forcados export route back in operation.

One area in which progress is coming is the planned marginal field round. The country held a first round in 2001, with 24 licences awarded to 31 companies. In 2013-14, all seemed set for a second round but plans went nowhere, largely because of the elections in 2015 and the oil price crash.

Hammerson, who works on marginal fields that were previously licensed, and recently returned from a visit to Nigeria, said that plans for a new marginal field round were in a better position now, because of lower but stable oil prices, which have created a more predictable environment.

"There's now a firmer commercial footing for companies to take part. If you look at a number of factors, the oil price, the greater stability in the Niger Delta and improvements in the Department of Petroleum Resources (DPR), I'm more hopeful that this time it's going to go ahead."

While upbeat about prospects for a new round, the Akin Gump partner cautioned that timing was uncertain, particularly over which side of the presidential election – due in February 2019 – this would fall. One option would be to "get the wheels in motion" now, lining up potential bidders and fields, he continued, with results coming shortly after the election. Should the ruling All Progressives Congress (APC) and Nigerian President Muhammadu Buhari be returned to power, the round could close "relatively quickly thereafter".

The PIGB only requires the presidential signature, though, so should be passed into law before the 2019 election, Hammerson said.

**On the change**

The marginal field programme is an appealing idea on many grounds, not least in that it helps indigenous companies secure access to resources

**ON OFFER:**

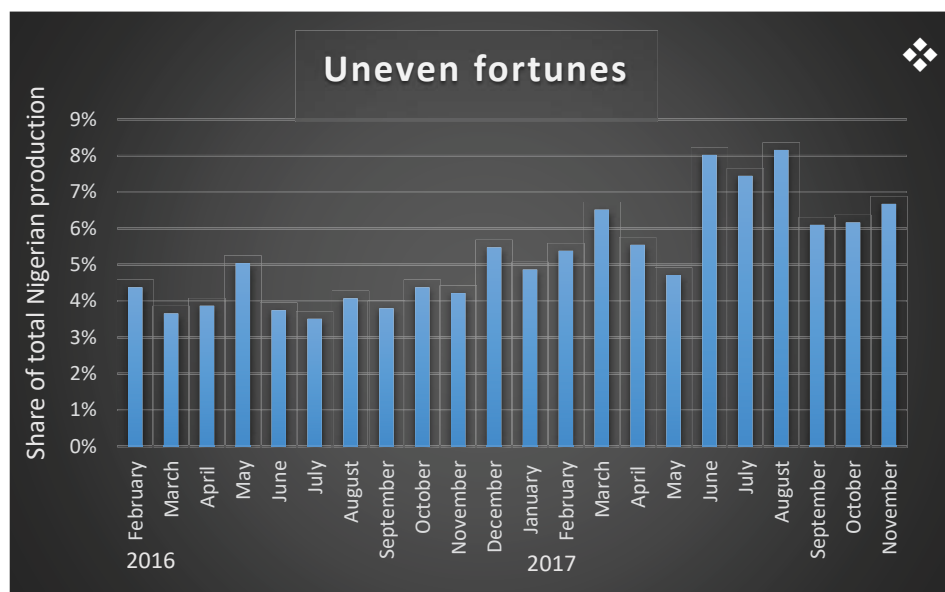
According to Nigeria's *This Day* newspaper, there are 46 fields on offer. Of these, though, it reported that the DPR may be planning to allocate some to indigenous Niger Delta outfits, "in order to sustain the prevalent peace in the oil-rich region and give its citizens a sense of ownership in Nigeria's oil wealth".

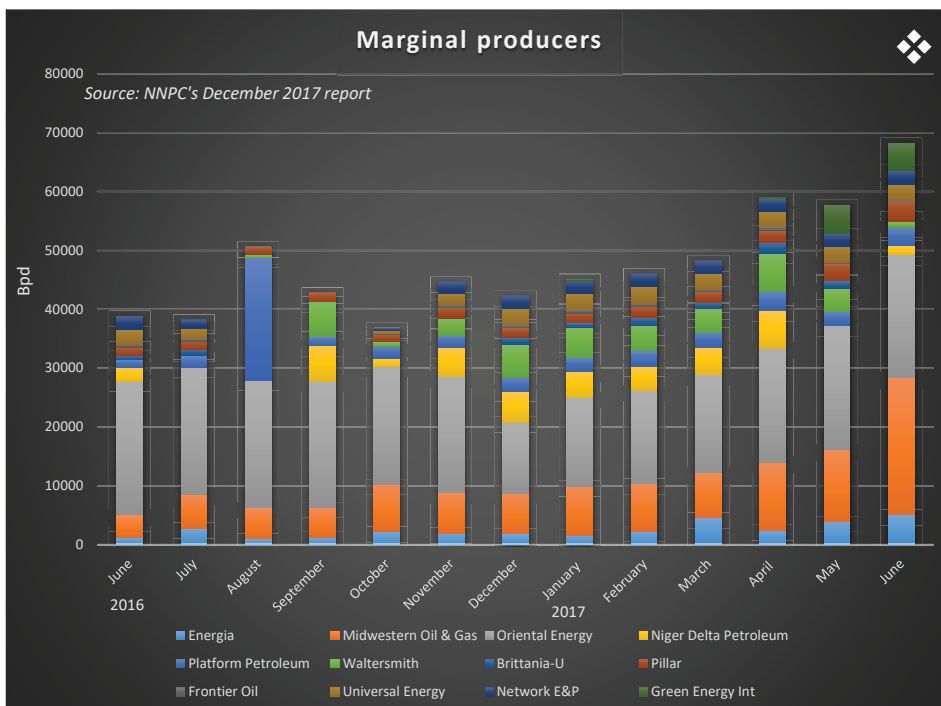
The discretionary award of fields and licences is a practice that has been widely criticised by transparency campaigners and NGOs. Awards have in the past also been made to politically connected companies.



**MARGINAL FIELD:**

Under Nigerian law, a marginal field is considered to be one on which a discovery has been made but not exploited for 10 years and is declared to be such by the Nigerian president.





**PRODUCERS:** The performance of marginal field operators is mixed. Two companies – Oriental Energy and Midwestern Oil and Gas – are responsible for the bulk of production, according to data from Nigerian National Petroleum Corp. (NNPC). The two companies have sustained output at around 19,000 bpd and 8,500 bpd respectively. One problem faced by marginal producers is that onshore fields are susceptible to sabotage by militants. The most effective attacks of recent times have not focused so much on fields themselves but rather on export infrastructure, which is harder to protect.

► and builds up local capacity. That said, evidence from the 2001 round is disappointing. Only nine fields are producing, leaving the majority still out of action – despite some 15 years having passed since the allocations were made.

There are a number of reasons behind the underperformance, Hammerson said, including technical challenges and, in some cases, a lack of experience among the winners.

“You need to look at it on a case-by-case basis and work out why there’s been a poor success rate. In the oil and gas industry there are risks ... not all potential discoveries get developed.” Since that first round, though, indigenous companies have gained experience and are better prepared to develop fields.

The regulator has also become more capable, Hammerson said. As a result of some of the planned unbundling, the DPR will have fewer conflicts of interest, he said, and will become more professional. “My understanding is for

the bidding process phase they’re going to select the winner by committee,” he continued, with the current holder of the marginal field – one of the majors – set to participate in that committee award. “Hopefully that interactive involvement together with maybe slightly tighter bidding processes is going to lead to a more professional basis.”

**Financing**

The greatest challenge for marginal field operators will be how to finance these developments. The Central Bank of Nigeria (CBN) has cracked down on local banks funding oil and gas companies. “There is a lack of hard currency liquidity in the local banking market, [so] I don’t see local banks as being the driver behind financing these developments, in general.”

With limited local interest, therefore, companies must consider foreign alternatives. Traditional London banks are moving away from backing such projects. “There are a couple of banks in London looking at Nigeria ... Some have got a higher risk appetite. Some of them have got a higher cost of capital and therefore need to deploy their money in a place like Nigeria where they’re going to get a higher return.”

In addition, Hammerson said there were some new participants, such as private equity or service companies. The latter have shown some signs of moving away from selling work to companies to helping finance earlier-stage work – in exchange for a share of the upside.

Trading houses, which have backed some offtake deals in Nigeria recently, may not be willing to fund development work, he continued. “Trader deals prefer pre-financing for existing production. When you start presenting fairly complicated field development plans ... whether the traders will still have the same appetites, I would question.” ❖

