

Deepening Transparency in the Petroleum Sector: The 2005 Acreage Awards

By

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Order of Presentation

- Transparency aspect of the reforms
- Some background on the audits
- The 2005 oil block bid round
- The bid round process
- Quality control issues in the bid round
- Results of the bid round
- Assessment of the bid round
- Lessons learned
- Closing Thoughts

TRANSPARENCY ASPECTS OF ONGOING REFORMS

- Due Process and Procurement Reforms
- EITI Initiative
- Tax reforms
- ICPC
- EFCC
- Legal, Judicial and Police Reforms

Brief on the Audits

- Financial audit
 - Assess oil & gas revenues flows
 - Reconcile these earnings from relevant agencies
- Physical audit
 - Audit oil and gas volumes produced
 - Audit record of oil liftings and exports
 - Oil products' imports & disposal
- Process audit to check for international best practice
 - Oil sales process
 - Products imports process
 - **Acreage award process**

The 2005 Bid Round

- Antecedents of acreage awards not good
- As part of drive for transparency, 2005 Bid Round was conducted differently
- 77 blocks for competitive bidding, as follows:
 - Deep offshore (14)
 - Niger Delta Continental Shelf (11)
 - Niger Delta onshore (14)
 - Anambra (9)
 - Benue Trough (16) and
 - Chad Basin (13).

Some media comments on Block Allocation

- “...apart from the murky business of fuel importation that started from the military era, **perhaps there is no other segment of activity in the oil sector that was subjected to abuse like allocation of oil licenses**” – *ThisDay*, Aug. 4, 2005
- “The abuse coined a lexicon in upstream business known as **"discretionary" allocation**, which in the Nigerian parlance, meant issuance of oil licenses to favoured individuals or companies with links to the ruling clique”.
- Citing the Minister of State for Petroleum, the same newspaper stated that **“The cancellation of discretionary allocation of oil licenses was in line with the overall reform sweeping through the petroleum industry...the 2005 Bid Round would be used to, among other major objectives, reinforce Nigeria's commitment to EITI”**.

The Bid Round Process

- Public briefing session in Abuja (March, 2005); followed by road shows in Abuja, Port Harcourt, Houston, London and Singapore
- Over 250 companies with about 350 bids technically and financially pre-qualified
- Pre-qualification was interactive: opportunities for questions & clarifications (June-July, 2005)
- Commercial Bidding Conference, held 26-27th August, 2005
- 136 companies pre-qualified to participate as operators while 43 were for Strategic Downstream partners.

Bid Process, Cont'd...

- Bidders submitted three sealed envelopes: (a CD rom with the completed template; the LCV ranking and the printout of the template in the CD rom-Operator Data Sheet, etc.)
- Blocks were called one by one and the auction for each block opened for five minutes: bidders drop their sealed envelopes in a transparent box provided)
- At close of auction, envelopes displayed to audience before opening and the CD Rom slotted into the computer to display & authenticate the content of printed submission
- Computer programme analysed and displayed results in two large screens before the audience; process was repeated for all submitted bids and the winners emerged immediately
- The LCV ranking of the winning bid was opened and the selected Common Vehicles called upon to accept selection. Process was repeated for all the blocks

Quality Control Issues

- Engagement of Brazilian and Norwegian Department of Petroleum Resources for quality control and advice on process
- International industry consultants provided support & international industry input
- Consultation with & involvement of local industry experts to fine-tune process
- International observers from UK and US Dept of Energy, etc. were present; bidders came from all 5 continents.

Bid Round: The Results

- 44 blocks won by 19 companies and 18 consortia
- Of these, 13 were for strategic downstream projects (6 for refinery, 4 for IPP & 3 for LNG)
- 44 Common Vehicles were selected
- Breakdown of blocks awarded were as follows:
 - 5 blocks in Anambra Basin,
 - 2 in Benue Trough,
 - 4 in Chad,
 - 15 in Niger Delta Onshore,
 - 10 in Niger Delta Continental Shelf and
 - 8 in deep offshore
- Letters of awards issued to the winners and given time to respond
- Estimated \$2.5 billion in signature bonus; actual amount realized was much less
- Monitoring and follow-up of contractual commitments (e.g. work programme and fast track development, costs etc. being undertaken)

Assessment

- Bid round judged by local & international observers to have been successful; improvement on previous experience
- Transparent; raised governance credentials
- Monopoly of traditional IOCs broken
- Raised significant sum for Treasury
- Brought serious Nigerian investors to the bid
- Reduced past bad practice whereby local license holders hawked them abroad
- LCVs have a stake in the business

Lessons Learned

- ❑ Still learning the lessons, including some observations flagged in the auditors' reports
 - Too many short-listed companies (cumbersome)
 - LCVs information not circulated in time for potential bidders to do Due Diligence on them
 - Timetable for the program shifted/stretched
 - There is still some element of discretion in acreage awards; needs to be removed
 - Promised signature bonus not fully realized; perhaps in future demand payment of “earnest money” into an escrow account (in advance)
 - Must use opportunity to domesticate technology
 - Effective supervision of bid winners essential to ensure they abide by terms of the award
 - Put structures in place to improve & sustain process in future years

Closing Thoughts

- Reforms under the NEITI is an integral part of overall reform program
- Administration recognized early governance problems in Nigerian petroleum industry
- Focus of audits so far has been on monitoring revenue flows, physical production, and processes underlying the activities of the sector
- The oil acreage award process fits under the ‘process’ aspect of the transparency work
- Hence in 2005, we moved to the open bid system
- Results largely positive; process now being brought under umbrella of transparency
- We’ve learnt some lessons, which will help future rounds.

Finally...

- Thank you for your attention
...& support of the NEITI