

COLUMBIA GLOBAL ENERGY DIALOGUES

(RE)EMERGING THREATS TO NIGERIA'S PETROLEUM SECTOR: MILITANCY, MISMANAGEMENT, AND LOW OIL PRICES

*This policy memorandum was written by Matthew Page under the auspices of Columbia University's Center on Global Energy Policy. It reflects the sense of a discussion, held under the Chatham House rule, on the Niger Delta involving more than thirty senior international experts from academia, civil society, government, industry, and the media chaired by Professor Antoine Halff, Program Director for Global Oil Markets, in October 2016. Matthew Page was until recently the State Department's top expert on Nigeria and is a co-author of *Nigeria: What Everyone Needs to Know*, forthcoming from Oxford University Press next year.*

Nigeria has emerged as one of the main victims of the oil price collapse in the last two years, with growing competition from new light sweet crude supply in the United States and rising output from the Persian Gulf compounding the effect of its deep-seated fiscal problems. In the wake of President Muhammadu Buhari's 2015 election victory, unrest in the Niger Delta resumed, slashing already declining production and propelling previously unknown "violence entrepreneurs," like the self-styled Niger Delta Avengers (NDA), onto the world stage.

This unrest unfolds amidst a deepening recession, continuing attacks by Boko Haram in the northeast, and intense political polarization between Buhari's ruling All Progressives Congress party and the opposition People's Democratic Party (PDP). The Niger Delta, home of former President Goodluck Jonathan, is a major PDP stronghold.

Nigeria's international profile on the global energy issues, meanwhile, remains high. Energy diplomacy by President Buhari and Minister of State for Petroleum Emmanuel

Kachikwu has taken them to several world capitals. In August, respected Nigerian technocrat Mohammed Sanusi Barkindo took over as Secretary-General of the Organization of the Petroleum Exporting Countries (OPEC)—though his appointment will have little effect on Niger Delta dynamics.

Despite living amid the source of Nigeria's great oil wealth, the people of the Niger Delta remain deeply impoverished, struggling to cope with pollution caused by gas flaring and oil spills, as well as the effects of climate change. Decades of poor governance and unbridled political corruption have fueled criminality and compounded the region's socioeconomic challenges. For years, militant and criminal activity has been incentivized by elites, either by direct sponsorship or conciliatory payoffs. Nonviolent actors, in the meantime, have been marginalized.

Even with tensions now running high, decision makers in Abuja, Washington, London, in the boardrooms of international oil companies, and in the Niger Delta itself have an opportunity to steer the region away from conflict. To actualize this, however, they must communicate more constructively and collaborate with the aim of deescalating tensions, sidelining potential spoilers, and addressing issues of common concern—like environmental damage—while maintaining an open dialogue on more contentious ones, such the distribution of oil revenues.

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CURRENT CHALLENGES

In addition to its perennial challenges—socioeconomic underdevelopment, environmental degradation, and poor governance—the Niger Delta faces three destabilizing influences in the short-to-medium term: the resumption of militancy, government action/inaction, and worsening petroleum sector dynamics.

Resumption of Militancy. Over the last year, a gaggle of new Niger Delta militant groups has attacked the region's already dilapidated oil infrastructure, churning out bombastic statements about their political aims and combat prowess. Unlike the Movement for the Emancipation for the Niger Delta (MEND), the umbrella organization that united mainly ethnic Ijaw militant groups in the mid-to-late 2000s, today's Niger Delta militant groups represent a more diverse range of ethnic constituencies. Seeking legitimacy, these new groups are coopting historical symbols like the widely revered 1960s Niger Delta revolutionary Isaac Adaka Boro. For many militants, heartfelt grievances coexist alongside baser motivations like opportunism, criminality, and greed.

Despite their short-term effectiveness, past government efforts to coopt and pacify militants have inadvertently created an incentive structure for the region's violence entrepreneurs. As a result, today's militant groups aspire to constitute enough of a threat to be given a seat at the negotiating table. By threatening the country's oil output, even the most ambitious of upstart militant groups might find themselves eligible for the payoffs and patronage that federal and state officials have relied upon for decades to temporarily pacify the region. With so many disparate gangs now operating in the Niger Delta, however, it is now more difficult for the government to purchase peace as it did following its 2009 amnesty for militants.

Niger Delta militancy is also sustained by the symbiotic relationship that has evolved between state and local politicians, militants, and powerful criminal gangs known as "cults." Since Nigeria's 1999 return to civilian rule, Niger Delta politicians have used militants and

cultists to rig elections and neutralize opponents. Over time, top militants—like Ateke Tom in Rivers State—have become cult leaders and political players in their own right. In neighboring Delta State, meanwhile, Kingsley Otuaro, a former top lieutenant of militant mastermind Tompolo is now the state's Deputy Governor. And in Bayelsa State, the governor recently installed former militant commander Joshua Maciver as a local government chairman. Looking ahead, the more the interests of militants, criminals, and state government converge, the more difficult it will be to navigate the Niger Delta region away from the brink of conflict.

Government Action/Inaction. Since taking office, President Buhari has been slow to engage in the Niger Delta, and his government's policy approach to the region appears to be uncoordinated and without a center of gravity. None of the federal entities with equities in the region—including the Ministry of Niger Delta Affairs, the Niger Delta Development Commission, the Ministry of Petroleum, among others—have taken the lead in addressing the region's pressing challenges. Instead Minister of State for Petroleum Emmanuel Kachikwu and Transport Minister and former governor of Rivers State Rotimi Amaechi seem to exercise influence over Niger Delta issues at the federal level. Cooperation between the federal and state governments, meanwhile, is lacking for both political and bureaucratic reasons, but may grow as dialogue efforts progress.

Despite its idiosyncrasies, the Buhari government has taken some positive steps in the Niger Delta, such as beginning the environmental remediation of heavily polluted areas of Ogoniland and canceling lucrative "pipeline security" contracts given to ex-militants by Buhari's predecessor. Nevertheless, many Niger Delta indigenes, civil society groups, and international observers remained concerned that the Buhari government may escalate current tensions by launching a major military crackdown in the region.

While a more robust security presence could be good for the region, past military crackdowns on Niger Delta unrest have, for the most part, been counterproductive, exacerbating local grievances and entangling security

personnel in racketeering and oil theft schemes. Security operations in Rivers State (1994–1995), Bayelsa State (1999), and Delta State (2009–2010), for example, resulted in gross human rights violations. Rumors that the military is preemptively rounding up young men—a tactic it has used in the northeast—are leading many to leave the creeks of the Niger Delta for the relative safety of urban areas. This outmigration of working-age males, if it accelerates, would be another blow to the region's hobbled economy.

Petroleum Sector Dynamics. Nigerian oil production fell to around 1.5 million barrels per day (bpd) earlier this year following a spate of militant attacks, but had rebounded to 1.9 million bpd by late October. Recent attacks suggest militant tactics have become more sophisticated, making international oil companies' (IOCs) and indigenous firms' operations more vulnerable to disruption. In July 2016, for example, militants used diving gear to sabotage a key pipeline at a major crude oil export terminal that was 100 meters underwater: an unprecedented feat.

More than militant attacks, policy drift and government mismanagement remains the Nigerian petroleum sector's Achilles' heel. Many in the private sector complain that the government is failing to address the numerous challenges they face. IOCs, meanwhile, are annoyed that the government is not meeting its joint venture obligations. Investment in the sector is already down, due in part to low oil prices and lack of access to affordable financing from cash-strapped Nigerian banks.

Recognizing that Nigeria's state oil company, the Nigerian National Petroleum Corporation (NNPC), has been a nexus of official corruption for decades, President Buhari has replaced most of its top management. He also sent a strong pro-reform message by retaining the petroleum ministry portfolio for himself. Yet there is a growing perception that Buhari has spent limited time on petroleum sector issues. Work on many deeper promised changes—such as NNPC restructuring, downstream privatization, and a review of upstream fiscal terms—has stalled. His government also has not released a detailed reform agenda for the sector.

Instead of making big changes to sector rules, operating models, or institutions, Buhari appears to believe that he can revitalize NNPC and its subsidiaries without enacting hard-to-reverse changes to policy, law, regulation, or institutional governance. However, by relying heavily on management changes to drive reform, any gains Buhari realizes could easily be reversed by his successors. The main vehicle for petroleum sector reform—the Petroleum Industry Bill (PIB)—has gone through several incarnations but has not progressed meaningfully in the National Assembly, in part because Buhari appears ambivalent about it.

Paradoxically, as Nigeria sinks deeper into a recession triggered by a protracted slump in global crude oil prices, its government is more dependent on diminishing petroleum revenues. Nigeria was already experiencing a period of diminishing public returns from its petroleum sector—and from crude oil in particular—during the oil price boom of 2011 to mid-2014. Oil revenues fell during the latter half of former president Goodluck Jonathan's term, mainly because of lower production, crude oil theft, and questionable NNPC revenue withholdings. Simultaneously, a mix of low investment, regulatory uncertainty, questionable spending, and poor governance eroded the nation's fiscal buffers and petroleum asset base.

Despite the grim fiscal situation President Buhari inherited, declining government oil revenues will not necessarily push Nigeria into an unsustainable macroeconomic position or leave it unable to pay its bills. This is true even though oil and gas accounted for around 70 percent of public revenues and 90 percent of foreign exchange earnings during the boom years. The federal government already foresees spending a third of its gross receipts this year servicing debt. Nonetheless, it likely can borrow to finance its budget deficit for several more years given its roster of willing lenders and low debt-to-GDP ratio.

OPPORTUNITIES

There are three reasons why there is an opportunity to steer the Niger Delta away from conflict and positively influence its political and socioeconomic trajectory in the short-to-medium term:

- **Niger Delta militants are divided.** Niger Delta militants' disunity and ethnocentrism gives government negotiators the chance to open parallel dialogues aimed at addressing militant grievances at the local, rather than regional, level. By de-escalating the conflict in a tailored and deliberate way, the government can begin to build trust with some of the conflict's main protagonists and identify opportunities to show goodwill and delegitimize militant narratives by addressing grassroots concerns. The Buhari government will need to proceed carefully however, as such a strategy could exacerbate ethnic tensions and prompt groups left out of negotiations to conduct attacks and make new ultimatums.
- **International interest in the Niger Delta has shifted away from protecting oil imports toward conflict resolution.** A decade ago, the United States, the United Kingdom, and Nigeria's other international partners were preoccupied with their immediate need to keep imported Nigerian oil flowing regardless of the long-term impact on the stability of the region and the welfare of its people. America's addiction to Nigeria's light sweet crude was cured, however, by refinery modernizations (resulting in greater feedstock slate flexibility) and increased domestic oil production resulting from the "shale boom". Washington increasingly views the region through a human security—as opposed to energy security—lens, opening up space to apply anti-corruption, post-conflict stabilization, and economic development policy tools in bold and innovative ways. In the past, the U.S. policymakers have avoided taking action on environmental degradation, security force abuses, or corrupt activities by Niger Delta elites out of the fear that they could undermine U.S. companies' activities by doing so.
- **Opposing sides share common ground on environmental issues.** Although Niger Delta militants—and the people of the Niger Delta—have wide-ranging grievances, a few issues are acknowledged by all sides. Foremost among these are persistent underdevelopment and the threat posed by environmental degradation and global climate change—specifically rising sea levels. The Nigerian government now has an opportunity to reverse decades of inaction and malfeasance in this arena by taking concrete, transparent steps to reduce gas flaring and oil pollution. It also can earn the trust of the hundreds of communities by helping them cope with coastal erosion and inundation. Over the coming century, in addition to submerging much of Lagos, a sea level rise of one meter or more could cause the loss of 75 percent of the Niger Delta. Ongoing coastal erosion will also accelerate as both unchecked pollution and rising seas destroy the region's mangrove forests—an important ocean defense.

KEY RECOMMENDATIONS

Although no set of policy recommendations can address the significant and wide-ranging challenges affecting the Niger Delta, we believe that the following ones are both necessary and achievable:

- **To Nigeria's Federal Government:** Prioritize making durable reforms to the rules, operating models, and institutions governing the country's petroleum sector. Create a single unified federal institution responsible for Niger Delta issues. Improve coordination among ministries and with state and local governments. Implement measures outlined in existing government-commissioned reports such as the 2012 Niger Delta Action Plan.
- **To the Rivers, Delta, and Bayelsa State Governments:** Increase the transparency of state budgeting and contracting procedures. Empower local communities by conducting free and fair local elections. Stop rewarding ex-militants with government jobs and contracts. Ostracize politicians who sponsor cults and armed thugs.
- **To International Oil Companies:** Avoid perpetuating arrangements, like pipeline security contracts with prominent ex-militants that incentivize conflict over the long term. Continue community-driven financial and technical assistance. Expand the use of foundation-based development models and provision of economic development enablers such as gas-powered electricity hubs. Increase pressure on the federal government to meet its joint venture and environmental clean up obligations.
- **To the International Community:** Increase funding for development, environment, and climate change activities in the Niger Delta and to advocate and cooperate with federal and state governments on the implementation of blueprints, such as the Niger Delta Action Plan. Levy robust travel and financial sanctions against the region's main violence entrepreneurs and kleptocrats—past

and present. Restructure the way development assistance is given to Niger Delta NGOs in order to sustain and develop their capacity over the long term instead of creating a boom-bust cycle by intermittently providing funds to a wide range of groups.



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