MONEDA

SPECIAL REPORT | MARCH 2021

NIGERIAN CONTENT ACT: IMPACT ON OIL AND GAS PLAYERS

QUEEN OF THE SEA, SOURCE: 1952 AFRICA

Source: 1952 X Gallery

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Photo Credits: Hu Chen & Matt Atherton

EXECUTIVE SUMMARY

One of the major concerns of the Nigerian government which led to the establishment of the Nigerian Local Content Act in 2010, was capital flight occasioned by repatriation of revenue from oil and gas exploration and production activities in addition to increased industry expenditure on importation of fabrication, welding & related services.

The government's primary objective for the development of Nigerian content in the Nigerian oil and gas industry aims at increasing Indigenous participation and promoting technology transfer; invariably resulting in increased funding initiatives to domestic companies and improved infrastructural development in the upstream and downstream sectors.

After a decade of this Act, we explore just how much impact it has had on all the players in the ecosystem and we weigh the level of success it has had in terms of achieving the goals set by those who enacted it.

Looking at the players in isolation, we discovered more Nigerians are indeed participating in the industry now, for example, this is evidenced by the contribution of local independent operators to crude oil production activities. They contributed about 23% of the total crude production in the country, a much higher proportion compared to the 5% they contributed prior to the Act. However, putting the pieces together and scratching beneath the surface unearths a disturbing reality. Production of raw materials in-country is being faced by many issues and this seriously bottlenecks the success of the Act. This gives us a cause for concern.

It is not all doom and gloom, though. We believe steps can easily be retraced and the Nigerian Content Development and Monitoring Board is already on its way to plugging these holes, albeit slowly.

GOVERNMENT

"All regulatory authorities, operators, contractors, subcontractors, alliance partners and other entities involved in any project, operation, activity or transaction in the Nigerian oil and gas industry shall consider Nigerian content as an important element of their overall project development and management philosophy for project execution"

- Section 2, Nigerian Oil and Gas Industry Content Development Act

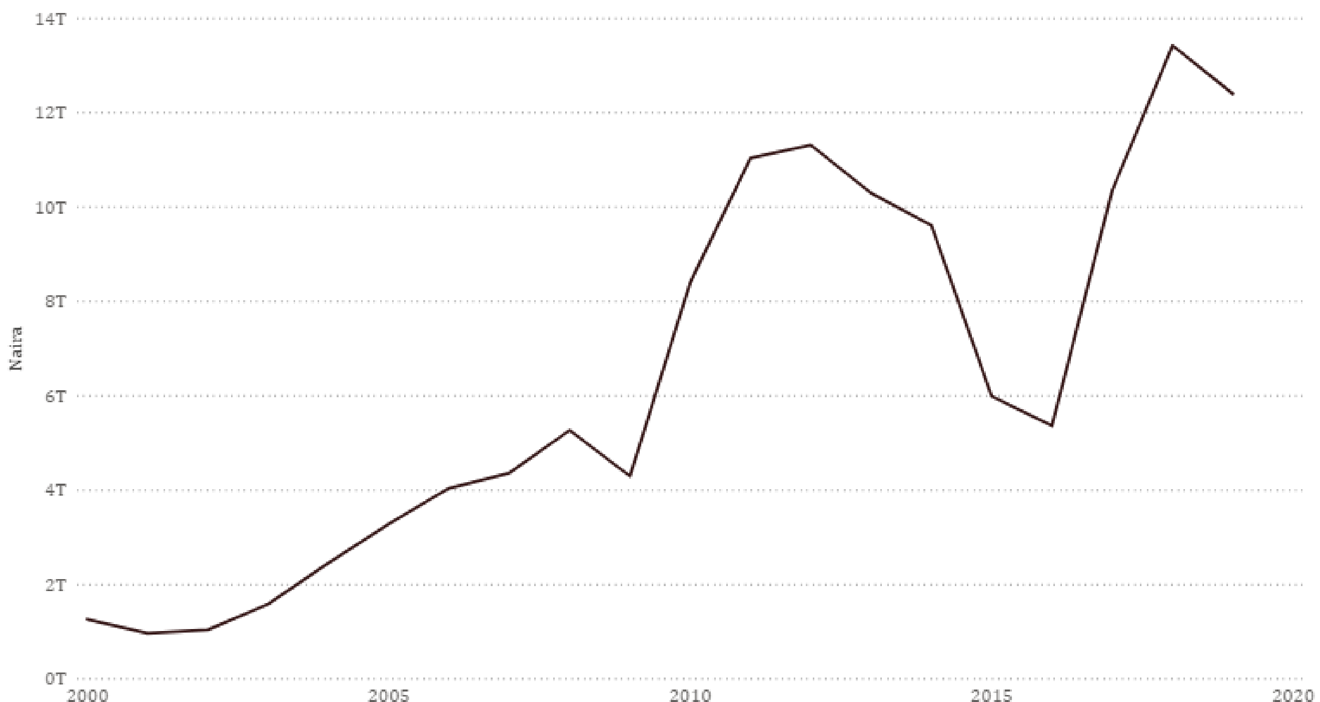
Nigerian Content Development and Monitoring Board (NCDMB) is tasked with enforcing compliance with the Act.

The enactment of the Act came with the establishment of a monitoring board (section 4) that is tasked with enforcing compliance and in a case of breach or non-compliance, a penalty of 5% of project value is to be meted out as punishment.

Although the board was formed to be an entity that is separate from the government, however, according to the provisions of the Act, the board consists of representatives from government agencies. As a result of this, we envisage that the government would have some level of impact to its operations and vice versa.

Gross Domestic Product (GDP) estimates tell us value is being created in the country.

A brief analysis of oil and gas contribution to GDP shows a trend that literally and figuratively speaks volumes. Within the 10-year period just before the enactment of the Act, oil and gas contribution to GDP averaged about N2.858 trillion but 10 years after that, the average value rises by 243% to N9.82 trillion. This shows that the Act has indeed created some more value in the country.



Data: Central Bank of Nigeria

Technical capability is enhanced through trainings

Following the enactment of the Act, the industry has seen an increase in trainings sequel to the mandate placed on the operators to provide training for Nigerians where it is lacking and ensure that expenditure is provided to promote the said trainings. This has increased in-country capacity of employees in the industry in terms of acquiring new skills, thereby increasing their productivity. These trainings have proved to be crucial given the technicality of the oil and gas industry and its role in the growth and the continuous development of manpower in the industry.

Additionally, the mandatory minimum content requirements with respect to services such as drilling, and transportation have stimulated the development of local technical trainings in these areas. Accordingly, IOCs have intensified their focus on employees' professional development by conducting periodic in-house trainings. Reports that emerged in 2013 that Shell companies had sponsored the training and professional certification of several Nigerians, including twelve (12) engineers in FEED and detailed engineering at the Shell FEED office in Port Harcourt is evidence of this development.

Technology transfer breeds technological advancements in the sector

Considering that operators are mandated to undertake and commit financially to research and development and make periodic reports on these activities, the economy has witnessed a progression in innovations in the industry through technology transfer. Each operator is required to carry out programs to promote technology transfer to Nigeria and to submit a plan annually for an effective transfer of technologies to locals (sections 43-47). This has led to many successful collaborations between researchers and operators across the industry. A number of innovations, spearheaded by locals, have been birthed by these collaborations including the Integrated Studies of Anambra and Benue Trough for NFES-NAPIMS (2014) which was instrumental in the discovery of oil in the latter basin and the Reservoir Studies – Okpoho Wellhead Sampling and PVT Analysis for JUBOB (2016).

The Act addresses unemployment rate in Nigeria through increased job creation

With the mandatory requirements for the minimum local content in every project and a succession plan for Nigerians to understudy an incumbent expatriate for a specified period (section 31), there has been a significant rise in employment opportunities in the industry. In 2018, Seplat alone had reportedly created over 30,000 direct and indirect jobs for Nigerians since 2010. As a matter of fact, the company also takes pride in the fact that 98% of all its contractors are Nigerian companies and 99% of its entire workforce are Nigerians. Beyond reasonable doubt, same would be true for the many other independent operators who have only become so big as a result of the Act.

More participation, more tax, more government revenue

According to recent figures from the International Center for Tax and Development, tax revenues account for more than 80% of total government revenue in about half of the countries in the world and more than 50% in almost every country. Nigeria does not deviate from this normal.

The first consideration given to contractors in terms of award of contracts and the increased employment opportunity has translated into more revenue for indigenous company and consequently, more income available to be taxed.

In one way or another, stakeholders have contributed to infrastructural development.

Over the last couple of years, NCDMB has been very busy driving initiatives which have contributed to the development of infrastructure in the country. These initiatives have come in conjunction with many other players including producing companies and contractors, all of which have tapped into these schemes as either revenue-generating or social impact strategies. Perhaps the most popular of such is the construction of Africa's first FPSO integration facility which was completed in 2016 at Lagos Deep Offshore Logistics base. Others include the construction of pipe mills, ship yards and even modular refineries.

On a slightly smaller scale, it is not difficult to see how the imposition on operators to establish project offices in catchment areas would boost infrastructure development. The reality is that the personnel responsible for manning these offices would require facilities such as hospitals, roads and schools, all of which would have to be provided by companies if they are not available.

The Act creates an enabling business environment for investors in Nigeria

Infrastructure is regarded as a catalyst for investments; thus, the improved infrastructure development has equally influenced the investment rate in the country. As at 2013, the Act had attracted Foreign Direct Investments (FDI) worth over $500 million and stimulated over $2 billion investment in new and upgraded facilities [1]. Years down the line, more foreign investments have been welcomed in the Nigerian sphere. For example, Shell Gas BV, a subsidiary of Royal Dutch Shell Plc, took an investment decision worth over $4 billion for the NLNG Train 7 expansion. This project is expected to increase the country's LNG capacity by 35%, increase government revenue and create over 50,000 direct and indirect jobs. As the project is underway, talks have already begun for a Train 8 plant.

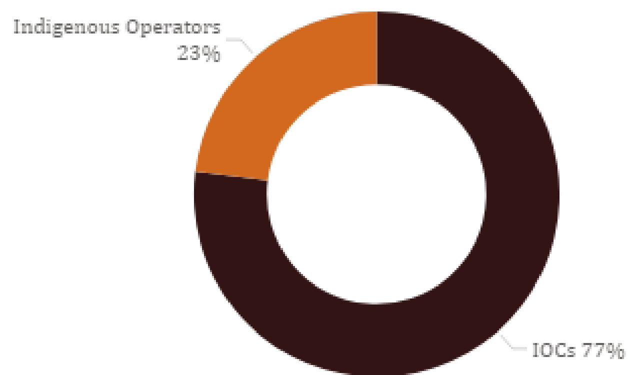
Photo credit: Sam Moqadam

[1] Prof. John C. Anyanwu – Lead Research Economist; Development Research Department; African Development Bank

PRODUCERS

Producers are major stakeholders in the oil and gas industry. They are the first line of contact between man and oil, they make the decisions on what contracts are to be executed and who executes them. As a result, they have a huge part to play in the success or failure of the Nigerian Oil and Gas Industry Content Development Act (NOGICDA) and thus, they would as well be impacted by it significantly.

Figure 2.1



Data: Department of Petroleum Resources (DPR)

Changing contractor selection strategy comes with a cost

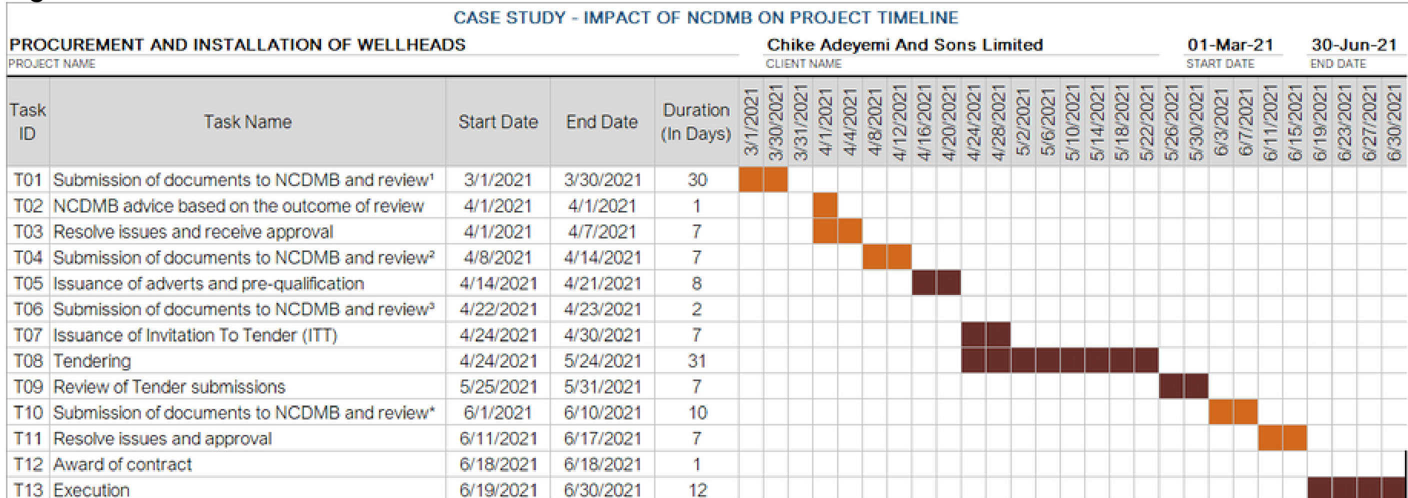
Prior to its enactment, oil and gas fields operators invite contractors to bid for contracts and subsequently award these contracts to the lowest, competent bidder. However, section 16 of the Act emphasizes that this should not be and introduces another metric to the equation. Local content is expected to be given a higher priority over the bid value provided a bid does not exceed the lowest bid by 10%. This would translate to some increase in expenses for the operators. Using our estimates for 2020 total E&P spending, at $15.4 billion, as a base case, about $44.41 million could have been saved if this stipulation had not been in place. This estimate puts into consideration that the effect of this provision would dwindle over time as competition amongst local contractors increases. Therefore, at the first year of the enforcement of this Act, the cost implication of this provision could have been as high as $120.7 million.

Back and forth with NCDMB may be bad for business

Apart from the obvious financial consequences, the Act comes with a slight operational disturbance. Sections 17 through 23 outline reports and documents that have to be submitted by operators to the Nigerian Content Development and Monitoring Board before any project worth over $1 million can commence. This intrusion into the process flow may disrupt project timelines. Although it is largely difficult to obtain data that could quantify just how much delay is caused by this slight distortion in process flow, Figure 2.2 attempts to graphically highlight the impact on project timeline using a case study.

In this case study, as a result of the back and forth with NCDMB, a contract planned for Q2

Figure 2.2



CASE STUDY - IMPACT OF NCDMB ON PROJECT TIMELINE

PROCUREMENT AND INSTALLATION OF WELLHEADS (PROJECT NAME) | Chike Adeyemi And Sons Limited (CLIENT NAME) | 01-Mar-21 (START DATE) | 30-Jun-21 (END DATE)

Task ID	Task Name	Start Date	End Date	Duration (In Days)
T01	Submission of documents to NCDMB and review[1]	3/1/2021	3/30/2021	30
T02	NCDMB advice based on the outcome of review	4/1/2021	4/1/2021	1
T03	Resolve issues and receive approval	4/1/2021	4/7/2021	7
T04	Submission of documents to NCDMB and review[2]	4/8/2021	4/14/2021	7
T05	Issuance of adverts and pre-qualification	4/14/2021	4/21/2021	8
T06	Submission of documents to NCDMB and review[3]	4/22/2021	4/23/2021	2
T07	Issuance of Invitation To Tender (ITT)	4/24/2021	4/30/2021	7
T08	Tendering	4/24/2021	5/24/2021	31
T09	Review of Tender submissions	5/25/2021	5/31/2021	7
T10	Submission of documents to NCDMB and review[4]	6/1/2021	6/10/2021	10
T11	Resolve issues and approval	6/11/2021	6/17/2021	7
T12	Award of contract	6/18/2021	6/18/2021	1
T13	Execution	6/19/2021	6/30/2021	12

2020 would only have 12 days available for execution. There is a very high probability that the execution of this contract would continue well into the third quarter and the the same is likely to occur for many other contracts worth over $1 million.

IOCs' divestments: A fair metric for power shift

For multinational producing companies, with the enactment of NOGICDA came growing pressure from the government to relinquish operatorship of onshore assets. Between 2010 and now, IOCs have made tens of divestments in their Nigerian oil and gas assets [across the value chain] all of which have gone to local players. In 2014/2015 when Shell divested OMLs 18, 24, 25, 29 and the Nembe Creek Trunk line, Reuters cited three deciding factors for this divestment; politics (pressure from government), security and uncertainty. This remains true for many other divestments that have been made by all other IOCs with the first factor continually increasing in efficacy.

A quick 12-year analysis shows an interesting trend. Of all the divestments made by four top IOCs between 2005 and 2016, 9% were made before 2010 (when the Act was signed) and 91% between 2011 and 2016. This pressure from government continues to increase as they become more and more confident in the capacity of indigenous producers, so we expect more divestments especially on onshore and shallow water assets as the local players are yet to attain the technical dexterity to play deep offshore. It is very improbable that the value of the sales would be equivalent to the expected future cashflows from these assets that have been divested, therefore it is our opinion that these divestments would cause a decline in revenue for the IOCs in the long run. A shorter-term impact is the reduction in booked reserves and if they are not offset by discoveries in other countries, it would affect the companies' balance sheet and consequently, their stock price.

All oil and gas assets that have been divested by IOCs have been acquired by their local counterparts including the state oil company, NPDC in line with subsection 1 of section 3 of the Act. Although no oil field licensing round (bar marginal fields) has been carried out within this period, we could argue that these divestments have strengthened the capacity of independent operators, better preparing them, both financially and technically, for the bid rounds. Marginal field bid rounds have also been pilot tests for the strength of local producers with little or no detriment to the IOCs as marginal fields have already been abandoned by them [for commercial reasons]. Another incentive to the IOCs is that, according to farmout agreements, marginal

field operators are required to pay overriding royalties to them. Perhaps in a poetic display of paradox, IOCs unlock increasing streams

Facts & Figures

- Operators are mandated to prioritize local content over value of bid. This could result in an extra cost of about $44.41 million (2020).
- Provisions in the Act would likely disrupt project timelines.
- 91% of all IOCs divestments in the last 12 years came after 2010 (when the Act was signed)
- 11% of indigenous operators who are currently producing were only incorporated after 2010. 30% of those that were not incorporated could not achieve first oil prior to the Act.
- With indigenous operators waxing stronger in capacity and production, IOCs accrued about $44.2 million in overriding royalties in 2018.

of income with the increasing capacity of Nigerian operators through these overriding royalties. Using 2018 figures, IOCs accrued a total of $44.2 million in royalties from their farmees. This begs the question: "has the Act actually improved local capacity in the E&P sector?" Perhaps the answer lies in our research into a sample of 27 producing indigenous oil field operators. Of these 27 companies, 3 were incorporated, awarded licenses and achieved first oil after the enactment of NOGICDA. About 30% of those that were incorporated before this time could not achieve first oil pre-2010 but suddenly achieved first oil thereafter. This result paints a slightly blurry yet interesting picture. We believe the Act has forced local operators to

Table 2.1

TOP 10 IOCs UPSTREAM DIVESTMENT			
BLOCK	**Old Operator**	**New Operator**	**Year of sale**
OML 83	Chevron	First E&P Dev. Co.	2015
OML 85	Chevron	First E&P Dev. Co.	2015
OML 120	Eni (Agip)	Allied Energy Plc	2011
OML 121	Eni (Agip)	Allied Energy Plc	2011
OML 71	SPDC	Dangote Oil & Gas	2015
OML 72	SPDC	Dangote Oil & Gas	2015
OML 34	SPDC	ND Western	2012
OML 26	SPDC	First E&P Dev. Co.	2011
OML 30	SPDC	Shoreline	2012
OML 42	SPDC	Neconde Energy	2011

take on a challenge they were, hitherto, not prepared for and the result was that they were forced to 'learn on the job'. They currently contribute about 23% to the country's production which is 17.27 points higher than what they contributed in 2009. The only major challenge still faced by these companies today is lack of access to finance. However, we expect that with continued persistence, they would build reputation solid enough to attract investors.

Nothing builds a company better than its people...and good PR

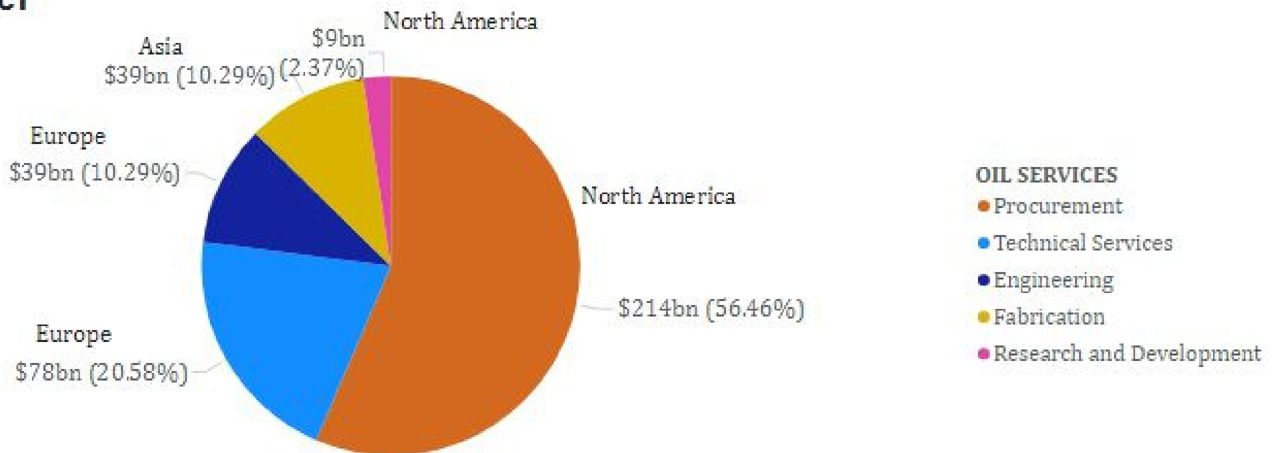
Section 10(1b) mandates operators to give first consideration to Nigerians for employment in any of their work programs. Ability, or lack of it, is not enough excuse to circumvent this provision as Section 30 further buttresses that training must be provided either locally or elsewhere should there be lack of capacity shown by Nigerians. While junior and intermediate roles are expected to be filled solely by locals (section 35), operators are allowed a maximum of 5% expatriate quota in management positions as this is intended to satisfy investors' interest. Obviously, there would be some cost savings in the employment of more Nigerians from the operator's perspective since expatriates are usually paid in dollars but expenses on training Nigerians would most likely offset these cost savings. Some might argue that converting time lost in training and retraining to its money equivalent would yield some more expenses on the part of the operators, however, we consider that the employment of locals can be estimated as social impact which forms a significant part of a company's Corporate Social Responsibility . For example, the development of Total's Egina FPSO included 77% Nigerian participation and it was recorded on Total's annual report as CSR.

Although companies have always engaged in this form of CSR long before the NOGICDA but it never seemed to be effective enough as operators, particularly the IOCs, have always been painted as villains by the average citizen. We believe what has changed now is that the Act provides the operators with some form of structure in carrying out local employment and training, under the supervision and assistance of a monitoring board (NCDMB). The board also helps amplify the local content level
achieved in projects through press releases. This has created a win-win scenario where the technical abilities of Nigerians have been improved and a certain level of trust has been forged between IOCs and host communities.

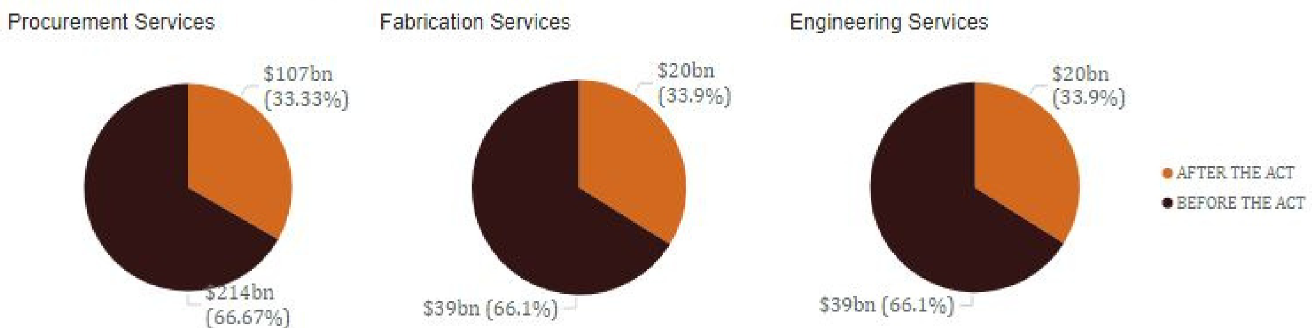
CONTRACTORS

According to the Nigerian Content Development and Monitoring Board (NCDMB), Nigeria recorded a capital flight of about $380 billion between 1956 and 2006 with North America showing the highest share through procurement services valued at $214 billion. The reason is not far-fetched as Nigerians then had little knowledge about the technical and business aspect of the industry. How would they know if they don't try?

BEFORE THE ACT



MONEY EXPECTED TO BE RECLAIMED AFTER THE ACT



Data: Nigerian Content Development and Monitoring Board (NCDMB)

The NCDMB hopes to reclaim and retain a significant portion of the capital flight that was recorded in the last 50 years. This would obviously impact all contractors with active presence in the country one way or another.

Adherence to the Act has led to increased indigenous participation

According to NCDMB, as of today, 90% of local content has been achieved in engineering, while 50% has been achieved in fabrication.

This is most likely as a result of the provisions stated in the Act which mandates all fabrication and welding activities to be carried out in-country. As these provisions slowly took effect, many indigenes were encouraged to leave their comfort zone and test the oil and gas waters. Consequently, as assets ownership kept growing, more opportunities were created for and by these local contractors.

This increased participation has not only

manifested in terms of number of contractors but also in terms of number of contracts available. Perhaps Seplat's feat in this area can quantitatively express this position. The company reported a record-high 98% fraction of all contractors being locals. Also from 2013 till now, it had awarded contracts worth up to $1 billion to Nigerian companies. Shell also reported that it awarded 98% of its contracts worth $1.1 billion to local contractors in 2019 alone.

Local contractors playing "BIG".

Section (2) of the Act succinctly states that indigenous service companies that exhibit ownership of equipment, qualified indigenous personnel and capacity to execute such projects, should be awarded the contracts. The Act further expresses that exclusive consideration should be given to local contractors for onshore and swampy area projects, this is perhaps because offshore projects require more technical expertise than the aforementioned. However, the increased participation we have witnessed in the last few years has bolstered the confidence and capacity of local contractors such that they can now successfully compete in offshore projects.

International Energy Services Limited (IESL), a company that only incorporated its parent company in 2010 (the year of the enactment of NOGICDA) takes pride in the fact that it has completed over 15 major Engineering Design Services at offshore locations, competing assiduously with foreign counterparts. Total Egina's project is yet another testament to this story as it recorded the highest level of local contractors' participation in an FPSO project with 6 of the 18 modules built and integrated locally.

Saturated Space: to the detriment of the contractors

In an industry with about 6,000 local contractors currently registered with the Board to execute industry contracts which is unarguably a lot more than what it was prior to the Act. It is somewhat paradoxical to state that this growth could also be a bane to the industry. The market is adjudged to be saturated at the moment and contractors would have to sometimes bid at a loss to remain competitive. Although the Act has introduced local contractors to more contracts, the saturated market puts them at risk of reduced margins.

Nigerian Content Intervention (NCI) fund to support local contractors

The Nigerian government has put measures in place to support the local contractors by creating a Nigerian Content Intervention Fund with a sum of $200 million accessible to the contractors to execute projects. Estimates show that contracts executed in the country are worth about $7.6 billion annually so this fund will certainly not be enough to cover a vast majority of the projects. However, it has provided an alternative source of funding to the local contractors.

Who bears the brunt? - Multinationals, of course.

As a result of the Act and in order to achieve local content obligations, multinationals have resorted to subcontracting contracts awarded by operators to local contractors. This would undoubtedly impact their margins negatively and cause some reduction in their revenues. Using Egina as a case study, it is not difficult to have a quantitative idea of how much the Act has impacted them. As a result of the complexity and size of the project, majority of the contracts were awarded to large, multinational contractors to execute, but with respect to the aforementioned, they subcontracted a handful of them to local contractors. Using

the figures posted in Table 3.1, which shows some of the executors of the Egina modules, we can estimate that Technip FMC could have lost about $72 million in revenue from this project alone by subcontracting it to Aveon Offshore. Obviously, same would be true for many other projects that have been executed in the country. As a matter of fact, the multinationals lose on two fronts: reduced margins due to subcontracting and reduced number of contracts as they would very likely not be eligible for a number of contracts.

Table 3.1

FPSO Module	Foreign contractor	Local contractor
Front-End Engineering Design	JP Kenny & MCS Kenny	Dover Engineering
Subsea Production System (Fabrication)	Technip FMC	Aveon Offshore
EPCI & Pre-commissioning	Saipem	DeltaAfrik Engineering

Source: NS Energy

Photo credit: Chris Leboutillier

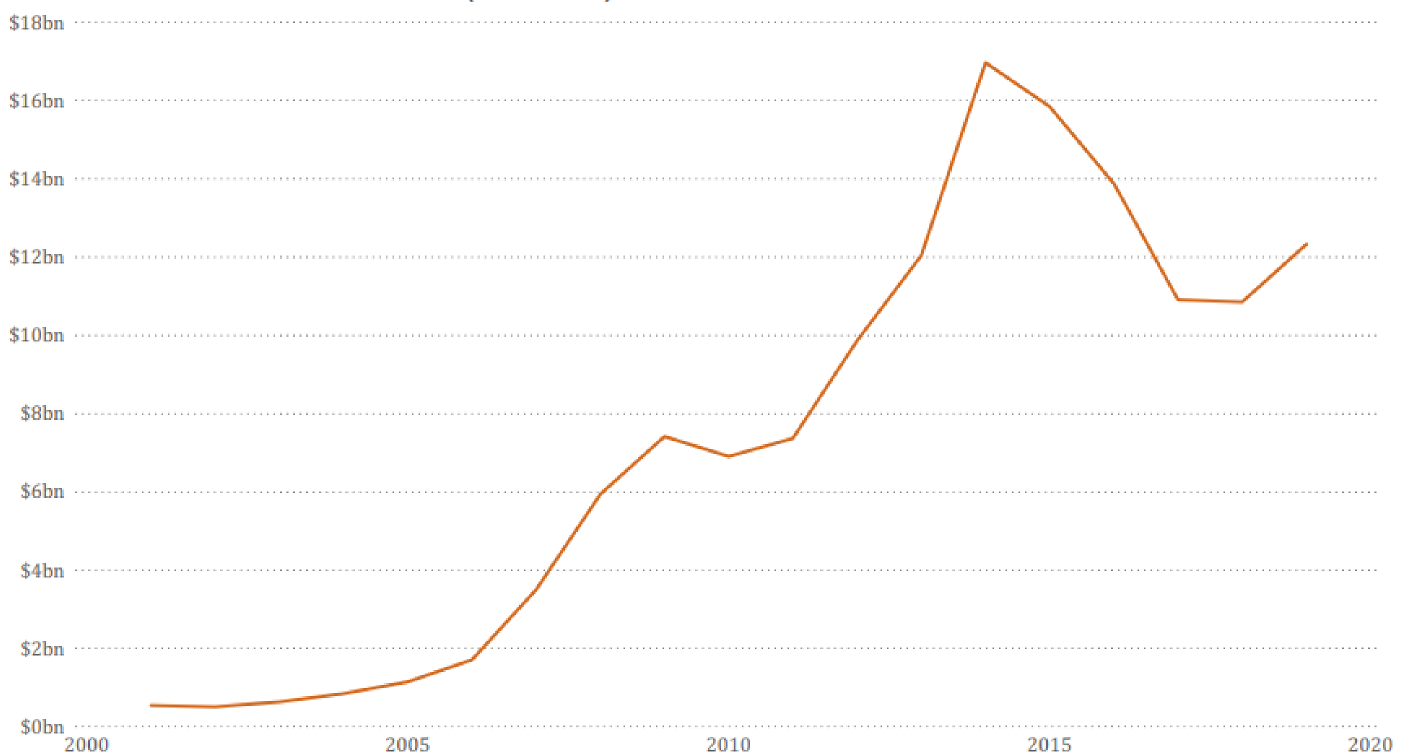
BANKS

The reformative Local Content Act was created to forge a new oil and gas ecosystem. One that is increasingly dependent on indigenous capability without diminishing quality, safety and environmental standards. In order to achieve this goal, someone would have to finance it. Naturally, the mantle falls on Nigerian banks.

With more power comes more responsibility but more responsibility means more risk

The Act opened a floodgate of demand for capital from indigenous firms to fund oil and gas projects, simultaneously increasing the demand for loans from local banks. With Nigerian banks strategically positioned geographically, they are better acquainted with domestic oil and gas laws. This means they are at the frontline for the provision of funds for oil and gas companies, both local and international. This translates to more business and revenue for the banking sectors in the form of more customers but, unfortunately, more risk. The graph below paints a clear picture of the rather steep spike in loans to the oil and gas industry since 2010. Prior to the origination of the Act, local banks failed to meet the lofty funding requirements of major oil and gas projects, leaving oil and gas players seeking financing from foreign banks. The sub-par credit ratings issued to these local companies, proved too high a hurdle to leap across.

The Nigerian Local Content Act demanded that both local and international operators, contractors and subcontractors open Nigerian bank accounts in which they are to deposit a minimum of 10% of their total revenue earned from Nigerian operations. Local banks that IOCs deemed lacked credibility were now viewed as competent



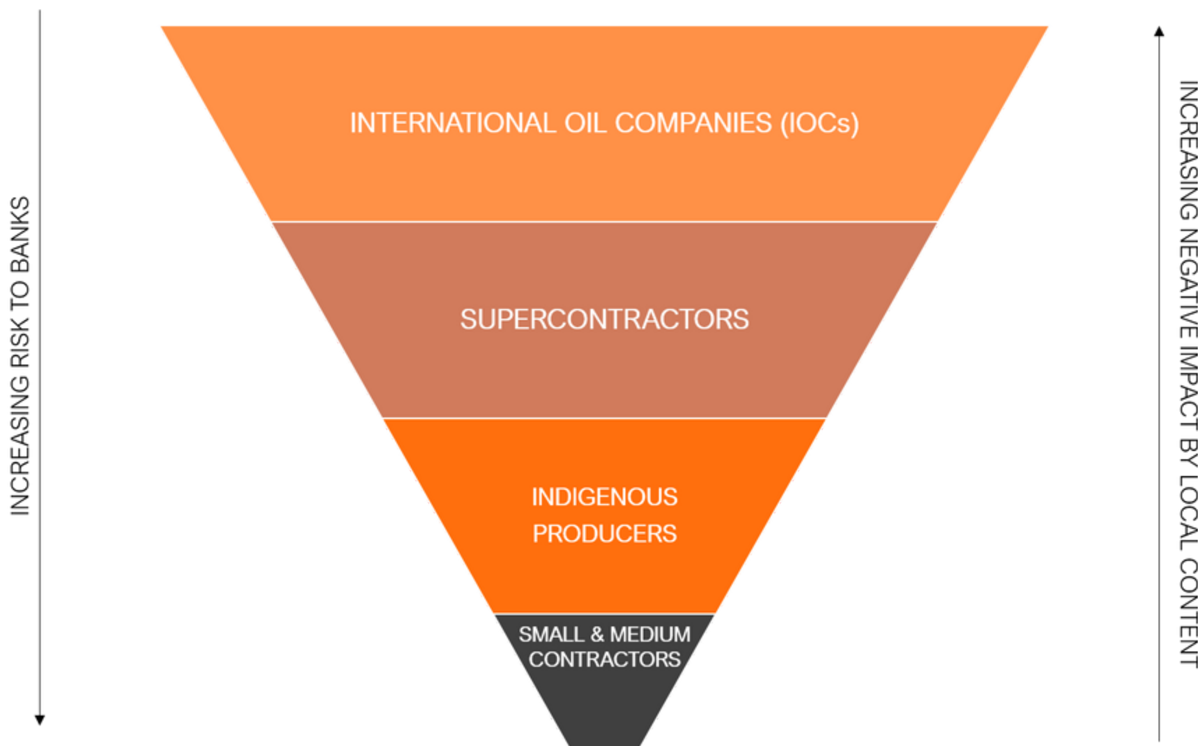
Data: Department of Petroleum Resources (DPR)

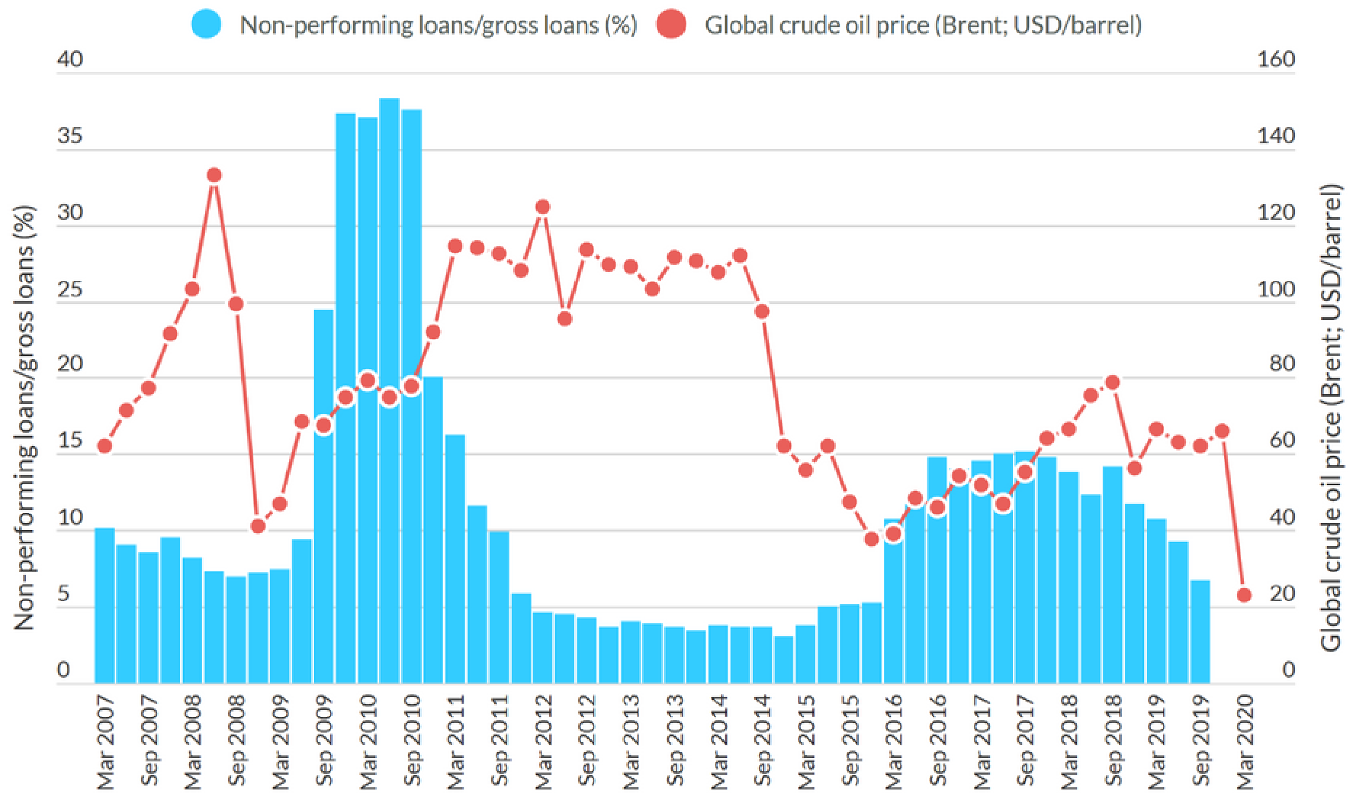
partners, therefore providing them an opportunity to fund IOCs and their entire value chain. Fitting the stereotypical 'fat cat' profile, local banks purred at the opportunity to not only extend credit to the more competent and credit-worthy IOCs and super contractors, but also to local oil and gas firms, their value chain, and their stakeholders that obviously carried more risk.

Either intentionally or unintentionally, a bubble had been created and a scenario much like the global financial crisis of 2008 had been reborn in Nigeria. The banking industry had over concentrated its operations, with over $124 billion (out of a total of about $600 billion) in loans issued to the oil and gas industry since the inception of the Act in 2010. Since the origination of the Act, First Bank for example had completed transactions north of $3 billion in both the upstream and downstream sectors in the petroleum industry. It had extended its tentacles to every sector in the oil and gas pyramid.

The consequences of overexposure to the oil and gas industry means that a crash in crude oil prices (like the 2015 oil price crisis) will increase the likelihood of a risk of default amongst smaller, less credible indigenous oil and gas companies and their ecosystem. This will force the hands of these companies to find quick and efficient cost cutting solutions, usually resulting in huge layoffs and wage cuts. Burdened with the weight of the oil and gas industry's loan portfolio, cost-cutting strategies that might seem ingenious and life-saving for oil and gas companies will undoubtedly come as fatal life-threatening blows to the banking industry that will swell the value of non-performing loans on their books. The chart showing the inverse relationship between oil prices and non-performing loans is proof of the delicate position banks find themselves in the event of another oil price shock.

This Act has failed to implement checks and balances to regulate both the positive and negative aspects of the uncontrollable wave





Source: Fitch Ratings

of opportunities that the Act was set to generate. An already ticking time bomb had been created, one that the financial sector had absolutely no idea how to defuse.

It is not necessarily an apocalyptic future for the banking industry as many may perceive, the Act deserves credit for morphing financial institutions into more active players in the oil and gas industry.

Post-2010, of all 19 banks with Tier 1 status in Africa, with capital north of $1 billion, about 5 are Nigerian banks. Zenith Bank, First Bank, Guaranty Trust Bank, Access Bank, and United Bank of Africa (commonly called FUGAZ) have arguably achieved this feat as a result of their continuous involvement in the oil and gas scene.

Concrete steps must however be taken by local banks to establish fully functional departments well equipped with the technical knowledge of oil and gas and their transactions, scrutinizing them to pick out inherent risks.

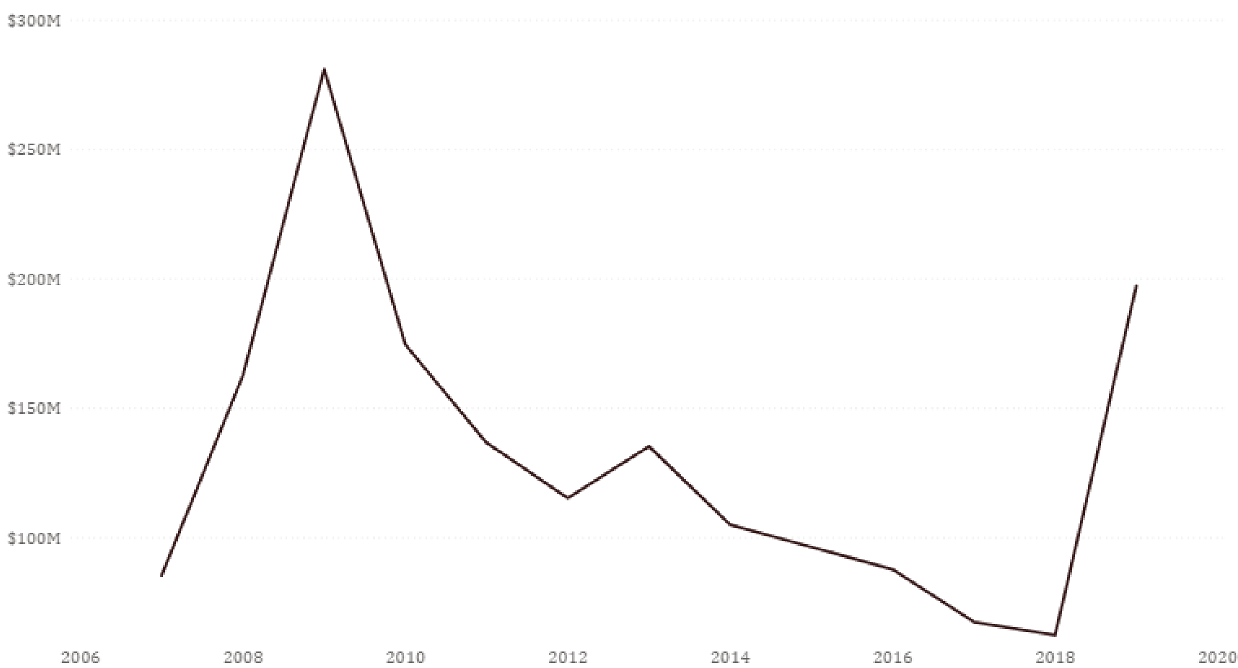
THE BIG PICTURE

The analysis of the Nigerian Content Act may just be another classic case of the sum of parts not being equal to the whole. Looking at the players in isolation, we could be tempted to say the Act has succeeded since most of the positive impacts have been experienced by Nigerians and the negative to multinationals. A deeper and more cohesive look into the matter paints a very different picture.

Realization of intent: to be or not to be?

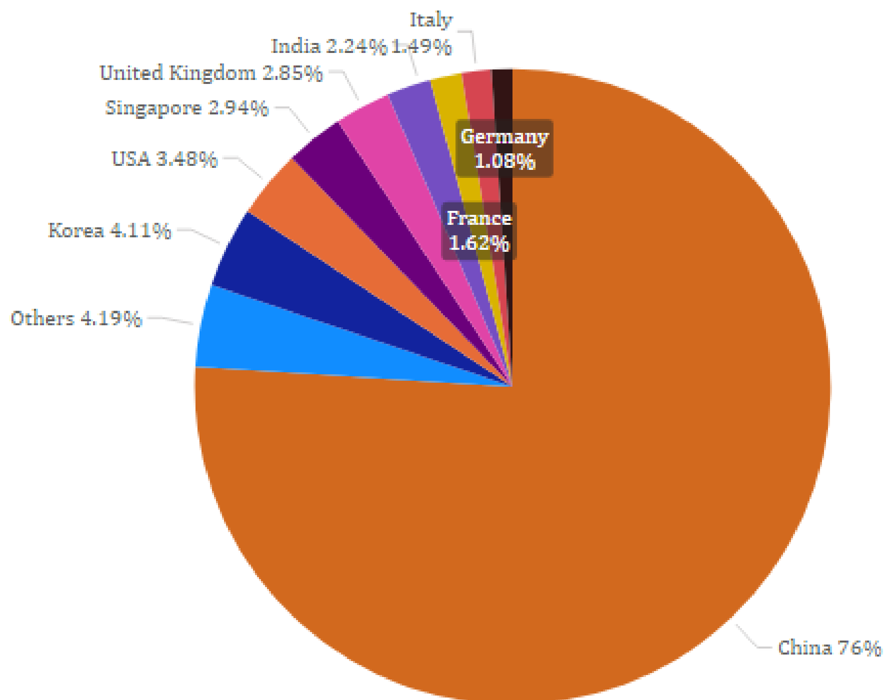
NCDMB estimated a capital flight of about $380 billion in the 50 years of crude oil production prior to the enactment of the Act. The provisions thereof place restrictions on the participation of international companies and non-nationals. As already highlighted, it has increased participation of Nigerians, however, neither the government nor NCDMB prepared the country for the surge in demand that was to accrue from this development. Many materials needed by oil and gas companies are yet to be produced locally and are still being imported in similar quantities as before the Act, consequently, there is a limit to just how much of this capital flight can be realistically reclaimed. Perhaps a representative case study to buttress this point should revolve around pipes and pipe fittings since they make up substantial parts of oil and gas facilities. Two pipe mills and two pipe coating facilities have been constructed in the country since the enactment of the Act yet the country still imports tons of pipes and fittings. The erratic trend shown by the chart below is

INFRASTRUCTURE AND LOCAL CONTENT	
1	FPSO Integration Facility, LADOL
2	SCC Pipe Mill, Abuja
3	Yulong Pipe Mill, Lagos
4	PipeCoaters Coating Facility, Onne
5	Solewant Pipe Coating Facility, PH



Data: TrendEconomy

2019 PIPE AND PIPE FITTINGS SUPPLIERS TO NIGERIA



Data: TrendEconomy

proof that these developments are not driving any real change. As a matter of fact, in 2019, Nigeria spent more than double the amount importing pipes than it did in 2007. Reports have emerged that the SCC pipe mill has struggled due to lack of patronage. Assuming all plants work to their full capacity, their existence does not preclude foreign reliance. Steel, being a major feedstock to these mills, is in scarce production in Nigeria. Despite having a proven reserve of about 3 billion metric tons, the country produces only 100 tons of steel and this looks even worse when put side-by-side with the plants highlighted above which have a combined capacity of 670,000 metric tons per annum.

Similar trends could be found for many other equipment and chemicals. Raw materials are still being sourced abroad and with the growth of the industry, there will be more importation being done, hence, the capital flight problem remains unaddressed. We could easily argue that although the Act has succeeded in bringing more Nigerians to the table, it has not stopped value from going out through the door.

The Way Ahead: Knowledge and Preparedness

We believe the efficacy of the Nigerian Content Act could have been quintupled if emphasis were placed on the preparation of the ecosystem for the flock of demand that was to come from increased participation. Of what use is expertise if there are no means to execute? Just as much as we need participation, we need ample materials with which to participate. It is not all doom and gloom though, steps are not always difficult to retrace. Perhaps, NCDMB has noticed this slight oversight as it recently signed the FID for the construction of the first methanol plant in the country, another chemical which is important in the upstream industry yet is still being heavily imported. It also announced that the construction of Nigeria's oil and gas park in Bayelsa, , a low-cost manufacturing hub that will produce equipment components and spare parts, has entered its second phase.

As we have seen with pipes, just the construction of the plants may not be enough. Close collaboration between the government and the operators must ensue so as to ensure the undisturbed operation of the plants through favorable policies, fiscal incentives, and security.

Another important point that has fairly been overlooked is that local content transcends a piece of paper signed by a president, ergo it is not just the responsibility of the government. Although this 'piece of paper' has forged a more inclusive local ecosystem, as we have come to realize, it has created a problem that needs that not only affects all stakeholders but also requires them to achieve a resolution. Moneda, a company undetached from its African roots, cares about this local content and has resolved to be an integral piece that completes this puzzle. Getting our local content right would involve access to finance, intelligence, and execution capacity, all of which Moneda has spared no expense in equipping its team. We provide this service to local oil and gas contractors and operators in order to trigger unconventional growth in the African oil and gas value chain.

For further enquiries on how Moneda can assist, kindly contact;

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