Crude Intentions

Structural Inadequacies, Corruption and Criminality in the Nigerian Oil and Gas Industry

"Nigeria and the United States therefore carry the dreams of the people of the earth and hence hold a significant stake in shaping the destiny of our evolving new world order.” – Former Nigerian Vice President Atiku Abubakar, 2006

An undergraduate Senior Thesis presented by Isaac Zukin to the Department of International and Global Studies at Brandeis University.

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Chapter 1 -- Introduction


As Africa’s largest country in terms of population and GDP, Nigeria’s oil governance problems have far-reaching security and economic implications for West Africa and beyond.\footnote{Calestous Juma, “Why Nigeria Matters to the World,” Belfer Center for Science and International Affairs, February 27, 2015, https://www.belfercenter.org/publication/why-nigeria-matters-world.} For this reason, the United States and China have taken great interest in Nigeria in an effort to aid the country’s stabilization and stake their claims on
Nigeria’s fast-growing industry.\textsuperscript{6} Competition between the powers has led to a windfall of foreign direct investment (FDI) and aid from both countries.\textsuperscript{7} And yet, increased foreign financial flows seem to be doing very little to ease the domestic economic woes that have plagued the country for decades. No matter the benefits Nigeria reaps from its international partners, its oil-reliant economy cannot persist against unstable oil prices, rampant militancy and widespread corruption.\textsuperscript{8}

This thesis aims to provide an analysis of the Nigerian industry for oil and gas and the issues that it faces. First, I will present a history of the Nigerian oil industry from the colonial era to the present. Next will be a discussion of criminality, corruption and violence in the Niger Delta. Finally, I will discuss the oil industry’s impact on the environment and human development.

\textit{Stunted Growth}

The question of Nigeria’s relative poverty has long puzzled scholars. How can a nation with Africa’s largest known reserves of oil and gas still have 70\% of its population living below the poverty line?\textsuperscript{9} And why has a resource rich Nigeria had such difficulty

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achieving the stability of the world’s other major oil states? The answer to this question lies in Nigeria’s inability to convert oil revenues into positive economic growth. Countries such as the UAE, a major oil producer, have taken great strides in reinvesting its oil revenues into economic diversification and infrastructure programs.\textsuperscript{10} This explains, at least in part, why the UAE’s economy has fared much better than Nigeria’s since it began drilling for oil. In 2017, the Gulf state has a GDP per capita of $40,698 compared to Nigeria’s $1,968.\textsuperscript{11} Without proper investment of oil revenues in infrastructure, quality of life and economic diversification, Nigeria’s oil ‘riches’ are good for nothing.

Nigeria has proven itself wholly ineffectual in the governance and maintenance of its most important industry. It began building oil pipelines in the early 1960s.\textsuperscript{12} Since then, it has failed to meet its projected oil export values, falling short by hundreds of thousands of barrels per day. Poor pipeline security, depressed economic outlooks and civil discontent have been leveraged by sophisticated organized criminal actors to siphon off millions of dollars’ worth of Nigerian crude oil every year.\textsuperscript{13} The result is the creation of a multi-billion-dollar illicit market for stolen oil, laundered money and criminal shipments.\textsuperscript{14}

\textsuperscript{14} Mayah, “INVESTIGATION,” February 14, 2018; “Crude Oil Disruptions in Nigeria Increase as a Result of Militant Attacks - Today in Energy - U.S. Energy Information Administration (EIA)”;}
Conflict over the distribution of oil revenues also drives political strife. Oil conflict has underpinned Nigeria’s complex relationship with Niger Delta militias, many of whom have stood in open rebellion of the Nigerian state. Rebel leaders cite underdevelopment, limited returns on oil revenues to their communities, and devastating environmental damage as justification for their militancy. Instead of focusing on addressing the concerns of rebel leaders, the Nigerian government has prioritized military action. With its economy hostage to unstable oil prices, Nigeria has to do much more to address the educational, health and environmental concerns of citizens in the Niger Delta. These concerns have been caused by decades of un-checked oil exploitation.

High oil prices in 2006 drove annual growth to 8.2% before tanking to -1.62% in 2016. More effective governance of its oil and gas industry will come with major benefits for Nigeria. The revenues currently lost through poor management can be redirected to address educational, health and environmental concerns of citizens in the Niger Delta, reducing violence and instability. Widespread reform will be difficult to push forward in the short-term. In order to stabilize its economy, Nigeria needs to regain the funds that are currently lost to ineffective management of its oil industry.

**Nigeria’s Resource Curse**

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15 “The Movement for the Emancipation of the Niger Delta.”  
To this day, Nigerian crude oil production falls short of its total expected output by 26%. This is in large part due to rampant illicit oil lifting and smuggling. The Nigerian government has prioritized pipeline security and military intervention over addressing the structural issues that drive illicit crude oil lifting in the Niger Delta. In 2009, the majority of Delta State’s budget went towards security, a trend that continues largely to this day. Even though the Niger Delta produces 85% of Nigeria’s annual income and 40% of its GDP, the 9 states that make up the Niger Delta (Abia, Akwa Ibom, Bayelsa, Cross River, Delta, Edo, Imo, Ondo and Rivers) have an average human development index score of .543, far below that of other oil producing regions in Africa. This underdevelopment is striking given that Nigeria is Africa’s largest crude oil producer, which might lead one to expect higher levels of development. However, Nigeria represents the textbook example of a state afflicted by the resource curse.

Political scientists and development experts have high regard for the resource curse theory. It is seen as an explanation for why resource rich countries with low development appear to have so much difficulty managing their resources in a way that positively impacts their economy and development. This most basic definition of the

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resource curse is insufficient in explaining the interaction of governing forces that contribute to this phenomenon. The academic community generally accepts the resource curse as a given, however, there is difference and debate over its contributing factors and how to improve outcomes for states that might be prone to this phenomenon.23

The importance of oil to the Nigerian economy causes significant issues between indigenous land owners, the Nigerian government and multinational oil companies (MOCs), all who hold varied interests. Driven by the promise of profit, MOCs and the government are willing to eschew the interests of indigenous communities in an effort to drive their bottom line. This power complex has been discussed at length by Michael Watts, a leading scholar of political ecology, who writes that “petro-capitalism” is comprised of “a unity of firm, state and community that is territorially constituted through its oil concessions.”24 This complex, claims Watts, causes power to be centralized with the state, and strips away the power of concessionary communities. There then lies an obvious friction between the state and its cronies, driven by monetary gain, and an underdeveloped and underrepresented population that lives on the land the state has designated as concessionary.25

The theme of underdevelopment in the Niger Delta has been explored by a host of scholars looking to pin the blame for conflict and slow growth on the Nigerian state.26 Though it is easy to do so, given the state’s relative supremacy over other stakeholders,

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26 Watts, 54.
Nigeria’s imperialist legacies still plague the oil industry. As Jean Marie Chevalier, the French economist put it, “the history of the oil industry is the history of imperialism.”

The very same forces of inequality and economic exploitation that comprised the age of imperialism have played roles in the development of the oil industry. To this day, the majority of oil companies operating in Nigeria are foreign enterprises, primarily from the US and the UK. The Nigerian government has allowed these foreign entities to reap the benefits of oil exploitation without appropriately contributing to improving the quality of life for average Nigerians.

State actors cannot be held solely responsible for oil conflict and slow growth. Indigenous corruption has played a large role in Nigeria’s stunted growth. Powerful Nigerian businessman have been found complicit in widespread exploitation. Corruption scandals have often featured indigenous actors—not to mention the countless individuals who take part in Nigeria’s illicit bunkering economy. Watts fails to capture the nuance of these cases. They are best explained by Ndiva Kofele-Kale who put forward his theory on what he termed “Indigenous Spoliation.” Kofele-Kale defines indigenous spoliation as “…an illegal act of depredation committed for private ends by constitutionally responsible rulers, public officials or private individuals.” This is a uniquely savage form of malicious action as it pits public officials against the interests of the state. These officials seek personal gain above all else and rob their constituents of the resources they

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29 Odukoya, *Oil and Sustainable Development in Nigeria*, 250.
31 Kofele-Kale, “Patrimonicide,” 56.
were elected to protect. He argues that, “…indigenous spoliation has become the single most important obstacle to development.”\textsuperscript{32} How can the state expect growth when its agents siphon off money for their own gain?

There is a tendency in political science literature on the resource curse to try and solve the question, “Who is to blame?” These efforts miss the point. The resource curse is not a chain of causality that can be stopped by cutting an individual link. Rather, the resource curse is a system of deficiency in which all parties are complicit. Especially in the case of Nigeria, its resource curse should be viewed as a harmony of weak governance, corrupt officials, concerned citizens and profit-driven oil companies. Any efforts to address this issue must look at choke points within the system that can be activated to lessen its negative effects.

\textsuperscript{32} Kofele-Kale, 116.
Chapter 2 -- A History of Nigerian Oil

Nigeria has a long way to go in solving domestic issues before it can be considered stable. Since its independence from the United Kingdom in 1960, Nigeria has been rocked by a steady wave of political upheaval.\textsuperscript{33} It has faced no less than 9 coup d’états, 6 of which were successful, in its 59-year history.\textsuperscript{34} Further disruptions include a bloody three-year civil war and more than ten years of military rule that subsided as recently as 1999.\textsuperscript{35} Unfortunately, Nigerian political instability is not a thing of the past. Nigeria is currently plagued with the scourge of Boko Haram, the radical Islamist group, that is responsible for the deaths of tens of thousands and the displacement of millions.\textsuperscript{36}

In 2019, Nigerian prospects for stability look dubious. The country is still struggling to deal with an Islamic insurgency in the Northeast, chronic underdevelopment, poor health outcomes, and an economy that teeters on the brink of collapse.\textsuperscript{37} There is no doubt that regaining control of its economy will help to ease its broader woes, allowing the government to invest in lasting solutions to its largest problems. As Nigeria begins its IMF supported attempt at diversifying its economy away from a reliance on oil, it needs to simultaneously focus on regaining control over the oil


industry so that it can reap the full rewards of its most important industry.\textsuperscript{38} In order to understand where the Nigerian oil industry is today, it is necessary to look at its history.

\textit{A Colonial Endeavor}

Nigeria is an incredibly resource rich country, but the abundance of its oil resources was discovered relatively late. Even when the British Navy switched its vessels from coal burning to oil burning in 1912, the British Empire did not realize the oil exploitation potential of Nigeria. In the times before the discovery of oil, resource exploration companies were not Nigerian but were primarily comprised of companies from the United States and Britain.\textsuperscript{39} This has largely remained to this day where Western companies continue to dominate the Nigerian oil economy although the dynamic may be shifting as China continues its expansion into Africa.\textsuperscript{40}

To protect their interests, the British enacted the 1907 Mineral Oils ordinance that mandated that all directors of mineral exploration companies be British subjects. This was changed in a 1925 amendment of this act, whereupon the rule was modified to allow for non-British directors to sit on the board of exploration companies as long as the majority of the company’s directors were British. This rule lasted until Nigerian independence in 1960, a clear sign of Britain’s control of Nigerian resource markets.\textsuperscript{41}

\textsuperscript{38} IMF, "IMF Executive Board Concludes 2018 Article IV Consultation with Nigeria."
\textsuperscript{41} Steyn, “Oil Exploration in Colonial Nigeria, c. 1903–58.”
As there was limited interest in expanding oil operations in Nigeria, the oil exploration industry did not see growth until the beginning of World War I, when the British Empire was pressed to increase from 2.5 percent of world oil production to reach levels similar to that of their competitors. This caused tension between foreign oil exporters and the British government who maintained a hardline stance against foreign oil companies in their colonies. British protectionist policies led foreign oil traders to be less willing to sell to Britain. Because of this, the British tried to spur domestic companies to restart their search for oil.

Finally, in 1956, the British-Dutch Shell/D’Arcy joint venture discovered an oil reserve near Port Harcourt at a site called Oloibiri large enough to warrant full-scale commercial production. This first oil discovery prompted renewed international interest in the British colony’s oil reserves because of its profitability and easy access from Europe and the US.

After Gamel Abdul Nasser’s nationalization of the Suez Canal in 1956, western powers had been looking for access to oil markets that would not require transit through the Middle East. That became especially relevant in 1957 as Israel, France and Britain sent troops into the Sinai, causing mayhem and uncertainty over the canal’s future. The Suez crisis pushed western nations to pressure Britain for access to Nigeria’s oil market. As a result, the British gave Mobil, a US company, the first non-British crude oil exploration contract in 1957, a major turning point for Nigeria. It marked the first time

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the British opened the Nigerian oil market to foreign companies operating outside of joint ventures.  

*Nigerian Oil After Independence*

Just three years after Nigeria began its first oil shipments it gained a peaceful independence from the British Empire, becoming a constitutional republic in 1963. Nigeria had gained its independence, but the oil industry stayed dominated by companies and agreements set up during colonialism. At the time of independence, the market for crude oil was a mere fraction of its current state. The world demand for petroleum was approximately 3,105 million metric tons per year in 1960, this would nearly triple to 8,200 million metric tons per year in 1980. As is such, Nigeria’s oil economy at the time of independence was small and relatively insignificant compared to its other domestic industries due to low demand and the absence of known reserves.

Nigeria lacked the expertise at the time of independence to effectively manage oil exploration and production without the foreign multinational corporations ushered in by the British. Even oil companies incorporated in Nigeria were not truly Nigerian. Of the 9 oil companies operating in Nigeria at the time, three were incorporated in Nigeria. These companies still had beneficial owners located outside of Nigeria. Take for example Safrap (Nigeria) Ltd., the second largest oil company by total area of concessions. The company was jointly owned by the French government, ERAP (a French private sector company) and SOGERAP (a French private sector company.) In fact, none of the oil

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46 Pearson, 8–11.
companies operating in Nigeria at the time had any indigenous ownership, something that would begin to change a decade later.\(^{47}\)

Even in light of foreign ownership of oil companies, Nigeria saw far-reaching benefits to oil exploitation within its borders. This is in large part to a fifty-fifty profit-sharing scheme the Nigerian government negotiated with oil companies. However, there is ample evidence that oil companies took advantage of a weak Nigerian state and its officials to dodge paying the full value of these oil rents. This problem would come to the forefront during and after the bloody Biafran War (1967-1970) which had profound impacts on the political economy of Nigeria.\(^{48}\)

*The NNPC and the Modern Nigerian Oil Industry*

The period directly following the Biafran War was one of extreme uncertainty. The war decimated the nascent oil industry. It tanked production values and removed the faith of Nigerian’s in the oil companies. The war, which divided Nigeria for over three years, was leveraged by foreign oil companies for their benefit. They used the resulting power vacuum and chaos to obscure production values, dodge taxes and secure their own interests at the detriment of Nigerian peace prospects. Their actions during this period negatively affected to Nigerian prospects for peace. The oil companies’ failure to report their outputs forced the Nigerian government to guess what impact oil exports would have on government revenue. The uncertainty this caused made drafting military budgets challenging.

\(^{47}\) Pearson, 16–19.
\(^{48}\) Ahmad Khan, *Nigeria.*
Due to this manipulation, public distrust of the oil companies spread quickly, especially in light of revelations that they were conducting propaganda campaigns. Reports surfaced that MOCs were planting favorable news stories in important newspapers. Once this scandal was revealed, many in the Nigerian government began to push for an increase in the Nigerian government’s oversight of and direct participation in the oil industry.49

Amidst the chaos that followed the Biafran War, Nigeria sought to wrest control of its oil industry from the prohibitively exploitative MOCs.50 For this, the Nigerian government looked to the Organization of the Petroleum Exporting Countries (OPEC).51 Founded in 1960 by the governments of Iran, Iraq, Kuwait, Saudi Arabia and Venezuela, OPEC has risen to include 14 of the world’s largest oil exporting countries.52 These 14 nations are therefore part of the incredibly impactful oil cartel that has the ability to control the price of oil by manipulating oil supply.53

In the late 1960s, OPEC members were focused on imposing a regime of gradual nationalization of their oil industries.54 Given Nigeria’s poor experience with MOCs during the Biafran War, the Nigerian government saw joining OPEC as a way to reclaim some autonomy and control over its oil industry. This is not to mention that OPEC had

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50 Klieman.
considerable success in implementing its policies in other countries with similar levels of
development such as Libya.\textsuperscript{55} Furthermore, Nigeria’s revenues from crude oil exportation
were significantly lower than OPEC nations with similar quality crude oil.\textsuperscript{56} For this
reason, in July 1971, Nigeria joined OPEC and its oil economy began a new phase of
growth.\textsuperscript{57}

In the first decade of its entry to the cartel, Nigeria’s total revenue from crude
exports exploded by a factor of 9, allowing the country to take in more than $9 billion in 1982.\textsuperscript{58} As Nigeria began reaping the benefits of its OPEC membership, it sought to
invigorate indigenous participation in the oil industry. Not all of these efforts came after
Nigeria’s entrance into OPEC, there were legislative pursuits, such as the Petroleum Act
of 1969, which mandated that all exploration and mining permits be issued to Nigerian
citizens.\textsuperscript{59}

Their biggest step though, came about with the foundation of the Nigerian
National Oil Company (NNOC), Nigeria’s first attempt at a government administered oil
company that would be separate from Nigeria’s oil industry regulator, the Department of
Petroleum Resources (DPR). The purpose of keeping NNOC separate from DPR was to
reduce conflict of interest and encourage free competition, however, it afforded the
NNOC little advantage over the international oil companies that controlled the industry
and, in some cases, the industry’s regulators.

\begin{itemize}
\item \textsuperscript{55} Fubara, 328–29.
\item \textsuperscript{56} Fubara, 329.
\item \textsuperscript{57} Fubara, 329–30.
\item \textsuperscript{58} Fubara, 300.
\item \textsuperscript{59} Klieman, “U.S. Oil Companies, the Nigerian Civil War, and the Origins of Opacity in the Nigerian Oil Industry”; Ahmad Khan, \textit{Nigeria}.\end{itemize}
Due to its gross ineffectiveness and inability to compete with the economies of scale of the MOCs, in 1977 Murtala Muhammad, a military head of state, reformed the NNOC by merging it with the DPR and other indigenous oil companies to create the Nigerian National Petroleum Company (NNPC). The NNPC would act as a hybrid of oil company and regulatory body.\textsuperscript{60} Aside from entirely reforming the Nigerian crude oil industry by introducing a new, much more powerful government run player, the foundation of the NNPC saw Nigerian government entities refining oil for the first time.\textsuperscript{61}

Sweeping corruption scandals and the outright refusal of international oil companies to recognize the NNPC proved almost enough to push the NNPC under. A tribunal set up by President Shehu Shagari found the NNPC to be filled with utter incompetence and inability to conduct its basic functions, including the simple task of keeping track of how much oil the company was producing and selling. To make matters worse, MOCs overlooked most agreements and regulations imposed by the NNPC as they realized how weak the NNPC was.\textsuperscript{62}

Perhaps the most important reform of the NNPC came under President Babangida in 1985. Instead of allowing the NNPC to operate as one extremely large corporation with full power over the oil industry, Babangida split up the corporation into smaller, specialized bodies each with their own corner of the industry. For instance, there were branches purely for pipeline management, marketing, refining and more. The heads of the newly formed five branches of the NNPC were all mandated to report regularly to the

\textsuperscript{60} Klieman, "U.S. Oil Companies, the Nigerian Civil War, and the Origins of Opacity in the Nigerian Oil Industry."

\textsuperscript{61} G. Ugo Nwokeji and James A. Baker III Institute for Public Policy, \textit{The Nigerian National Petroleum Corporation and the Development of the Nigerian Oil and Gas Industry: History, Strategies and Current Directions} (Houston, TX: James A. Baker III Institute for Public Policy, Rice University, 2007).

\textsuperscript{62} Nwokeji and James A. Baker III Institute for Public Policy.
director of the company. As before the NNPC was almost entirely controlled by the directives of the managing director, this reform democratized the onus of decision-making.\textsuperscript{63}

In addition to reforming the internal hierarchy of the NNPC, Babangida’s administration reformed the commercial structure of the company, changing it to a holding company that managed 12 limited-liability subsidiaries. In this way, the government took a step away from what was previously a typical nationalized oil company (like that of Egypt or Sudan) towards a somewhat-privatized body. This transition to privatization brought about the definition of clearer boundaries between the government and its oil vehicle. For the first time since its founding, the Petroleum Minister would recuse himself from the position of director of the NNPC, allowing private citizens to take his place. This move was part of a larger effort by the Nigerian government to privatize its oil industry and open it to indigenous businesses. Unfortunately, as was the case in many parts of Nigeria’s history, its strive for reform was interrupted by a military junta that lasted from 1993-1998 and stalled much of the progress towards privatization that had been conceived by the NNPC before the junta.\textsuperscript{64}

Since 1998, Nigerian efforts at reform have been slow if at all present. Not much has changed in regulation or structure of the Nigerian oil industry except for the foundation of NOSDRA (Nigerian Oil Spill Detection and Response Agency) which will be discussed in later chapters.

\textsuperscript{64} Nwokeji and James A. Baker III Institute for Public Policy, \textit{The Nigerian National Petroleum Corporation and the Development of the Nigerian Oil and Gas Industry}. 
The US’ Pivot Toward Africa

China’s emergence over the last twenty five years as a major economic force in developing economies in Africa has forced the US to refocus its economic efforts. It has pivoted back to building relationships with African markets to challenge Chinese interests. This has put the US and China in intense competition for control of marketplaces of strategic importance. The flow of foreign money that is a side effect of this competition between the two superpowers has been seen as a boon to African economic prospects.

The conflict intensified in 2018 as Trump launched a so-called “trade war” with China, resulting in a wide-ranging tariff program aimed at boosting domestic production of goods. A centerpiece of Trump’s trade war is a wide-ranging tariff program that aims to boost domestic production. A similar ethos drives his foreign economic policy. His administration’s National Security Strategy is centered around a response to China and Russia who, “challenge American security and prosperity.” As a major manufacturing powerhouse and lender, China has established itself in a host of jurisdictions where the US used to hold relative hegemony, including parts of South-Asia, Europe and Africa.

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65 Aaron L. Friedberg, “Competing with China - Survival Analysis.”
In this way, the Trump administration has effectively identified a trend of Chinese economic expansionism that will have a marked impact on American market outcomes. Chinese investors appear far more interested in Nigeria than in the rest of Africa. Chinese investment in Nigeria more than doubles total Chinese investment received by Africa’s second highest recipient.⁷⁰ China has signed a number of major deals with Nigeria, including a multi-billion dollar currency swap, a number of massive loans, and the construction of a nearly $7 billion railroad project.⁷¹ Even if some of China’s business forays into Nigeria have been ineffective at best, it is clear that Abuja is beginning to rely on Beijing for goods and services that Washington has historically provided. China’s foreign direct investment stock of $4.7 billion in Nigeria is still less than the estimated $5.8 billion invested by US companies.⁷² Chinese rail projects in Nigeria have been matched by US deals to build Nigeria a light-gauge rail network.⁷³ Even in light of increased cooperation with China, Nigeria and the US are still collaborating at increasingly high rates.

The relationship between Nigeria and the US is about more than just investment. Mohammadu Buhari, Nigeria’s current President, has made close relationships with the US one of his utmost priorities, visiting the US just two months after being sworn in for

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⁷⁰ Mariama Sow.
his first term. Simultaneously, Buhari has courted China to sponsor major infrastructure projects. As both countries fight for economic superiority in Africa, President Buhari seems pleased to take advantage of both China’s expansionism and what Foreign Policy has called the US’ “Pivot to Africa.”

Aside from investment interests, Nigeria holds strategic importance to the US as well. It has Africa’s tenth largest workforce, its largest economy and population, and is seen by many as having the potential to be a stabilizing force in Africa amidst historic chaos. In particular, stability in Africa would go a long way to reducing incidences of terrorism and political violence that threaten US national security interests. The greatest impediments to Africa reaching its full economic potential are instability, violence and corruption. A strong Nigeria, the most influential member of the Economic Community of West African States (ECOWAS), could speak volumes in terms of positively affecting stability and development in the continent. This makes Nigeria the US’ most important partner in growing its economic and political influence in Africa.

Complexity of the Nigerian Oil Economy

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76 “Nigeria,” April 9, 2019.
Nigeria ranks in the lower half of countries in terms of economic complexity, a measure of the diversification of an economy. Its reliance on oil is the reason for this. Unlike its general economic complexity, Nigeria produces a number of valuable crude oil products. In any nuanced analysis of an oil industry, it is important to dissect what type of oil products a country is actually exporting. This section will break down the different oil exports of Nigeria, their sourcing and what makes Nigeria an efficient producer of them.

Crude oil falls under a number of different classifications based around two things: the oil’s ‘weight’ and its sulfur content. The former is measured by American Petroleum Institute Gravity (API Gravity) and is a measurement of oil using water as a referent. Lighter oils, such as petroleum and coal tar, have a gravity between 10- and 70-degrees API. Heavier oils fall below 10-degrees API. These gravity measurements determine whether or not an oil will float in water. The lighter oils float and the heavier ones sink. Generally, lighter oils are more valuable as they produce higher yields of useable output per unit of input.

Aside from its API gravity, oil is measured by its sulfur content and is described as either ‘sweet’ or ‘sour’. Sweet, referring to low sulfur content (below .5% sulfur), is very attractive to refiners. This is because sweet oils can be easily processed into useable products without the costly impurity removal processes.

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83 Sunshine; “What Is API Gravity?”
Nigeria’s most iconic crude oil is called Bonny Light Crude Oil (BLCO) and is classified as a very sweet oil, with an API of 34.5 degrees and a sulfur content of .14%. These unique characteristics make BLCO the third highest value crude oil in OPEC and one of the most valuable in the world oil supply (prices current as of January 5, 2019). As the global oil industry shifts towards an awareness of the negative impact heavier crudes have on the environment, lighter crudes are becoming more popular. Furthermore, the U.S. finds BLCO a particularly attractive crude as Nigeria is relatively close to major east coast refineries and because it can be refined at low costs.

BLCO is the most talked about Nigerian export product, likely due to its use as the benchmark for crude oil prices in West Africa, though it is not Nigeria’s most produced crude oil product. In fact, it is only the third most produced crude oil product, behind Qua-Iboe Light and Agbami crude oil. The different names and characteristics of crude oil products may seem trivial at first, but crude oil concessions are generally solely controlled by major multinational oil companies and come from specific oil reserves. For instance, Bonny Light Crude Oil comes from Shell’s Bonny Terminal.

87 “Bonny Light Crude.”
Figure 2.1. shows the diversity of crude oil products produced in Nigeria.⁹¹ These oils all have varied characteristics and are different in their supply and demand. It is worth noting that all of Nigeria’s crude oil supply is classified as light, sweet oil. This greatly increases Nigeria’s relevance to a global oil market that has high demand for light, sweet oil due to its relative ease of refining.

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Figure 2.1. Nigerian Crude Oil by Production Amount (2017), API Gravity, Sulfur Content and Concession Owner
Source: 2017 NNPC Annual Report
The International Maritime Organization (IMO), the UN agency responsible for regulating shipping, set forward what it termed the ‘IMO 2020’ plan. This plan would enforce a sulfur cap of .5% in maritime fuels. This has led analysts to expect a rise in the importance of relatively light, sweet crudes.\footnote{Matt Smith, “Heavy Sweet Crude Is Heading For A Supply Crisis,” OilPrice.com, March 15, 2018, https://oilprice.com/Energy/Energy-General/Heavy-Sweet-Crude-Is-Heading-For-A-Supply-Crisis.html.} Lighter oils yield more useable fuel and sweet crudes produce fuel with lower sulfur content. Taking a look at the diverse array of oil blends offered by the Nigerian industry, Nigeria’s strength comes in terms of fairly light but very sweet oil. For this reason, Nigeria will be well suited to benefit from the IMO 2020 plan. Only five of its oil blends fall over 40° API, making their portfolio one of incredible value. In fact, according to research conducted by the commodities team at Shroders, an asset management analysis company, Nigeria has the lowest average sulfur content and API gravity ratio in the world. The study further claims that oil from Nigeria is best suited to comply with the IMO 2020 plan and that Nigerian crude will take a premium over heavier, sourer crudes.\footnote{Felix Odey and Mark Lacey, “IMO 2020 – Short-Term Implications for the Oil Market,” n.d., 9–10.}

*Is OPEC Worth It?*

lower than expected due to pipeline tapping and militancy in the Niger Delta, there has been resistance from Nigerian authorities to cut its supply even further.\textsuperscript{95} Nigeria eventually caved to OPEC’s wishes even in light of higher production benchmarks put forth in the 2019 budget.\textsuperscript{96} Although Nigeria has agreed to cut its production by the 40,000 bpd requested by OPEC, there is skepticism that Nigeria will actually follow through on its promise given the fragility of the Nigerian economy.\textsuperscript{97} Additionally, the Egina offshore oilfield, which is slated to produce 200,000 bpd has just become operational, which will only further complicate Nigeria’s OPEC compliance.\textsuperscript{98}

Considering Nigeria’s promise to cut production to levels deemed appropriate by OPEC, the question arises of how Nigeria will keep a balanced budget. The Nigerian Minister of State for Petroleum Resources Emmanuel Kachikwu provided an official answer. He said that Nigeria will boost its exports of condensates, a classification of hydrocarbons that are gaseous at storage temperature. Condensates are classified differently from crude oils and therefore fall outside of the jurisdiction of OPEC supply quotas.\textsuperscript{99} Kachikwu has claimed that the Egina offshore oilfield will produce condensates, a claim that seems dubious given the relatively low API gravity of Egina Crude ($27.30^\circ$ API).\textsuperscript{100} This is much lower than the generally accepted API gravity of

\begin{small}
\begin{itemize}
\item \textsuperscript{96} Oluwatoyin Bayagbon, “Nigeria Joins OPEC Cuts despite Higher Oil Production Projections for 2019.”
\item \textsuperscript{97} Oluwatoyin Bayagbon.
\item \textsuperscript{99} Elisha Bala-Gbogbo and Julian Lee.
\end{itemize}
\end{small}
condensates (50°-120° API). Therefore, the Nigerian government will have to look to other ways to reap the full rewards of their oil export potential without upsetting OPEC. One should expect to see an increase in illicit sales in the coming year as Nigeria struggles to balance its checkbook against OPEC’s supply cut.

Contemporary Economic Health

The Nigerian economy has not wavered in its reliance on oil since its widespread exploitation began in the mid-60s. This has positioned the Nigerian economy to fall hostage to changes in global crude oil prices. Oil related products are responsible for 91.7% of Nigerian exports, a number that is high even among the world’s largest oil exporters. This economic reality means that crude oil prices are almost entirely responsible for Nigeria’s export incomes.

Figure 2.2. shows that trend lines representing the price of global crude (per million-barrel USD) almost perfectly align with total export values and GDP. As global crude oil prices per barrel fell by almost 30$ in 2008, Nigerian GDP fell by just over $40 billion. It should therefore come as no surprise that Nigeria ranks 124th out of the 125

104 AJG Simoes and CA Hidalgo, “The Economic Complexity Observatory: An Analytical Tool for Understanding the Dynamics of Economic Development. Workshops at the Twenty-Fifth AAAI Conference on Artificial Intelligence.”; Data from 2017, calculated using HS4 classification
105 AJG Simoes and CA Hidalgo.; World Bank; IMF
countries studied for economic complexity by the Observatory of Economic Complexity. Nigeria’s demonstrated reliance on oil makes clear the importance of better governance of its oil industry as good oil revenues mean a healthier Nigerian economy in the short run.

\[106\] AJG Simoes and CA Hidalgo.
As the IMF Executive Board pointed out in its 2018 assessment of the Nigerian economy, rising oil prices almost single-handedly propelled the country out of its recent recession. The IMF went on to praise Nigeria’s implementation of new measures aimed at tighter monetary policy and tax administration. It should be made clear that this paper does not advocate for Nigeria to continue its reliance on oil as its main driver of growth. An economy that is at the whims of the oil price is wholly ineffective. The IMF and others rightfully criticize Nigeria’s inability to jumpstart its struggling non-oil sector and seek to push Nigeria to fully liberalize its economy.

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107 IMF, “IMF Executive Board Concludes 2018 Article IV Consultation with Nigeria,” 2.
108 IMF, 2.
can gather the funds required to restructure its economy is through better governance of its oil industry.
Chapter 3 -- The Wild West

Occupying a total area of approximately 70,000km, 7.5% of Nigeria’s total landmass, the Niger Delta is home to a regime of lawlessness and violence that has plagued modern Nigeria since 1999. Political discontent based around issues of underdevelopment and underrepresentation has been cited as the cause for explosive spats of anti-government violence. This has led to the foundation of militant groups that stand in open rebellion against the Nigerian state. The violence has allowed organized criminal actors to take advantage of and contribute to rising chaos and instability in the region.

As some have pointed out, the densely packed mangrove and freshwater forests that comprise the Niger Delta make it difficult for the Nigerian state to exert effective control over the region. Add unprecedented levels of resource exploitation, poor health outcomes and oil related environmental damage to the mix and it becomes clear why Nigeria’s most volatile region faces such difficulty in maintaining peace and stability.

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The following chapter will look at the structures that have made the Niger Delta the region in the world with the highest levels of oil theft and pipeline sabotage.\textsuperscript{114}

\textit{Illicit Bunkering}

Billions of barrels of oil flow through Nigeria’s impressive network of pipelines that connect refineries and ports on the southwestern coast to inland oil wells.\textsuperscript{115} Some of the pipelines span almost five hundred miles through complex terrain and residential areas.\textsuperscript{116} Given the dense forest and large land mass that makes up the Niger Delta, there are miles of exposed pipeline, making the issue of patrolling the valuable resource stream an insurmountable challenge for Nigerian security forces and oil companies. To give an idea of the scale of oil theft, Nigeria failed to meet its export target of 2.2 million barrels per day (bpd) in 2016 by around 800,000 bpd.\textsuperscript{117} This suggests that at times, almost a third of Nigeria’s daily oil output was lost between point of extraction and point of sale.

Given the complex relationship between the Nigerian government, multinational oil companies and communities that come into contact with oil, it is difficult to find accurate statistics on the locations and quantities of illicit pipeline entry. This is partially because masking the widespread nature of oil theft is in the NNPC’s best interest. High


\textsuperscript{115} Ambituuni et al., “Risk Assessment of a Petroleum Product Pipeline in Nigeria,” 2.


levels of pipeline tapping serve as a deterrent for companies looking to enter the Nigerian oil sector. Additionally, given its length and deployment in areas with dense tree cover, accurate monitoring of the pipeline is very difficult.

One would expect that large-scale pipeline breaks would be easily detectable as they would cause an observable drop in pipeline pressure that could be seen from a pipeline control room. That being said, “Hot-tapping”, or the diversion of a small amount of oil does not have an adverse effect on overall pipeline pressure and can therefore go undetected by pipeline monitors. This is all to say that any statistics regarding pipeline breaks issued by multinational oil companies, the NNPC or any wings of the Nigerian law enforcement apparatus should be taken with a grain of salt, a likely cause for the relative absence of official statistics in academic writing on the issue.

There are two methods that are used by oil thieves (with variation) to obtain illicit oil from Nigeria’s pipeline. As they range in sophistication and organization, it is important to recognize that no blanket solutions exist for this problem. A basic hot-tapping setup can be obtained with basic household supplies by a single individual. More sophisticated setups that include co-opting oil company officials requires more resources, greater access and more complex skills. Instances of small-scale pipeline tapping have been reported. However, this paper will focus on more sophisticated methods of oil bunkering that require expertise and planning. Due to the huge quantity of oil that is siphoned from Nigeria’s pipelines, law enforcement should focus on large-scale operations to maximize impact.

This next section will outline the known techniques of illicit oil bunkering and discuss ways to stem the flow of illicit oil.

Perhaps the most well-known and iconic type of oil bunkering in Nigeria is a process known as hot-tapping. It can be carried out by small groups or individuals with high success. The process involves fitting a tap onto an active section of pipe. This is done by welding on extensions to the existing pipeline and therefore generally occurs at nighttime. Active pipeline sections are referred to as “hot”, explaining the name for this procedure. Due to the high pressure of the oil pipeline, hot-tappers have been known to consult with oil company employees to find which sections of pipeline have safe pressure levels or to compel employees to reduce pressure on lengths of pipeline to allow thieves to access the oil without triggering a pipeline explosion. The genius of this method of illicit bunkering is that, if done correctly, overall pipeline pressure is not affected by the tap, causing the tap to go undetected after installation. After the tap is in place, the oil is diverted into storage tanks or a waiting barge.

Although hot-tapping requires skilled welders and insider knowledge to carry out, its continued access to the oil supply makes it very attractive. If the tap goes undiscovered, as long as oil is flowing, so is the tap. According to Stakeholder Democracy (SDN), a Nigerian NGO specializing in extractive industries, hot-tapping

121 Fellows.
124 Ogala Emmanuel, "How Crude Oil Is Stolen."
125 Fellows, "The Murky Underworld of Oil Theft and Diversion."
126 Fellows; Ogala Emmanuel, "How Crude Oil Is Stolen."
along the pipeline is controlled by gangs that are willing to set up hot-taps for around $4,700 per tap. They further claim that an effective hot-tapping operation can earn tap operators around $1,038,000 per month, making it a very lucrative enterprise.

Cold-tapping, on the other hand, is far more disruptive to pipeline flow and, if done properly, can still go undetected. Instead of adding a tap into the pipeline as oil is flowing, cold-tappers detonate an upstream portion of the pipeline, causing the flow to stop. Without pipeline pressure, the process of fitting a tap becomes much safer as the risk of explosion is significantly reduced. In addition, oil company employees and security forces will be distracted by the explosion and may not think to look for illegal fittings downstream of the blast. There has been relatively little written on this form of tapping, but one can imagine that it has very different implications in regard to setup cost and danger to those carrying out the action.

As hot-tapping is done most effectively with the cooperation of company officials, it does not attract the immediate attention of law enforcement. Conversely, the explosive nature of cold-tapping and the subsequent need for pipeline repair would necessitate action by oil companies and law enforcement. That being said, considering that cold-tappers do not need to pay off oil company employees their costs are cut dramatically. Cold-tapping is not to be confused with the intentional pipeline sabotage

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127 Stakeholder Democracy, "Communities Not Criminals," 18.
128 Stakeholder Democracy, 13.
129 Fellows, “The Murky Underworld of Oil Theft and Diversion.”
that has been caused by a number of Niger Delta militants as a form of protest. In those cases, oil production is intentionally disrupted but the oil is not stolen and resold.\textsuperscript{131}

\textbf{Rebellion and Amnesty}

In an effort to combat the massive loss of oil which the Nigerian oil industry loses through theft, the Nigerian government has focused its efforts on small-scale pipeline incursions and artisanal refineries. To do this, the Nigerian government has deployed the Nigeria Security and Civil Defense Corps unit to the Niger Delta, with instructions to destroy anything illegal they come across. In this way, Nigeria has taken a very militarized approach to fighting illicit oil bunkering. This is best exemplified by Operation Crocodile Smile, the third iteration of which began in October of 2018. It is an army operation that uses blitzkrieg tactics to crush any illicit actors in the Niger Delta, with a special mandate to take on oil smugglers.\textsuperscript{132}

Nigeria’s crash and burn method of dealing with oil smuggling has proven moderately effective. Figure 3.1. is a representation of oil loss per year as reported by official NNPC statistics from 1999-2017.\textsuperscript{133} This data shows much lower levels of oil loss

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than any other published statistics. In 2017, while NNPC data reported 737,325 MT lost per year (approximately 14,800 barrels lost per day), others report crude oil loss of 700,000-800,000 barrels per day.\textsuperscript{134} The discrepancy seems strange, even as Nigeria’s Minister of Petroleum, Emmanuel Ibe Kachikwu, confirmed a loss of 800,000 barrels per day in May 2016.\textsuperscript{135} This underreporting of official NNPC numbers is characteristic of the organization.

The first spike in oil loss, occurring from approximately 2004-2007 is easy to explain as this was the period of the first major insurgency in the Niger Delta.\textsuperscript{136} The second spike in oil output loss is harder to grasp. It lasts from 2012-2014 and, at its peak, is about a million barrels short of reaching the levels attained during the first Niger Delta insurgency. This period was one marked by hopefulness and genuine attempts at change. It occurred in the immediate aftermath of the Presidential Amnesty Programme that provided money, education and reintegration to approximately 30,000 ex-militants.\textsuperscript{137} As evidenced by official reports issued by the body that oversaw the amnesty program, the Office of the Special Advisor to the Nigeria President on Niger Delta, the Nigerian government was at best unaware of the massive oil loss spike and at worst, uninterested in tainting the image of their amnesty program.\textsuperscript{138} The report completely disregards the

\begin{itemize}
\item \textsuperscript{134} Camillus Eboh, “Nigerian Oil Output down 40 Pct on Delta Pipeline Attacks - Reuters”; Okafor and Olanjyian, “LEGAL AND INSTITUTIONAL FRAMEWORK FOR PROMOTING OIL PIPELINE SECURITY IN NIGERIA,” 210.
\item \textsuperscript{135} Camillus Eboh, “Nigerian Oil Output down 40 Pct on Delta Pipeline Attacks - Reuters.”
\item \textsuperscript{138} I. Margaret Abazie Humphrey, 2–4.
\end{itemize}
fact that oil loss in 2012 was almost twice as high as oil loss numbers for 2010, the year
that the amnesty program came into full effect.

While the amount of oil loss reported by the NNPC is trending down, steps need
to be taken to eliminate the factors that push people to participate in illicit tapping
activities. Although anti-bunkering operations like Crocodile Smile may boast successes
in terms of numbers of arrests or amount of illicit goods seized, the relatively low cost of
entry to the illicit tapping industry makes these marginal

Figure 3.1. Nigerian Crude Oil Loss (Metric Tons) Annually (1997-2017), with Line of
Best Fit
Source: NNPC Annual Reports 1999-2017

superficial.139 Given the ease of setting up a tap, Nigerian law enforcement needs to
address the root causes of why individuals would enter this illicit activity in the first
place. Issues of development and its relationship to the market for illicit oil are discussed
in the following chapter.

139 Stakeholder Democracy, “Communities Not Criminals,” 18–19.
The Togo Triangle

Operations such as Crocodile Smile should yield a moderate reduction in pipeline theft but will not have an impact on indigenous graft. By focusing its efforts on small scale pipeline tapping and refining actors in the large and densely forested Delta State, Nigeria is missing an opportunity to combat the rampant corruption within its own borders that contribute so greatly to the illicit oil market. For instance, in 2005 a vessel called the MT African Pride (IMO: 6501068) was arrested by the Nigerian Navy with 11,000 metric tons of illicit crude oil on board. At today’s prices, a cargo of that size would be worth $4.5 million. As the vessel was in detention, men in small craft came and captured the MT African Pride with its multi-million dollar cargo still on board. The vessel disappeared has not been found to this day. This incident was described at the time as a national embarrassment. The question of how a massive oil tanker could be stolen from under the watch of the Nigerian Navy was perplexing to Nigerians. In order to appear strong in the face of this embarrassment, Nigerian authorities moved the crew of the MT African Pride to high security prison and charged them for the theft of their vessel, even though there was no publicly released evidence to suggest their involvement in the vessel’s theft.

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141 GmbH, “Crude Oil Price Today | WTI OIL PRICE CHART | OIL PRICE PER BARREL | Markets Insider.”
This bizarre incident set off a Nigerian House of Representatives sponsored court martial of two high ranking Nigerian admirals believed to be complicit in the saga. Due to the lack of transparency in the Nigerian court martial process, it is hard to gain an accurate picture of what occurred in the disappearance of the MT African Pride. However, court records reveal that the two admirals conspired together to modify paperwork, and to secure the release of the MT African Pride, likely in exchange for money. Perhaps the most shocking allegation raised in the court martial was that a Lieutenant Commander paid two lower level Navy officers $1,850 to pilot the MT African Pride out to sea to offload its illicit crude cargo to a waiting vessel. They then replaced her cargo with seawater, to make it appear that no product was offloaded. According to the naval officer tasked with guarding arrested ships, this was not the first time something of this nature had occurred. He alleges that the Navy Chief of Staff had him release another arrested vessel, the Molab Trader, before the beginning of the MT African Pride saga.

It should be noted that if this case may seem extraordinary, it is not. This is by no means the only case of smuggling that implicates politically exposed persons at the highest level, as evidenced by the UNODC report on oil smuggling in Nigeria. The UNODC report claims that much of the large-scale fraud and bunkering is a part of an initiative led by Nigerian authorities to allow Nigeria to export above its pre-defined

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147 “Conviction of Admirals Confirms Navy Role in Oil Theft.”
148 UNDOC, “Oil Theft Lubricates Corruption in West Africa.”
OPEC quotas.\textsuperscript{149} Other examples of high-level smuggling have surfaced in recent times as well, with shockingly familiar patterns. Based on research conducted for this paper, it appears that there are clear typologies of action that high-sophistication smugglers use. In the case of the MT Asteris, just as in the case of the MT African Pride, thousands of metric tonnes of oil were smuggled illegally on a vessel crewed entirely by non-Nigerians.\textsuperscript{150} This pattern repeats for two other vessels arrested in Nigeria, the Mellili and the Capbreton I.\textsuperscript{151} Both of these vessels are included in a database of ship abandonment collected by the International Labour Organization, a United Nations Labor rights watchdog.

The prevalence of crew abandonment in the Nigerian illicit oil markets add an underexplored angle to this issue. Its below-the-board nature allows actors with malintent to exploit an abundance of cheap human capital from Eastern Europe and Southern Asia. According to case studies researched for this paper, when Nigerian authorities arrest vessels caught trafficking oil, the crew is held responsible and imprisoned, not the vessel owner. This causes problems when, such as in the case of the MT Asteris, there is no evidence to suggest the crew had any idea what cargo they were picking up. In this case, the crew claimed they were working at the order of vessel owners.\textsuperscript{152} This is true as well

\textsuperscript{149} UNDOC.
of the MT African Pride, whose crew was held in abysmal conditions in high security Nigerian prison before being released only after significant international pressure.\textsuperscript{153}

Why then does Nigeria punish a vessel’s crew instead of the shipowner? In small-scale instances of oil trafficking, this sort of action makes sense—a small, fast-moving, low-cost vessel with a crew of a few men has far more autonomy than a large, expensive vessel with a larger crew. The small vessel may be able to cut through narrow waterways with efficiency and speed; a larger vessel would have a much harder time doing this, requiring advance planning and permission—forged or authentic—from the Nigerian state. Furthermore, the cost of purchasing a vessel the size of the MT Asteris or MT African Pride is astronomical compared to that of a small skiff, and therefore, the vessel must be managed and directed by a wealthy shipowner as opposed to actors of low organization.

By focusing its efforts and resources on the crews involved in illicit oil trafficking Nigeria wastes money and effort in litigation and imprisonment that would be better spent investigating and prosecuting the ship owners that facilitate this trafficking. Only one case has been encountered in which a shipowner was arrested for oil trafficking. This case centers around Dr. Okon Onyung, a wealthy Nigerian retired army officer and doctor. After law enforcement officials found upwards of $150,000 of stolen crude product on a vessel registered in his name, Nigerian officials froze his bank accounts and sought to bring him to justice. Even still, a local justice granted Onyung bail. Onyung fled Nigeria leaving behind his wife and the vessel’s crew. His wife was detained for

short period of time before being released. The crew was less lucky and was held in prison without trial for two years before charges were dropped.154

Dr. Onyung has since returned to Nigeria after his escape and continues to conduct business in Nigeria and the US, highlighting a major flaw in Nigeria’s ability to effectively prosecute well-connected shipowners.155 While they were able to properly identify Onyung as the perpetrator of illicit oil trafficking, their inability to bring Onyung in for trial allowed him to escape. Then, for whatever reason, he was allowed to return to Nigeria with no observable consequences. This has allowed him to repeat his behavior as the crew of the MT Breakthrough (IMO: 9095723), a vessel owned and operated by Onyung’s oil company, was arrested for taking on 4,574 metric tons of illicit crude oil.156

Nigerian officials’ negligence in stopping Onyung’s oil trafficking is reflective of a system that cares more about superficial wins to the sacrifice of challenging the politically connected, powerful business people that pull the strings of the oil shipment. Furthermore, Nigerian officials must begin to publicize the beneficial ownership of vessels that come under arrest from Nigerian officials, allowing companies in Nigeria and abroad to properly evaluate risk in dealing with companies potentially involved in illicit oil trafficking. For a brief period in 2013, the Nigerian Navy did just this. The Navy launched No Crude Oil Theft, a website that listed arrested vessels and included useful

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154 Cummins, “A Nigerian Cop Cracks Down On a Vast Black Market in Oil - WSJ.”
identifying information on vessel ownership, crew detention and remarks made by arresting officers.\textsuperscript{157} Revamping this service could go a long way in increasing the visibility of illicit oil offenders and allow greater transparency for those looking to evaluate business risk or investigate oil traffickers.

\textit{Birds of a Feather}

Given its decidedly ‘dark’ nature, the true scope of illicit oil smuggling is difficult to assess. Nigeria has focused its efforts on stopping the operations of small-scale pipeline tapping operations. This has proven largely ineffective and suggests the necessity to look for underexplored methods of illicit oil bunkering to apply pressure to. Open source research has uncovered a number of guides on how to buy from Nigeria’s ‘Off-OPEC’ market, a process that the Nigerian government has not taken sufficient steps in stopping (perhaps out of self-interest). As described by these accounts of buying Off-OPEC oil, it necessitates having a connection inside the NNPC willing to offload oil at a price lower than the market price.\textsuperscript{158} This enables NNPC officials to accomplish two things 1) to sell more oil than allowed under OPEC price control measures and, 2. to make money under the table from bribes tendered for oil.

As Nigeria’s true production amounts are rumored to sit at about 1-2 million barrels per day higher than the OPEC-regulated export targets, the off-OPEC market could go a long way to increase the NNPC’s revenue.\textsuperscript{159} Given that these off-OPEC deals


\textsuperscript{158} “Database on Reported Incidents of Abandonment of Seafarers.”

\textsuperscript{159} Stan Edom N., “How to Buy Crude Oil From Nigeria: The Complete OFF-OPEC Guide For Buyers | LinkedIn.”
take place under the table and without proper oversight, large transnational criminal networks are well positioned to co-opt this system to their own benefit. In this way, the NNPC is trading higher revenues for Nigeria’s long-term ability to effectively crack down on large criminal organizations and the instability that they perpetuate.

Claims have been made that entering into the Nigerian off-OPEC oil market is incredibly easy and can be done simply by using Nairaland, the Craigslist of Nigeria. To evaluate this claim, Nairaland was searched using terms referring to oil. These terms included ‘racket’, a Nigerian slang for illicit oil, and BLCO, an abbreviation of Nigeria’s most well-known crude product, Bonny Light Crude Oil. There are dozens, if not hundreds, of results for stolen oil that can be purchased at well below official oil prices. Figure 3.2. shows four such results from late 2018 and early 2019.

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Nairaland schemes for offloading oil vary in their sophistication. Some, as in the top entry in Figure 3.2., claim to facilitate direct terminal loading. Others have complex procedures for successful transshipment in open waters. These are sometimes accompanied by forged documents, showing a high level of sophistication. To give an idea of the scale of some of these deals, a listing posted on March 13 offers 500,000 liters of oil for $124,767.161

In his exposé of West Africa’s offshore oil market, Emmanuel Mayah, an award-winning investigative reporter, writes that, “Togo… is fast making itself the new Kuwait of Africa. This it has done by building a man-made oil city, an offshore floating market

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on the sea called the Togo Triangle.” His claim seems ridiculous at first, but it is corroborated by other reports. Mr. Mayah, who has traveled to the lawless Togo Triangle, claims that it is an agreed upon meeting place where all sorts of criminal activity converge: the so-called Triangle is rife with prostitutes, drugs and illicit contraband. A Norwegian security consultant has described the Togo Triangle as appearing like “…an open air drug market – ships big and small literally making deals out on the water.” This is all to say that Nigeria’s indifference to the off-OPEC market helps support a host of ancillary criminal activity just off its shores that serves to further destabilize the region.

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163 Julia Simon, “Episode 578.”


165 Julia Simon, “Episode 578.”
Chapter 4 -- Environmental and Developmental Impacts

Nigeria’s immense oil reserves have done little to bring its populace out of poverty, making it a prime example of the resource curse. As one scholar put it, "Natural resource-abundance has been associated with slow growth, greater inequality and poverty for a larger majority of a country’s population." Proponents of the so-called resource curse paradigm argue that countries that experience rapid growth in a small number of industries have trouble effectively distributing that wealth out beyond a select number of high-level individuals. Furthermore, especially in the early days following resource discovery, the state can experience difficulty in countering conflict over the control of resources. This can have wide-ranging implications for the economy as a whole, as market forces push entities to abandon their prior line of work to participate in the new resource sector. At its most micro-level, the resource curse can have disastrous effects on the quality of life and environment of communities that play host to extraction sites by way of the absorption of harmful extractive bi-products, forcible capture of land, and poisoned water and food sources.

Nigeria has, unfortunately, experienced all symptoms of the resource curse to some degree. Before the discovery of oil in 1956, Nigeria had an incredibly robust

169 NRGI, 4.
170 NRGI, 5.
agricultural industry that employed over 70% of Nigeria and contributed around 64% of GDP (statistics from 1960.)\textsuperscript{171} Ilesanmi Akanmidu Paul, a Nigerian scholar points out, as domestic agricultural provided 95% of the food that Nigerians needed, community-run farms provided the needed social and economic infrastructure directly to Nigerians.\textsuperscript{172} The domestic production of food, coupled with the production and export of cash crops such as cocoa and palm oil made Nigeria a self-sufficient, agriculture powerhouse before the discovery of oil.\textsuperscript{173} On the importance of agriculture to the Nigerian social fabric Paul writes that, “Every school had its farm in which all pupils/students participated during gratis usually once a week.”\textsuperscript{174} Imagine then the impact that the oil boom must have had on the social fabric of Nigeria. Suddenly, the wealth that was collected and preserved in communities that owned and worked their land began to shift to large, multinational oil companies based outside of Nigeria.\textsuperscript{175}

This chapter will focus on the oil industry’s effect on development and the environment in the Niger Delta.

\textit{Pipeline Leaks and Spilled Oil}

\textsuperscript{172} Paul, 17–18.
\textsuperscript{173} Paul, 18.
\textsuperscript{174} Paul, 18.
\textsuperscript{175} Paul, 21–23.
The expansion of the oil industry not only challenged Nigerian social norms but directly impacted the ability of Nigerians to conduct business as usual. A large network of pipeline infrastructure and oil rigs started cutting through the dense forests of the Niger Delta. Pipeline leaks and explosions had far more reaching impacts than the immediate death that some incidents like the 2008 pipeline explosion at Ijegun that killed at least 100 people. Unfortunate incidents like this pale in comparison to the rampant poisoning of food and water sources that cause developmental problems and reduced agricultural yields for generations of young Nigerians that inhabit the Niger Delta.

The scale of the problem of pipeline leaks is hard to pinpoint as it is in the best interest of both the Nigerian government and oil companies to underreport oil spills. In addition, Nigeria’s National Oil Spill Detection and Response Agency (NOSDRA) does not publicly release its data making any sort of meaningful data analysis very challenging. In order to gain an understanding of the quantity of oil spilled, researchers are compelled to conduct their own studies of oil spills in Nigeria. Given the difficult nature of conducting broad studies of the oil spill phenomena and the interest that respondents have in underreporting spills, it should be understood that any numbers cited regarding oil spills are only approximations. This being said, an internet-based study, conducted by Best Ordinioha and Seiyefa Brisbe in Nigeria, found that 240,000 barrels of

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oil a year are spilled in Nigeria.\textsuperscript{180} This is far greater than the approximately 40,000 barrels of oil spilled in the US, a country that produces nearly four times the amount of crude oil as Nigeria.\textsuperscript{181} Some of these spills are very small – in the magnitude of a hundred or so barrels. Others release upwards of 40,000 barrels into the surrounding environment.\textsuperscript{182}

In countering environmental damage as a result of pipeline explosion Nigeria must focus on different causes of pipeline spills, further complicating the issue for lawmakers. The Best et Al. study, which attempted to verify the cause of the pipeline leak, found that causes of 32% of the leaks contained in their dataset could not attributed.\textsuperscript{183} The study only analyzed a paltry 135 spills, much smaller than the 5-year average of spills from 2014-2018 provided by the Nigerian Oil Spill Monitor, which claims 4,195 spills during this period.\textsuperscript{184} The underlying data of the Nigerian Oil Spill Monitor is provided by Nigeria’s National Oil Spill Detection and Response Agency (NOSDRA), an agency which, according to their now defunct website, was set up to, “To restore and preserve our environment by ensuring best oil, storage and transmission practices”.\textsuperscript{185}

\textsuperscript{180} Ordinioha and Brisibe.
\textsuperscript{182} “U.S. Crude Oil Output Hits 11 Million Barrels per Day for First...”
\textsuperscript{183} Ordinioha and Brisibe, “The Human Health Implications of Crude Oil Spills in the Niger Delta, Nigeria.”
\textsuperscript{184} Ordinioha and Brisibe; National Oil Spill Detection and Response Agency, “Nigerian Oil Spill Monitor.”
Interestingly enough, the NNPC data for this period varies dramatically from NOSDRA’s.\textsuperscript{186} The NNPC reports that 13,728 pipeline breaks occurred, indicating that the oil spill watchdog does not have a data sharing agreement with NOSDRA.\textsuperscript{187} This should be seen as a critical failure in the Nigerian government’s effort to clean up environmental damage resulting from pipeline breaks. The fact that NOSDRA is not aware of or, at least, does not release publicly, 9,603 pipeline leaks greatly reduces its efficacy as a regulator and its ability to provide aid to affected communities.

Further highlighting the divide between players in the oil industry, Royal Dutch Shell is the only actor that provides granular, public-facing data on oil spills.\textsuperscript{188} Although multinational oil companies have, as stated earlier, significant interest in underreporting oil spills due to company failure, Shell provides comprehensive data on spill causes.\textsuperscript{189} Of the 147 spills in Nigeria that Shell reported in 2018, it reported that 128 (87.1\%) were due to sabotage and only 19 (12.9\%) occurred due to company error.\textsuperscript{190} Even if the 43 spills classified as ‘unknown’ are removed, the Best et al. study claims that 28 of 92 (30.4\%) spills are due to ‘third party activity.’ Best et al. defines this category as encompassing pipeline vandals or thieves.\textsuperscript{191} This puts the Best et Al. value at significantly lower than the Shell-reported number. If Nigeria is to be effective in distributing its resources, accurate data collection and transparent data sharing is crucial.

\textsuperscript{187} Nigerian National Petroleum Company, “2016 NNPC Report.”
\textsuperscript{189} ”Shell Oil Spill Data.”
\textsuperscript{190} ”Shell Oil Spill Data.”
\textsuperscript{191} Ordinioha and Brisibe, ”The Human Health Implications of Crude Oil Spills in the Niger Delta, Nigeria.”
Nigerian authorities need to go further than just improving intragovernmental data sharing. In some cases, top-down reforms must be instituted to prevent conflict over crude oil spill investigations. In order to garner greater efficiency in dealing with oil spills, the Nigerian government instated a policy of requiring Joint Investigation Visits (JIV) to verify and analyze spills. Representatives from the responsible oil company, NOSDRA, the Department of Petroleum Resources (DPR) and the surrounding community are required to be present at spill sites in order to carry out a JIV. Together, the investigators fill out a standardized form which asks questions regarding to the location, cause and size of the spill, in addition to questions about what kind of terrain

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was polluted, i.e. if government territory, cropland or water sources have been polluted.¹⁹³

<table>
<thead>
<tr>
<th>INCIDENT NO.</th>
<th>JIV report S/N: 0231</th>
</tr>
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<tbody>
<tr>
<td>S.P. spill no.</td>
<td></td>
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<tr>
<td>RISK ASSESSMENT</td>
<td></td>
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<tr>
<td>a. Type of environment</td>
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<td>b. Weather conditions</td>
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<tr>
<td>c. Distance from the nearest sensitive habitats</td>
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<tr>
<td>d. Further response/repair initiated...</td>
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<tr>
<td>e. Crude oil recovery and repair activities are ongoing.</td>
<td></td>
</tr>
<tr>
<td>f. Limited information such as displayed here make it difficult for government agencies and affected communities to challenge the actions of</td>
<td></td>
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Figure 4.1. Example of a JIV Showing a Lack of Useable Information
Source: Shell Oil Spill Data¹⁹⁴

Figure 4.1. shows page two of a JIV filled out by Shell for a small spill. The form indicates that there was no damage to sensitive areas. In describing the “further response/repair initiated...”, the Shell representative wrote “Crude oil recovery and repair activities are ongoing.” The form gives no information as to the type of recovery and repair that are being carried out. Limited information such as displayed here make it difficult for government agencies and affected communities to challenge the actions of

¹⁹⁴ “Shell Oil Spill Data.”
the polluter. Specific plans of action should be required on this form so that stakeholders can ensure that appropriate cleanup steps are being taken.

Although the intentions of the JIV are positive, it falls short as it provides no actionable scientific analysis of a spill site. Instead of taking soil samples and determining whether the spill site is at risk of severe environmental damage, the form allows two lines of space for an investigator to note if there is any necessary further action to be taken.\(^{195}\) Given the detrimental impact that oil spills have on their environments and the need for greater understanding of this impact, the Nigerian government is doing its citizens a disservice by not including scientific information in JIVs. Additionally, in order to maximize the efficiency of JIVs, the Nigerian government should take steps to mandate the public release of all investigations. This way, researchers, law enforcement agents and concerned community members could easily access information on how crude oil has affected their immediate environment.

No matter the problems the JIV presents, it is a step in the right direction. However, there are reports that, in some cases, JIV guidelines are not carried out.\(^{196}\) On August 17, 2016, a group of communities in South-West Delta State reported to authorities that there was a massive oil leak originating from a crude oil line managed by the Pipelines and Products Marketing Company (PPMC).\(^{197}\) Instead of carrying out a JIV, the PPMC allegedly responded by sending the military to intimidate concerned

\(^{195}\) Shell Corporation, “Joint Investigation Report 2259416.”
\(^{197}\) “10 Delta Communities Battle NNPC over Alleged Oil Spill.”
A letter, written by leaders of the affected communities, claim that the PPMC purposefully opted not to appear at the JIV initiated by NOSDRA.

Even if incidents of this sort may not be commonplace, it highlights an apparent structural problem with NOSDRA: it lacks the power of the purse-string. There is currently no infrastructure for NOSDRA to levy fines on repeat offenders, nor is NOSDRA able to fund JVIs alone. The prevailing understanding is that the oil company pays for and facilitates the JIV process. While the intention of this stipulation of the JIV is clearly to compel the offender to bear financial responsibility for their actions, it instead gives oil companies the opportunity to manipulate the process to their benefit.

Royal Dutch Shell is the only oil company in Nigeria that makes their JIVs available to the public. They fill out the JIV form after the JIV is conducted, leaving the possibility of post-investigation tampering. Furthermore, the amount of compensation that affected communities received is directly linked to the cause and size of the spill. When the cause of a spill is determined to be due to vandalism or theft, affected communities receive no compensation, regardless of the damage the spill causes to their environment. A report written by Amnesty International in 2013 claims that oil

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198 “10 Delta Communities Battle NNPC over Alleged Oil Spill.”
201 Stakeholder Democracy, 28–29.
202 Stakeholder Democracy, 12.
204 Amnesty International, 5.
205 Amnesty International, 5.
companies’ role as lead investigator of the JIV is one of the reasons that there are so many unresolved oil spill compensation claims, some of which have been taken to court.206

Midnight Sun

Oil spills cause clearly observable environmental damage given their observable damage to the surrounding environment. Gas flaring, however, is a silent killer due to its release of invisible, toxic gases that affect water, soil and air quality. Gas flaring occurs when oil well operators make the decision to burn off the natural gas that can be found alongside crude oil.207 This phenomenon is so wide spread that it has “…banished darkness from the oil bearing enclave of the Niger Delta.”208 Given that natural gas is highly sensitive to combustion and is difficult and expensive to transport, oil companies may intentionally flare their gas to avoid these expenses.209 There have been numerous articles written regarding Nigeria’s troubling relationship with gas-flaring. Most of these fail to recognize the unique nature of Nigeria’s crude oil deposits that necessitate, or at the very least, make gas flaring the best option for oil companies.

The trouble for Nigeria is its extremely rich reserves of associated gas found alongside its crude.210 A report describes the Nigerian situation as “a gas province with

209 Union of Concerned Scientists, “Natural Gas Flaring, Processing, and Transportation.”
significant oil accumulation.”211 This statement rings true, as Nigeria has the world’s ninth largest proven oil reserves and Africa’s largest proven oil reserves.212 In order to safely and effectively process mined oil, companies are faced with the choice of burning the natural gas off of their product, or putting large amounts of money into creating the infrastructure to effectively capture and transport natural gas. Given that natural gas and crude oil cannot be transported in the same pipelines, oil companies would be hard pressed to expand on Nigeria’s already colossal network of pipelines, something that would likely be met by unrest from communities who already see the pipelines as invasive.213

Of course, there is an alternative that some oil companies have taken in an effort to reduce their flaring footprint without the construction of pipeline infrastructure. Instead of transporting natural gas in its latent form, it can be cooled at -260 degrees Fahrenheit, changing the gas into a liquid form. This liquid can then be packed into specially designed storage units and transported on purpose-built railcars, trucks and ships.214 This solution to the problem of excess natural gas has proved profitable for some ventures in Nigeria. In 1989, Shell entered a joint venture with the NNPC, Total and ENI to form NLNG (Nigeria LNG Limited), which contributes 7% of the world’s LNG supply.215

The Nigerian government has ridden the wave of public opinion and has begun to take steps to try and clamp down on oilfield operators that perpetrate excessive gas

211 Orji, 1.
212 Orji, 1.
flaring. This has come by way of a sweeping regime of penalties levied on gas companies.216 It is good news for Nigeria that is finally taking steps to close the loophole created by an almost comically mis-drafted framework that allowed Nigeria to levy fines on companies that flare gas. It initially allowed these ‘penalties’, a mere $.03 USD per 1,000 standard cubic feet of gas produced, to be written off as tax deductible.217 Finally, in 2018, President and Minister of Petroleum Resources Mohammadu Buhari signed into law a supposed fix to this loophole and will increase fines to $2.50 per 1,000 standard cubic feet.218 Whether Nigeria will be able to effectively enforce this new regulation is to be seen, however, it is a step in the right direction.

Attacking the problem of natural gas flaring cannot be done by public outcry and fines alone. The Nigerian government needs to find ways to make the expensive process of liquifying and transporting natural gas cheaper. It is pushing forwards in the right direction with the foundation of new agencies and programs like the Nigerian Gas Flare Commercialization Programme, a unique organization that combines flare-site analysis with the participation of development banks and foreign investors, to try and transform 170 flare sites around Nigeria into profit-making opportunities to multinational oil companies.219 Given that it was founded only last year, there is no way to tell if this initiative has had any observable impact on the issue of gas flaring. That being said,

considering the history of the Nigerian government’s ineffectual management of the market for crude oil, skepticism of this policy is warranted.

Economics aside, the dangers of oil leaks and gas flaring have been demonstrated by a number of studies conducted in the Niger Delta. The environmental distress caused by gas flaring can be seen in terms of incredibly high flame temperatures (up to 1,100 degrees Celsius), the proliferation of acid rain and the widespread release of methane, a greenhouse gas. Of these factors, high temperatures which scorch nearby flora and fauna has the most short-term impact. However, more attention needs to be paid to the dangers of acid rain and the contamination of precious water and food sources that acid rain can cause. Given Nigerian society’s cultural affinity to agriculture, and the fact that it contributes largely to the Nigerian economy, reduced crop yields due to acid rain could have a detrimental impact.

As a 2013 study notes, “The health hazards created by oil exploration and exploitation are covert and slow in action.” The results of the study are shocking and confirm fears that the buildup of oil pollution has finally begun to effect human development on the Niger Delta. By comparing two communities, one affected by oil pollution and one that is not, researchers found that the polluted community exhibited almost double the amount of underweight or wasting children. This is believed by the researchers to be due to the reduced nutritional content and the increased presence of

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222 Ordinooha and Brisibe, “The Human Health Implications of Crude Oil Spills in the Niger Delta, Nigeria.”
heavy metals found in staple crops in oil-polluted soil. Further studies have shown that crude oil contamination additionally reduces crop yields and therefore increases food insecurity.

Climate change will be detrimental to life on the Niger Delta. Using the International Panel on Climate Change (IPCC) model, which projects around 1 m of sea-level rise per 100 years, experts predict that 80% of the population of the Niger Delta would have to leave to find higher ground. This type of sea level rise, would push millions of Delta residents out of their homes, not to mention the destruction of important profit generation – to the tune of $9 billion by some estimates – for the Nigerian government. Whether or not Nigeria wants to accept the incredibly powerful negative impact that oil has on agriculture and human development in the Niger Delta, it has to accept the crisis that would ensue if climate change pushed sea levels to rise to the point where an exodus of millions would occur – not to mention the loss of billions of dollars of revenue. In this way, Nigeria has to view its cripplingly high levels of oil spillage and gas flaring as a threat to its economy and national security.

Figure 4.2. displays the broad coverage of pipelines throughout Delta State. It would be inconceivable to think of a situation in which the Nigerian army could

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223 Ordinioha and Brisibe.
226 Community Research and Development Centre, “Climate Change in Niger Delta | Global Greenhouse Warming.”
Effectively patrol the entire network at a given time. Therefore, if Nigeria wants to be most effective, it must refocus to a combination of economic initiatives and actions designed to combat large-scale smuggling. Given the relative underdevelopment of the Niger Delta in proportion to the amount of revenue the region brings in for the Nigerian state in terms of oil, Nigeria must address this underdevelopment and provide poorer members of society with alternatives to smuggling. A good place to start would be to tackle the staggeringly high youth unemployment rate in Delta State. A study conducted in 2016 found that youth unemployment in three states in the Niger Delta, namely Akwa Ibom, Bayelsa and Rivers State, was almost twice as high as the national youth unemployment rate of 19.7% with an average rate of 35.9%.

Figure 4.2. Map of Oil Well and Pipeline Infrastructure in the Niger Delta
Source: Diercke International Atlas
Chapter 5 -- Looking to the Future

In 1999, President Olusegun Obasanjo was sworn in as Nigeria’s first President after the fall of military rule. In his inaugural address, he declared that, “…it does no credit either to us or the entire black race if we fail in managing our resources for quick improvement in the quality of life of our people.”227 Since then, there has been little advancement in development for Nigeria. 70% of its citizens still live below the poverty line and youth unemployment in oil-producing regions is nearly 30%. Militants, like Boko Haram and MEND, still run rampant throughout rural Nigeria. Bloomberg data claimed Nigeria lost of 600,000 barrels per day of its crude oil output potential in 2018.228 Obasanjo’s stated goal of more effective resource governance was clearly not met. Poor resource management is still a major problem for Nigeria.

It is this ineffective resource governance that has caused Nigeria to experience its resource curse. In order to reverse the resource curse, Nigeria needs to make drastic changes. It must press forward with a substantial redistribution of wealth to communities that possess oil concessions. Also, it needs to adopt a hardline approach to dealing with indigenous corruption and to close the loopholes that allow MOC malfeasance. Effective redistribution of wealth to oil bearing communities will reduce militancy in the Niger Delta and help Nigeria end its nearly two-decade struggle against insurgency in the Niger-Delta. By simultaneously attacking domestic graft, Nigeria will regain its oil revenue streams lost to corruption, the off-OPEC oil market and oil smuggling.

228 Dulue Mbachi and Elisha Bala-Gbogbo, “Nigerian Oil Region Crisis Threatens Buhari’s Economic Plans.”
If Nigeria fails to act soon, it will prolong the sustained economic poverty that has marked the turbulent period following independence. The following chapter will evaluate proposals for better oil-industry governance put forward by Nigerian officials and provide a roadmap to Nigerian economic success.

*An Election in Oil*

On February 27, 2019, Nigeria’s National Electoral Commission declared incumbent president Muhammadu Buhari the winner of its sixth election in Nigeria’s modern democratic history. Buhari, a holdover from the days of military rule, styled himself a powerful reformer who would come from outside the establishment and take a hardline approach to the corruption that marked previous Nigerian democratic regimes. Anyone concerned about the veracity of Buhari’s claims should remember the autocratic fervor with which Buhari pursued his anti-corruption initiatives when he took office after his successful coup. He enacted zero tolerance policies that are out of the playbook of Rodrigo Duterte. Buhari ran against Atiku Abubakar, a former Nigerian Vice

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President, who’s plan for economic reform centered around the liberalization of the oil industry.\textsuperscript{232}

Buhari has strongly opposed reforms that call for liberalization and deregulation of Nigerian markets as he believes that greater state control is the key to a reduction of corruption.\textsuperscript{233} Given Nigeria’s precarious economic situation, conventional economic wisdom would suggest that the liberalization of certain Nigerian sectors could serve to spur economic growth.\textsuperscript{234} Scholars still disagree on how much of a positive impact economic, if at all, widespread liberalization would have on Nigerian economic prospects.\textsuperscript{235}

In light of Nigeria’s troubled past with widespread corruption, MOC malfeasance and disregard for environmental damage, full deregulation and liberalization of the oil economy could be ruinous to Nigerian stability even if it provided economic benefit. Buhari’s plan to increase government control over the oil industry is similarly foolish as high-level government corruption and mismanagement is rampant as evidenced by the case of the MT African Pride, the off-OPEC Oil Market and the failure of the JIV.

Nigeria has several options to break out of the structural mechanisms that retard the effectiveness its oil market. It should look for a compromise between the plans put forward by Buhari and Abubakar. First, it should strip the NNPC’s regulatory powers and reassign them to a number of funded government bodies. This is in line with Buhari’s


\textsuperscript{233} Cohen, “Will President Buhari Rescue Nigeria’s Oil and Gas Sector?”

\textsuperscript{234} Cohen.

original campaign promises from 2015 and would allow various bodies that already exist, like NOSDRA and the Department of Petroleum Resources, to have significant enforcement powers over private and public sector actors. These government agencies must then balance their newly attained regulatory powers with transparency measures aimed at garnering public trust, promoting data sharing between agencies and uncover politically exposed persons involved in illicit activity. This will have the further indirect consequence of allowing non-governmental organizations access to data, adding another layer of external accountability for the government.

At the same time, Nigeria should take steps toward liberalizing its downstream processes, a move that could help to revive Nigeria’s relatively stagnant oil refineries. The refineries dropped below 11% of their production capacity at the end of 2018. This idea was suggested by Atiku Abubakar as part of his election platform, however, in his platform he suggests that revenues from privatization exercises be put into a “special fund for the development of education and health.” Proponents of this policy would likely look to Nigeria’s low official literacy rate of 59.6% (although, this has been disputed by studies who claim a youth literacy rate of 85.6%). A proposal of this nature could go a long way to reducing militancy and illicit oil activities in the criminally underdeveloped Niger Delta. This would have a positive effect and help reign in the actors that facilitate the theft off of hundreds of thousands of barrels of oil per day from

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237 Cohen, “Will President Buhari Rescue Nigeria’s Oil and Gas Sector?”
238 Abubakar, “How I Will Get the Nigerian Economy Working Again.”
the national supply all the while attacking poverty and underdevelopment in affected communities in the Niger Delta.

In its efforts to encourage downstream privatization, Nigeria will need to be careful not to cede all of its power to MOCs. It would do well to continue to support the proliferation of indigenous business in the oil industry. Proposed building projects, like the plan for a $15 billion dollar refinery put forward by Nigerian oil baron Aliko Dangote, are to be encouraged. Critics of the Dangote project will point to the dangers of a handful of people, whether Nigerian or not, holding monopolies over the Nigerian industry for oil. These critics are not wrong—monopoly control is dangerous—but it is hard to overlook the benefits of Nigeria opening its downstream oil industry to greater indigenous participation. For the first time in its history, Nigerian nationals control 18.9% of oil output and 18.2% of gas output. If this trend receives continued support, it will help Nigeria build its own domestic industry and allow it to wean off of the support of corporations and skilled human capital from abroad.

*Grand Strategy*

At a time when China and the West are fighting over economic control of Africa, opportunities for joint ventures and foreign direct investment will be widespread. There will be plenty more opportunities to bait China and the US to invest in sweeping

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241 Cohen, “Will President Buhari Rescue Nigeria’s Oil and Gas Sector?”

infrastructure reform. This could come in the form of road, rail and pipeline improvements and would go a long way in increasing ease of movement for the extractive industry. In light of this, Nigeria should look to expand its role as a major producer of liquified natural gas. As discussed before, Nigeria’s reserves of this gas are plentiful and significantly under-utilized. If Nigeria were to invest, whether unilaterally or with international cooperation, in the necessary infrastructure to support this industry, they could greatly improve profits while incentivizing oil operators to reduce gas flaring, something that will have profound environmental and social benefits. All of this will go towards righting the environmental woes caused by years of improper gas flaring.

Competition between the US and China puts Nigeria at a unique crossroads in its history. The US’ renewed interest in emerging markets and its desire to counter Chinese influence has made Nigeria a prime economic battleground. This has positioned Nigeria well to take full advantage of rising levels of foreign investment. The influx of foreign cash will give Nigeria the necessary breathing room to enact important reforms without falling too far into debt. It would be foolish for Nigeria to think that this support from China and the US will last forever though. For this reason, Nigeria must stay focused on identified objectives and push ahead with the systems of stabilization and reform discussed above.

Although it may not please IMF analysts who have pushed for liberalization of Nigerian markets for years, Nigeria must continue its policy of heavy-handed state-operated control of portions of its oil industry to position itself for success if it is to liberalize fully further down the road. The IMF’s suggestions to Nigeria would allow continued MOC dominance of the oil industry and do little to curb oil smugglers. Given
years of allowing malicious actors to take advantage of Nigerian industry, officials should take Buhari’s advice and keep its tight grip on the oil industry. However, attention should be paid to separating regulators and the industries they regulate. This is the only conceivable way for Nigeria to find the necessary financial flows to carry out the reforms that are needed to help stabilize economic and internal concerns.

As Nigeria continues to carry out these reforms, the government needs to be aware of the changing market in which they are transacting. Nigeria’s reliance on oil as a driver for its economy is useful in the short term but presents an existential threat in the long term, amidst unstable oil prices. Nigeria must look to invest its oil revenues into diversifying its economy in order to combat oil price instability and the gradual decline of global oil consumption. All in all, Nigeria has taken great strides in expanding its burgeoning oil market since it gained independence from Britain, but it has a long way to go before it can rest on its laurels and become a stable, global economic force in West Africa.
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