Natural Resource Governance Institute

Note Regarding the NRGI Briefing *NNPC Still Holds 'Blank Check'*

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On 30 March 2016, the Natural Resource Governance Institute (NRGI) published a briefing entitled *NNPC Still Holds 'Blank Check.'* The briefing noted that the state-owned Nigerian National Petroleum Corporation (NNPC) in the last half of 2015 continued to retain and spend a large portion of revenues from the sale of crude oil, and called for the reform of the system that governs these financial flows. In the following days, NNPC officials reached out to us to discuss the content of the briefing. They also submitted written materials in which they disputed some of our findings.[1] This three-part note aims to clarify our position and respond to points raised by NNPC.

Our 30 March briefing sought to direct attention towards one important oil sector governance challenge: the lack of an adequately defined financial relationship between NNPC and the state. Given the scale of the funds at stake, this issue negatively impacts the country's fiscal wellbeing and NNPC's ability to do business efficiently. It has received too little attention in the current oil sector reform discourse—for instance, in the most recent drafts of the Petroleum Industry Bill or the announced plans to "restructure" or "unbundle" NNPC.

We stand by the analysis and conclusions in our briefing, and do not find them to be fundamentally at odds with the position expressed by NNPC officials. In our recent interactions, NNPC officials stressed that they are operating in compliance with the existing system's rules. But it is precisely *that system* that we criticize. We maintain that defining the financial relationship between NNPC and the state may be the single most important task for the Nigerian government to achieve in the current effort at oil sector reform.

[1] NRGI personnel jointed two in-person meetings with senior NNPC officials in Abuja. Thereafter, the corporation emailed us an 11-page written reply to the 30 March briefing. We asked several clarifying follow-up questions about the reply, to which NNPC again responded in writing. We then provided NNPC with the chance to comment on a draft of this document prior to its release; NNPC responded with a further six pages of written remarks. In this document we quote NNPC's written submissions at various points, in an effort to reflect the company's perspectives.

1. The consultation process

We missed an opportunity by not consulting NNPC prior to the publication of the briefing. Under its new leadership, NNPC has assumed a more open posture – it publishes much more information about its operations, is more regularly available to the mainstream media, participates in social media, and is more welcoming of external ideas, including from organizations like NRGI. This is a positive shift from past practice. The briefing NRGI published was an analysis of data that came directly from NNPC. It followed a longer 2015 report during the preparation of which we did consult NNPC.[2] Nonetheless, receiving additional comments from NNPC prior to publication of the 30 March could have been beneficial.

We thank NNPC officials for their active engagement after the briefing's publication. Several senior executives met with us on two occasions, and they provided two sets of written comments about the briefing. These interactions constitute further evidence of the company's new commitment to greater openness. We look forward to continuing this engagement with NNPC, as well as with other parts of the Nigerian government and with civil society, on the crucial topic of oil sector reform.

2. Edits to the original briefing

Based on inputs received from NNPC following the publication of the briefing, we changed one set of figures from the original briefing, about the value of oil lifted by the Nigerian Petroleum Development Company (NPDC), NNPC's main upstream subsidiary.

We originally estimated the value of NPDC oil sales in 2015 at $2.687 billion ($1.178 billion in quarters one and two, $1.509 billion in quarters three and four). These total figures included oil from a number of different producing licenses that are controlled by NPDC. We had originally included in the figures the sales of government equity crude from three joint venture blocks (OMLs 18, 24 and 29), based on an understanding (obtained from interviews with government and industry sources) that NNPC had assigned its equity in the blocks to NPDC early in 2015. When we queried NNPC on this point in the exchanges following the 30 March publication, however, the corporation replied that "OMLs 18, 24 and 29 (Operated by Newcross, Eroton and AITEO respectively) remain Federation assets till date as NNPC did not transfer its equity in these OMLs to NPDC. Consequently, liftings from these assets are credited to the Federation."

In order to reflect this information provided by NNPC, we have subtracted the sales from the three OMLs in question. As a result of this revision, the following figures from our original briefing changed:

- The total value of 2015 NPDC oil sales reduced by $408 million, to $2.279 billion.
- Total 2015 value of the three types of oil sales (regular export, domestic, NPDC) we analyzed went from $13.626 billion to $13.218 billion.
- Total 2015 retention of revenue from the three types of sales stands at $7.561 billion, down from $7.969 billion.

[2] Aaron Sayne, Alexandra Gillies and Christina Katsouris, *Inside NNPC Oil Sales: A Case for Reform*, Natural Resource Governance Institute, 2015.

- The percentage of total revenues retained by NNPC for quarters one and two of 2015 went down one percentage point, to 51 percent. Total retentions for the latter half of the year went down two points, to 64 percent.

These changes are now reflected in text and graphics of the briefing available on NRGI's website.

We note that the revised 2015 NPDC sales figures do not significantly alter the headline figures in the briefing, nor do they undermine its conclusions. For the NPDC figures as well as others used in our briefing, we were limited to analyzing data disclosed by NNPC and did not have access to sufficient documentation to be able to independently verify the data in any way.

3. The existing system versus the system that is needed

The principal subject of disagreement in this case is the revenue retained and spent by NNPC (versus passed on to Nigeria's treasury), and whether this retention and spending are appropriate. The publication of the briefing revealed three distinct interpretations of this question:

First, NNPC states that several different rules and policies give it the authority to spend a large portion of oil sale proceeds. The corporation said: "NNPC has very strong policies and procedures, including a well-documented Delegation of Authority Guide that includes the Federal Executive Council (FEC), that govern its operations, and is always in compliance with the laws and regulations of the Nation." The corporation maintains that "all its expenditure is legitimate," and the large differences between the value of government oil it sells and the proceeds it remits to the treasury "d[o] not amount to retention and spending of Federation funds discretionarily." Its written submissions to us laid out these points in detail.

Second, we argue that this *existing system* governing NNPC revenue flows is ill-suited, allows for too much discretion, and should be overhauled. The share of oil revenues that are subject to these rules and practices is large, and therefore the financial stakes are high. A long-running series of controversies regarding NNPC revenue retention (not least the findings of the former central bank governor Lamido Sanusi that $20 billion in oil revenues was missing) illustrates the absence of consensus and clarity around the existing system. In other words, we did not claim that NNPC officials are operating in contravention of the system. Rather, our point is that the system itself is faulty. In its review of this document, NNPC disputed this conclusion, saying: "There is nothing wrong with "*the existing system"* governing NNPC revenue flows. The argument that it is ill-suited, allows for too much discretion, and should be overhauled is not tenable."

Third, it is possible that elements of the media and the public may have assumed that large-scale spending by NNPC, such as that detailed in our briefing, mean that NNPC officials might have misappropriated the funds involved. There have been various accusations and controversies about NNPC revenue transfers in recent years. However, at no point in our briefing did we state or suggest that the current NNPC leadership has misappropriated funds, manipulated procedures, or engaged in corruption.

NNPC provided an explanation of how it spent the retained funds, and the rules that authorize this spending. NNPC is operating within the system as it currently exists, and it described how

that system works in its response to us. We argue that the system needs urgent reform. These positions are not at odds. In fact, it is only through an improved financing mechanism that NNPC can grow into a high-performing national oil company.

Below, for each of the three types of oil sales discussed in the briefing, we show how our overall argument about the need for reform relates to some of the explanations provided NNPC in its response to us.

Retention of export oil sale revenues to cover joint venture (JV) cash call expenses

We address here two issues: the size of NNPC's JV cash call expenditures, and the system for their approval.

Regarding the scale of JV cash calls spending, NNPC emphasized in its response that JV operational costs "do not move in tandem with crude oil prices" and therefore take up a large share of the smaller pool of available export crude sale proceeds during this low price period. We had explicitly acknowledged this point in the briefing, and noted the expensive nature of the JV system. NNPC responded that, under its new leadership, the company is pursuing "directives for 30% reduction in the cost of operations across the industry" which could help reduce this burden to some degree. This would be welcome, as one weakness of the current system is that it does not incentivize cost-saving: the higher the budget that the JVs submit, the more money they can claim from the Federation's export crude returns.

There is a high opportunity cost to JV spending, especially in the current economic context. Demonstrating this point, the finance minister recently announced that funding from the JV cash call account may be reallocated to cover part of the budget shortfall.[3] NNPC itself commented to us that "it can be argued that the entire cash call system is not affordable as a source of funding upstream joint venture operations."

On the approval system, NNPC offered an explanation of how JV cash call spending is authorized. Most notably, it said that a budget for each JV, including its anticipated cash call obligations, is "sent to the Minister of Budget and National Planning who upon review and approval, passes same to the National Assembly for appropriation. After approval by the National Assembly and presidential assent, the budget becomes law." The corporation also claimed that its use of oil sale revenues for JV cash calls is "in full compliance with [the] provisions of the 2007 Fiscal Responsibility Act (FRA)," and that "accordingly, it has not spent any funds due to the Federation Account that have not been approved by the relevant government agencies."

The cash calls are indeed part of the government's annual budgeting process. However, it is our understanding that neither the budget process nor the FRA place strong, enforceable limits on NNPC's cash call spending. The annual budget process reflects an assumed cash call amount that reflects the budgets submitted by NNPC.[4] These assumed figures and NNPC's actual transfers of

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[3] Alexis Akwagyiram and Ulf Laessing, "Nigeria may save cash for oil projects to make up budget shortfall-finance minister," *Reuters*, 9 April 2016.

[4] The cash call budget is not formally set in law. The short appropriations bills that the National Assembly approves and the president actually signs into law each year do not include figures for NNPC cash calls.

oil sale revenue to the designated JV cash call account regularly differ (table 1). This is not at odds with the FRA, which makes clear that the MTEF's figures are only "estimates" and "projections."[5] However, it does illustrate that the federal budget process allows for adjustments by the agency, in this case NNPC. At most, the budget sets a ceiling for NNPC's reported JV cash call spending.

Another sign of potential discretion in the system is that past audits have found that NNPC uses money from the JV cash call account for items not found in JV work programs or budgets. The Nigerian Extractive Industries Transparency Initiative (NEITI) identified roughly $4.2 billion in such payments between 2009 and 2012.[6] Government reports noted other examples.[7] NNPC stated to us that it "does not engage in any discretionary spending out of the JV cash call budget." It holds that the expenses noted by NEITI and others "qualify as part of the federation upstream budget." We question whether the upstream budget and the JV cash calls are meant to be the same thing, and point again to repeated questions raised about NNPC spending from these funds on non-JV expenses.

Table 1. Budgeted and actual JV cash call amounts, 2012-2015 ($ million)

Item	*2012*	*2013*	*2014*	*2015*
Cash call amount assumed for the budget process (a)	7,412	7,483	7,390	7,389
NNPC transfers to JV cash call account (b)	7,365	7,279	7,276	4,133
Difference (a - b)	47	204	114	3,256
Exchange rate used	154:1	158:1	160:1	190:1

Sources: Federal Budget Office, Quarterly Budget Implementation Reports; NNPC August 2015 Submission to the NEC Ad-Hoc Committee on Management of Excess Crude Account Proceeds and Accruals into the Federation Account; NNPC 2015 Monthly Financial and Operations Reports.

This is also true of the lengthier budget proposal documents that the Ministry of Budget and Planning submits to the National Assembly. As NNPC stated in their response, cash calls instead are a "first line charge" to the federal budget. This means that the number that NNPC provides each year is simply subtracted from official revenue projections for the year, on the assumption that it will be unavailable to fund the budget. NNPC also confirmed to us that the Assembly does not approve its annual operating budget.

[5] FRA sec.11(3)(c).

[6] More specifically, NEITI uncovered $600 million in "security payments," $646.95 million for the "Expansion of Escravos-Lagos Pipeline Project," and $486.6 million in NAPIMS "management fees." NEITI, 2009-2011 Oil and Gas Financial Audit Report p.19. In its 2006-2008 audit, NEITI found similar payments for security and management fees that it could not support with "invoices, receipts or other documents." NEITI, 2006-08 Oil and Gas Reconciliation Report, Appendix M, sec.1.14.8.

[7] KPMG for example questioned NAPIMS's practice of withholding large "management fees" from the JV account in its audit of NNPC accounts from 2007-2009, noting that NNPC "did not provide the auditors with authorization or supporting documentation" for $384 million in such withholdings. KPMG-S.S. Afemikhe, Final Report on the Process and Forensic Review of the Nigerian National Petroleum Corporation (Project Anchor), Volume One – Executive Summary & Main Report ("the KPMG Project Anchor Report"), 2011, sec.5.3.8. The Auditor-General of the Federation reported that for 2007, total cash call payments exceeded approved overheads by N108.826 billion ($877 million); federal budget appropriations worth $336 million more than the combined JV budgets; a further unexplained extra-budgetary transfer of $1.3 billion in February 2007; and $50.436 million in interest earned on the JV cash call account balance that apparently was not remitted to the Federation Account. 2007 Id., sec.3.27, 3.29, 3.32-33.

Ultimately, the current system of controls over cash call spending poorly serves both NNPC and the public interest. The deviations between assumed and actual spending make it difficult for officials to accurately predict how much oil revenue the country will have to spend. NNPC meanwhile is chronically left without sufficient funds to grow its asset base or even cover its legitimate, ongoing JV expenses. This forces it to delay projects, run multi-billion dollar debts to partners, and rely increasingly on project-based alternative financing arrangements that carry added costs. Of course, we do not believe that every detail of NNPC's operating expenses should be legislated, nor do we argue that NNPC should not be allowed to retain any funds to keep its JVs running. Rather, in the briefing we drew attention to the large size of JV spending and how it forms part of an overall revenue retention system that requires reform.

Retention of domestic crude sale revenues to recoup downstream costs

NNPC objected to us classifying as "withheld" the domestic crude sale earnings that the corporation retains to recoup certain costs associated with supplying fuel in Nigeria. The types of spending that NNPC reports in this category, as noted in our briefing, are:

- losses from selling fuel at subsidized prices
- value of crude oil and fuel lost from NNPC's pipeline networks
- outlays to protect and maintain the pipelines.

In its response, NNPC also noted a further $191 million in domestic crude revenues that it retained in 2015, not attributable to these three categories, which is currently "subject to reconciliation with the Federation Account Allocation Committee (FAAC)."

NNPC stated that its spending from domestic crude sale proceeds is "fully documented, verifiable and auditable," and "approved by regulatory agencies." On this last point, the corporation noted that the Petroleum Product Pricing Regulatory Agency (PPPRA) signs off on its fuel subsidy claims.

It seems reasonable that the Nigerian government should cover some of the losses incurred by NNPC as a fuel supplier—especially those caused by price control policies or failures to provide security. Nor did we dispute that, in late 2015, NNPC retained funds in a manner that consistent with the existing system as it stands. However, in line with our overall message, past government reports indicate that the existing system does not provide robust controls on NNPC's spending, and that the system is in need of reform to better serve both NNPC and the public interest.

For example, the findings of past government examinations indicate that PPPRA's approval of NNPC subsidy claims do not provide an adequate check on spending. Investigators found, for instance, that PPPRA only performs a "book keeping verification exercise rather than a physical verification of products and claims."[8] Previously, NNPC could not provide PPPRA with full supporting documentation for some claims;[9] at other times PPPRA signed off on claims with

[8] Nigerian Senate Finance Committee, Report of the Senate Committee on Finance on the Investigation into the Alleged Unremitted $49.8 Billion Oil Revenues by the Nigerian National Petroleum Corporation ("the Makarfi Report"), June 2014, p.54.

[9] The agency disallowed ₦163.65 billion for this reason in 2007-09 alone. KPMG Project Anchor Report sec.6.3.6.

incomplete paper trails.[10] PPPRA told the National Assembly in 2012 that NNPC consistently claimed to import more fuel than PPPRA verified and approved—sometimes close to one billion liters in a year.[11] There were multiple instances in which NNPC withheld domestic crude funds for subsidy before it sent a corresponding claim to PPPRA for approval.[12] NNPC also regularly ignored PPPRA's approvals and retained extra funds—as much as N285 billion ($1.89 billion) in 2011, for example. NNPC told us that these problems do not occur.[13] However, their appearance in the past as well as the large amounts of subsidy payments that NNPC still claims ($748 million in the second half of 2015), suggest that a new system is warranted. One option to consider would be for the government to budget NNPC's subsidy claims, as is done with other companies, rather than NNPC withholding the funds on a rolling basis.

As far as we are aware, no government entity approves NNPC's other, non-subsidy spending claims from domestic crude sale revenues. When we asked NNPC which government agencies approve its claims, the corporation responded that it meant "in very broad terms organs of Government such as FAAC which receives and approves NNPC's claims for deductions, the Ministry of Finance which appoints international independent auditors to verify NNPC's claims for allowability [*sic*] and Senator Makarfi's Senate Committee Report which has established broad principles for handling NNPC's claims for recovery from Government revenue in connection with services performed in executing Federal Government directives on matters associated with the supply and distribution of petroleum products to the nation."

On this last point: NNPC is referring to the June 2014 report of the Senate Finance Committee on its probe of former CBN governor Sanusi's "missing" $20 billion allegations.[14] We reviewed this report and found no mention of "broad principles" or authorization for NNPC to withhold funds for other types of downstream expenses.[15] In fact, the committee at one point recommended that "NNPC should not pay their operational expenditures direct from Federation funds without appropriation by the National Assembly."[16] We also note that in our understanding, the contents of a standalone parliamentary committee report do not place binding legal constraints on the spending of a statutory corporation like NNPC.[17]

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[10] KPMG Project Anchor Report p.6.3.

[11] Nigerian House of Representatives, Report of the Ad-Hoc Committee To Verify and Determine the Actual Subsidy Requirements and Monitor the Implementation of the Subsidy Regime in Nigeria (Farouk Lawan, chair) ("the Lawan Report"), April 2012, p.165.

[12] Id p.47.

[13] KPMG Project Anchor Report sec.6.3; Lawan Report p.82. NNPC stated in writing to us that it "does not ignore PPPRA's approvals and retain extra funds […]. NNPC utilizes estimates computed from PPPRA's approved template; upon approval of its claim and issuance of PPPRA certificate, any under or over claim is accordingly adjusted for in the subsequent period."

[14] Nigerian Senate Finance Committee, Report of the Senate Committee on Finance on the Investigation into the Alleged Unremitted $49.8 Billion Oil Revenues by the Nigerian National Petroleum Corporation ("the Makarfi Report"), June 2014.

[15] As part of its probe, the committee hired consultants to review and validate certain NNPC expenditure claims. On p.65 of its report, the committee recommended that NASS "accept" the non-subsidy downstream expenses verified by the consultants and not pass a resolution ordering NNPC to refund them. One could argue that this recommendation assumes broadly that NNPC retaining revenues to cover such costs is legitimate. But the report contains no such explicit conclusions. Makarfi Report p.65.

[16] Id. p.66.

[17] We furthermore reviewed legislative records (Votes and Proceedings Reports, Notice Papers and Order Papers, Hansards) from the period in which the Committee wrote and tabled its report. Our review found

With respect to these categories of non-subsidy spending from domestic crude proceeds, past Nigerian government investigations found many instances in which NNPC claimed a single expense more than once, [18] or could not provide auditors with documentation for its claimed losses.[19] The amounts involved are again large in scale—e.g., NNPC reports spending $239 million on "pipeline repair and maintenance including strategic reserve" in the last six months of 2015.

In the past, NNPC has provided conflicting public information about its spending from domestic crude proceeds—a further symptom of the system's weakness. In the aftermath of Sanusi's allegations of "missing" NNPC revenues, as many as five conflicting sets of figures surfaced for the corporation's downstream-related costs over a single 19-month period (table 2). None of these could be taken as definitive.

Table 2: Five different sets of figures for NNPC's downstream costs from January 2012 to July 2013 ($ billion)

Item	*Sanusi February 2014 Senate presentation and supporting documents*	*NNPC, January 2014 submission to Interagency Reconciliation Committee*	*NNPC, numbers quoted in February 2014 press briefing*	*Mafarki report*	*PwC report*
Subsidy	1.2	8.49	8.76	8.76	8.70
Crude oil and product losses	0	0.72	0.76	0.81	0.83
Pipeline maintenance and protection	0	1.22	0.91	0.88	0.49

These past problems do not mean that NNPC's current spending is illegitimate, and we did not state or suggest that in our briefing. Rather, they indicate that the system is overly susceptible to abuse, and that reform could reduce the space for discretion, introduce greater cost-saving incentives and improve oversight.

Non-remittance of NPDC oil sales revenues

In its response, NNPC stated that it is not responsible for remitting earnings from NPDC oil sales to the Federation Account. Its position is that NPDC, like any legally incorporated private company that earns money from its assets, is "responsible for settling its statutory obligations from its own generated revenues." "The status of NPDC is the same as other Oil Companies operating in Nigeria," says NNPC. NNPC further holds that "the Federation Account is only

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no evidence of related legislative action that could be read as establishing "broad principles" or authorization for NNPC's retentions of domestic crude sales revenue to cover its other downstream expenses.

[18] KPMG-S.S. Afemikhe, Review of Claims of the Federal Government of Nigeria's Indebtedness to the Nigerian National Petroleum Corporation (Project Anchor II) ("the KPMG Review of NNPC Claims Report"), October 2011, Sec.4.

[19] Ibid; Makarfi Report p.37.

entitled to receive Royalties […] and Petroleum Profits Tax (PPT)" from NPDC. According to the corporation, then, it is erroneous to imply that any proceeds from NPDC oil sales should be transferred to the Federation Account.

In our briefing, we chose to include NPDC liftings because it is unclear whether the nation has sufficiently benefited from that share of production. There are several reasons why NPDC should not be treated exactly like a private oil company. NPDC is not privately owned: state-owned NNPC is its sole shareholder. Also, NPDC's oil sales are intertwined with NNPC in two essential ways. First, NPDC relies on the latter's Crude Oil Marketing Department (COMD) to sell the oil. Second, sales proceeds are lodged in an "NPDC/NNPC Special Account" that NNPC controls.[20] Previous government reports suggest that NPDC's financial statements do not list oil sales receipts.[21] The company also has no settled practice of paying dividends to NNPC, despite their shareholding relationship.[22] The Nigerian Senate Finance Committee has concluded that this arrangement "undermines [NPDC's] status as a separate legal entity and makes proper accounting difficult."[23]

When considering whether the Federation receives a fair return from NPDC production, another relevant question is how much NPDC paid for the licenses it has recently acquired from NNPC. In our meetings with NNPC, officials stressed that there is an ongoing process led by DPR to ensure that NPDC pays full value for the assets transferred to it. In the public record, however, the most recent information is the PwC 2014 audit of NNPC oil sales. That report estimated the total value of eight licenses assigned to NPDC between 2010 and 2012 at $3.4 billion, rather than the $1.85 billion NNPC charged. The auditors also found that NPDC had paid only $100 million of the $1.85 billion.[24] NNPC indicated it planned to pay the balance.

Based on our discussions and NNPC's response, it appears that NNPC has plans to turn NPDC into a well-resourced and commercialized subsidiary that owns some of Nigeria's most valuable producing assets.[25] Unlike with other JV production, the government would receive only taxes and royalties and not a share of production. In this kind of arrangement, several factors become very important, including: the presence of effective and independent cost controls and cost oversight, as NPDC spending is high and directly impacts Federation returns; strong NPDC corporate governance, reporting and audit systems;[26] transparency around its spending,

[20] NEITI 2012 Oil and Gas Audit Report p.324, 331.
[21] Office of the Auditor-General of the Federation, "Press Release: Highlights of the Investigative Forensic Audit by PwC," February 5, 2015, available at: https://www.oaugf.ng/78-highlights-of-investigativeforensic-audit-done-by-pwc.
[22] PwC, Investigative Forensic Audit into the Allegations of Unremitted Funds into the Federation Accounts by the NNPC ("the PwC report"), February 2015, p.83; NEITI, 2012 Oil and Gas Audit Report p.35. NNPC told us that in its opinion, whether NPDC should have a formal policy for paying dividends to NNPC is an "issue for a healthy debate and directional improvement."
[23] Makarfi Report p.47.
[24] PwC Report p.82.
[25] NNPC told us it "is striving towards operational efficiency by the application of all that has been listed by NRGI above. NPDC now operates under a Chief Operating Officer who is charged with the responsibilities to do the exact things listed by NRGI."
[26] Recent government audits report difficulties with NPDC. PwC received three conflicting sets of NPDC lifting and sales figures, from the Department of Petroleum Resources (DPR), NNPC COMD and the company itself. NEITI could not reconcile conflicting sets of production, terminal receipts and lifting

payment of royalties, taxes and dividends, as well as payment for assets; checks and balances around how NPDC selects its business partners and manages those relationships, such as its controversial Strategic Alliance Agreements; and, legal clarity around its right to retain revenues given the consistent doubts raised about this matter under Section 162 of the constitution. Until these measures are firmly in place, we believe it is legitimate to raise questions about how the Federation Account benefits from the large amounts of oil that NNPC sells on NPDC's behalf.

Conclusion

It is a time of transition for NNPC. After several controversies over unremitted funds and governance problems in recent years, the company's new leadership has outlined reform plans in the form of a "20 fixes initiative." We recognized in our briefing, and do so here again, that notable progress has been made in some areas: more transparency, the cancellation of several commercially poor deals, and the tightening up of export license allocation, for example. The corporation also is facing major day-to-day challenges, not least low oil prices and ongoing fuel shortages.

Establishing a clear, predictable, enforceable approach to funding NNPC's operations could send more revenue to the treasury and help NNPC to tackle some of its greatest, longstanding operational challenges. These include the JV debts, underperforming refineries and troubles accessing outside finance and growing its asset base. Accordingly, we still recommend that:

- The government should put in place a clear, legally enforceable rule governing which revenues NNPC can retain, and how the corporation is allowed to fund its operations. Recent proposals to restructure or unbundle NNPC have not addressed this in detail. Such a clear rule has also been missing from the current plans to break the long-delayed Petroleum Industry Bill (PIB) into smaller pieces for passage.

- The government should require NNPC to adopt new financial controls and transparency measures for its subsidiaries, especially NPDC, NNPC's oil and fuel trading companies and the Pipelines and Product Marketing Company (PPMC).

- The government should replace NNPC's 445,000 barrels per day domestic crude allocation with a less costly, more direct alternative for supplying fuel to the nation's refineries.

As it has explained to us, NNPC is doing business within the existing system for spending and sharing oil sale revenues with the Nigerian state. Our aim in writing our briefing was to emphasize the importance of reforming this system, and suggest some ways in which its improvement could advance both the corporation's performance and the public interest, now and in the future. We remain committed to pursuing this objective going forward, and look forward to continuing a program of collaboration and policy discussions with a range of stakeholders in Nigeria.

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figures from NNPC, Shell (operator of the Forcados terminal, where most NPDC crude is exported), and DPR. PwC Report p.87. NEITI, 2012 Oil and Gas Audit Report, p.332.