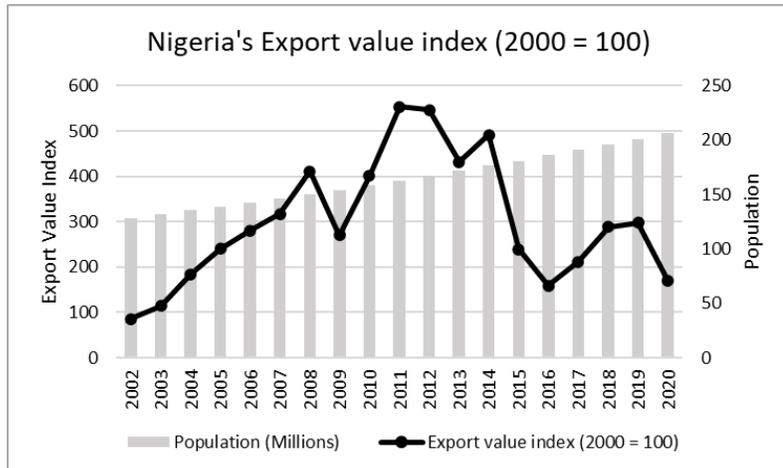


# Interest Group Power and the Passage of Nigeria's Petroleum Industry Act (PIA): A Multiple Streams Approach

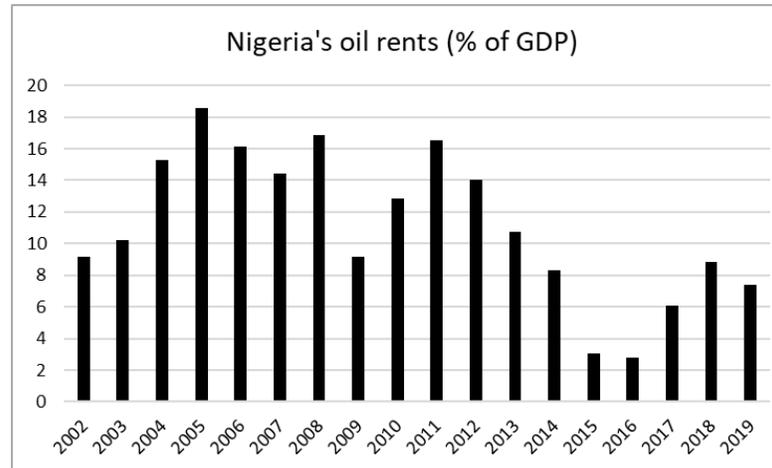
By Baba Freeman

**Abstract:** After about 20 years of slow and staggered progress, Nigeria's Petroleum Industry Bill (PIB) was ratified into law in 2021 and became the Petroleum Industry Act (PIA). This paper examines the dynamic political context in which the bill finally came into being through the lens of the Multiple Streams Framework (MSF). It identifies the key interest groups in the context of the bill's passage and describes the changes in the preference enforcement power of these groups that opened the way for the passage of the bill. Finally, it sheds light on the PIA's survival prospects after the 2023 presidential elections based on the backgrounds of the top candidates and their likely policy inclinations.

# Nigeria's economy has been in decline



Data from The World Bank



Data from The World Bank<sup>1</sup>

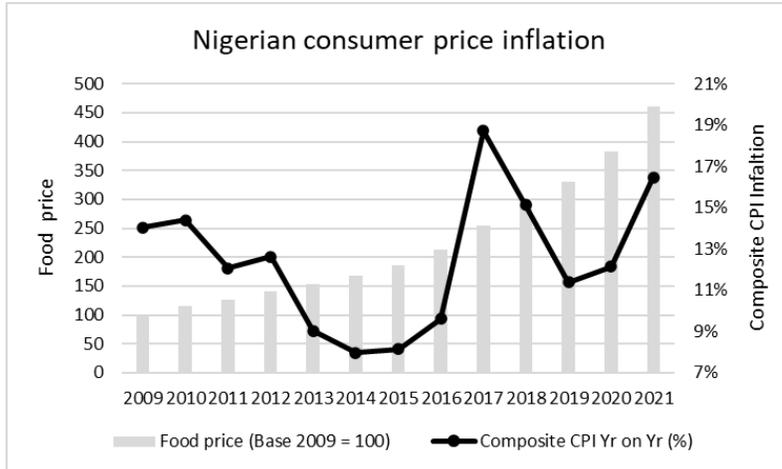


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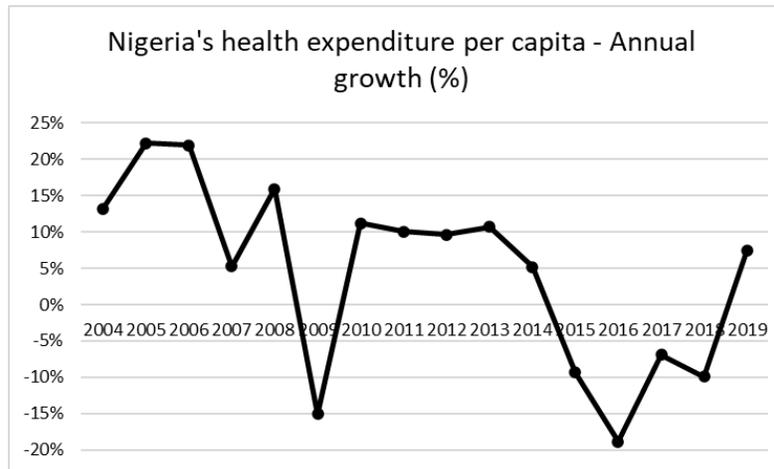
- By 2020 Nigeria's export value was back to its 2004 level despite a ~50% increase in population over the same period.
- Nigeria's oil rents have also declined relative to 2002, most rapidly since 2011.<sup>1</sup>
- Nigeria's debt service obligations as percentage of exports and primary income have also increased ~10x since 2007.
- Nigeria is running out of money. The decline in revenue has been due to oil price weakness, production declines from lack of investments and theft.
- The Petroleum Industry Bill (PIB) was designed to reverse the downtrend in Nigeria's economy by boosting investment in the oil and gas sector. It was passed into law as the Petroleum Industry Act (PIA) in 2021.

<sup>1</sup> "Oil rents are the difference between the value of crude oil production at regional prices and total costs of production".

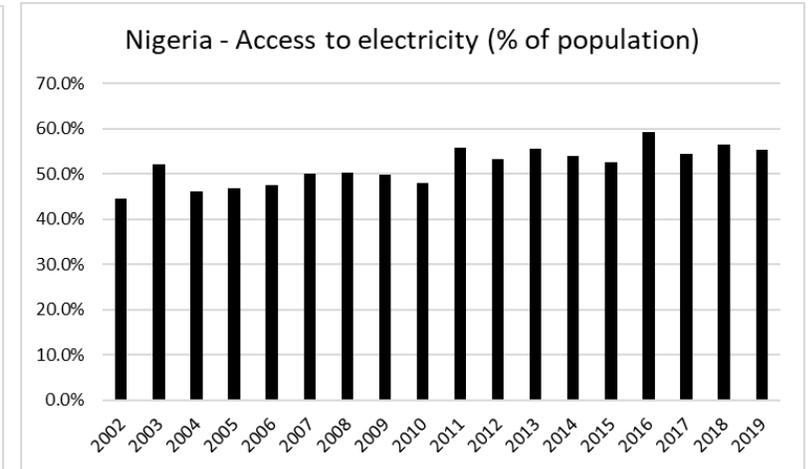
# Nigerians are struggling under the weight of economic collapse



Data from Nigeria Bureau of Statistics, CPI and Inflation Report  
<https://nigerianstat.gov.ng/elibrary/read/1241197>



Data from database: World Development Indicators



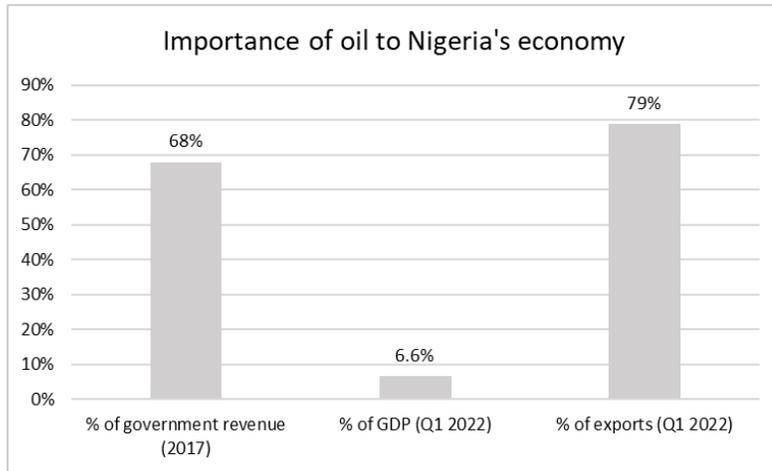
Data from database: World Development Indicators

- About 40% of Nigerians, ~83million people, living in poverty by 2019.<sup>1</sup>
- Food and general inflation consistently high. ~4.5x increase in food prices since 2009. 2021 inflation was ~17%, worsening food insecurity.
- Health expenditure per capita is low and volatile. Coronavirus pandemic estimated to push up to 5million Nigerians into poverty by 2022.<sup>1</sup>
- By 2020, unemployment reached a high of 33%, with youth unemployment reaching 42%.<sup>2</sup>
- About 55% of Nigerian's have access to electric power, growth in electric power access is negligible. Negative impact on business formation, job creation, poverty alleviation, and human development.

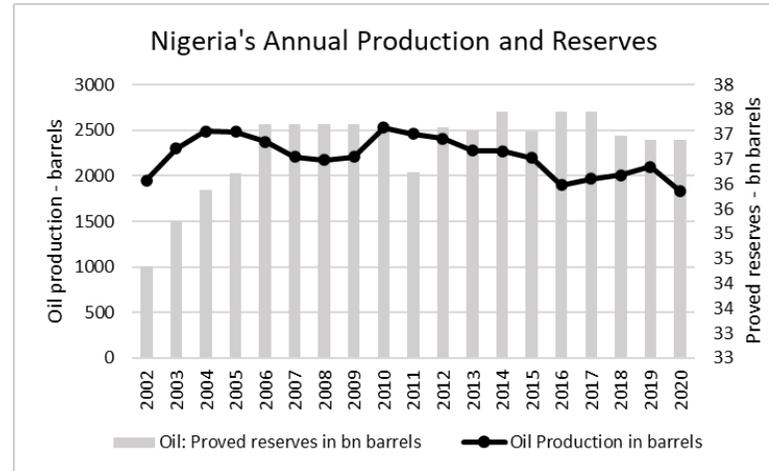
<sup>1</sup> The World Bank, Nigeria Poverty Assessment 2022

<sup>2</sup> Nigeria Bureau of Statistics, <https://nigerianstat.gov.ng/>

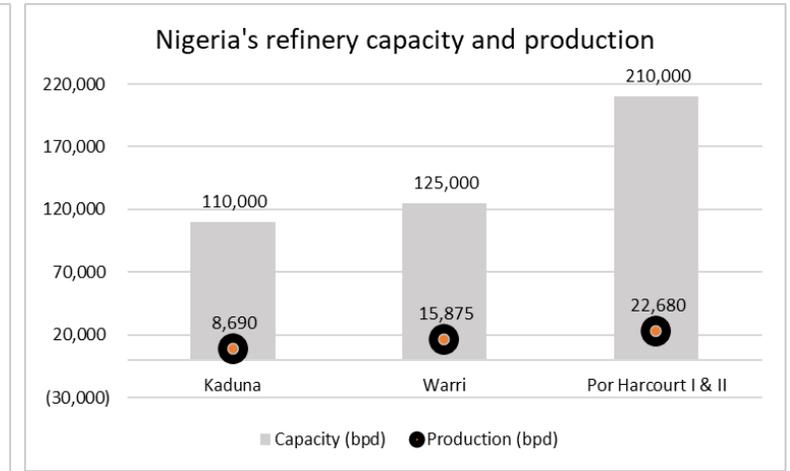
# Nigeria needs its petroleum industry to stop underperforming



Data from Nigeria Bureau of Statistics, <https://nigerianstat.gov.ng/>



Data from BP Statistical Review of World Energy June 2022, <http://www.bp.com/statisticalreview>



Data from PWC, <https://www.pwc.com/ng/en/assets/pdf/nigeria-petroleum-industry-act-1.pdf>

- Oil revenue is critical to the Nigerian economy, contributing ~68% of government revenue and ~80% of export value.
- Reserves and production have been in decline for the last 10 years. Production is lower than allowed under OPEC quotas.
- Main refineries have a 5-year average capacity utilization of 11%.<sup>1</sup> Indicates severe underinvestment in the sector.
- Low oil price impacts underinvestment but lack of government's funds to finance its share of the capital budgets played a dominant role in undermining industry performance.
- Major operating partners such as ExxonMobil and Shell have announced divestments of some Nigerian assets over the last 5 years. Likely to have a negative impact on future industry performance and revenue generation for the Nigerian state.

<sup>1</sup>The private Dangote Refinery is expected to commence operations by end of 2022. It will have a capacity of 650,000 bpd when complete, larger than all other Nigerian refineries combined.

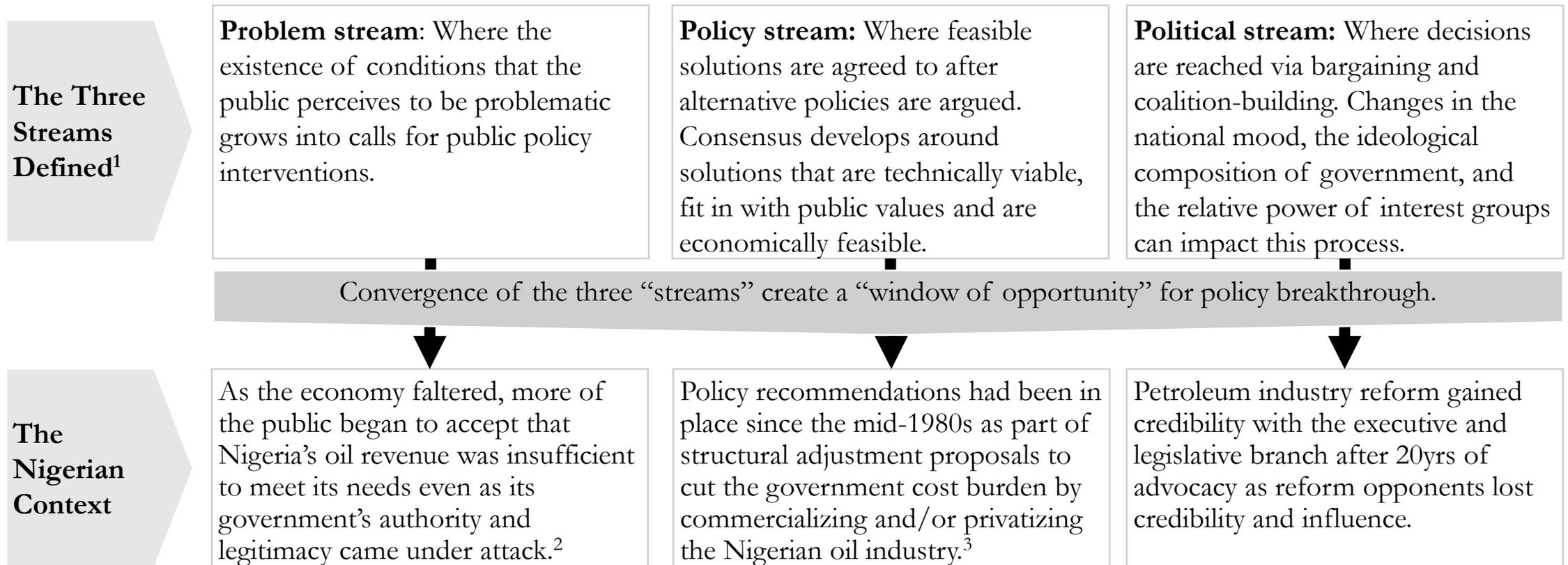
# The PIA is designed to reform and turn around the oil and gas sector

- In 2012, an observer noted that Nigeria’s petroleum sector reform efforts had “been in the works for 15 years, intended to overhaul the industry, make it more transparent, improve regulatory institutions and fiscal policies, and bring everything up to global standards. But the law has been stuck between government and parliament for five years, holding back many billions of dollars in investment.”<sup>1</sup>
- The PIA was finally passed into law in 2021 and made the following changes to sector governance:
  - **Transparency:** Created the Nigerian Upstream Regulatory Commission to oversee upstream petroleum operations, and the Midstream and Downstream Petroleum Regulatory Authority to oversee the midstream and downstream sector. The expected impact is faster decision-making, more efficient capital allocation, and more effective regulation.
  - **Commercialization:** Replaced the existing integrated oil company, NNPC, with commercially-focused upstream, midstream and downstream operations. The intent is to boost investment levels and raise productivity by freeing up the new entities to invest without political encumbrance while shielding investment decisions from perennial delays in cash call receipts caused by ineffective government financing processes.
  - **Competition:** Broke the monopoly of NNPC with intent to usher in competition in the sale and distribution of petroleum products and natural gas.
- This commentary focuses on the changes in the political context that made the PIA succeed after 20 years of failure and frustration.

<sup>1</sup> Nigeria’s Oil: A Desperate Need for Reform, The Economist. (10/20/2012).

# The multiple streams framework (MSF) can shed light on why the PIB was finally passed into law

- The MSF postulates that policy changes happen when three distinct process ‘streams’ converge and create an “opportunity window”. These streams are the “problem stream”, the “policy stream”, and the “political stream”.
- The convergence of these streams in Nigeria in 2020 created an “opportunity window” for enacting the PIA in 2021.



<sup>1</sup> See Herweg et al., *The Multiple Streams Framework: Foundations, Refinements, and Empirical Applications*, Theories of the Policy Process (2018).

<sup>2</sup> See *Nigeria: Current Issues and U.S. Policy*. Congressional Research Service, (09/18/2020). Per World bank data, oil rents as % of GDP declined from 15% in 2005-09 to 12.5% in 2010-14 to 5.6% in 2015-19.

<sup>3</sup> See Giles Mohan, *SAPs and Development in West Africa*, Geography, Vol. 81, No. 4 (October 1996).

# Certain interest groups drove the pace of policy adoption in Nigeria

- Interest group motives and relative power are critical to understanding the pace and direction of policy formulation in Nigeria. Labor unions, economic nationalists, reformers, rent-seekers and producing companies were actively engaged in shaping Nigeria’s petroleum sector reform outcomes.

Group	Who they are	Historical Position	Motives / Justification
Labor unions	Nigeria Labor Congress (NLC), Oil and gas workers unions (PENGASSAN / NUPENG). <sup>1</sup>	Anti-reform	Protect jobs and energy price subsidies.
Economic nationalists	Powerful politicians from non-oil producing states. <sup>1</sup> Key civil servants, academics and public influencers. <sup>2</sup>	Anti-reform	Preserve centralized control over revenue sharing mechanisms. Retain sovereign control over “commanding heights” of the economy.
Reformers	Public sector technocrats with affinity for World Bank/IMF reform policies. Few in number, and with little political cover. <sup>2</sup>	Pro-reform	Attract investment, improve economic performance through competition, transparency, and accountability. Reduce government cost burden.
Rent-seekers	Key politicians and contractors with privileged access to political patronage networks. <sup>2</sup>	Anti-reform	Protect access to lucrative contracts and patronage. Maintain political power, wealth, and influence.
Producing companies	Major oil and gas companies with ongoing operations in Nigeria.	Pro-reform <sup>3</sup>	Raise return on investment through deregulation.

<sup>1</sup> See Montclos, M., “*The politics and crisis of the Petroleum Industry Bill in Nigeria*”, The Journal of Modern African Studies., Cambridge University Press (2014).

<sup>2</sup> See Lewis P., “*Growing Apart: Oil, Politics, and Economic Change in Indonesia and Nigeria*”, University of Michigan (2010).

<sup>3</sup> Nnodim O. and Adenubi D., “*PIB passage, biggest enabler we need say oil majors*”, Punchng.com. (06/10/2021).

# Changes in interest group power was key to passage of the PIA in 2021

- Preference enforcement power is an interest group’s ability to influence policies through “hard” (control over institutions of state) or “soft” (public opinion) power.
- Ant-reformers’ preference enforcement power waned over the years, thus opening the way for sector reform.

Group	Position	Preference enforcement power <u>pre</u> -2020	Preference enforcement power <u>post</u> -2020	Impact
Labor unions	Anti-reform	<b>High:</b> Could impose pain by shutting down the economy through strike action.	<b>Medium:</b> Threat of economic shutdown less impactful since economy already declined. Union power also decimated by loss of jobs. <sup>1</sup>	Positive
Economic nationalists	Anti-reform	<b>High:</b> Government could muddle through when oil price high. Reform not urgent.	<b>Low:</b> Loss of influence. Govt. out of cash to bolster failing strategy. Economy in decline.	Positive
Reformers	Pro-reform	<b>Low:</b> Had no leverage. Muddle through still possible. Less influence vs rent-seekers & nationalists.	<b>Medium:</b> Economic crash imminent, “muddle-through” option failed. There is no alternative.	Positive
Rent-seekers	Anti-reform	<b>High:</b> More incentive to resist reform when oil revenue was high. More to lose.	<b>Medium:</b> Less financial resources to fight over. Returns to patronage in decline. Less to lose.	Positive
Producing companies	Pro-reform	<b>Low:</b> Nigerian assets ranked very high on operator's global asset portfolio. Walk-away costs very high.	<b>High:</b> Some Nigerian assets no longer high priority to operators. Displaced by new plays such as shale oil. Divestment in progress. <sup>2</sup>	Positive

<sup>1</sup> Owolabi T. and George L., “Oil companies tighten Nigeria security as protests, job losses stoke tension”, Reuters (11/18/2020).

<sup>2</sup> Bouso R. and Payne J., “Exxon weighs sale of Nigerian oil and gas fields for up to \$3 billion”, Reuters (04/02/2019). Anderson G., “Shell to divest its entire Nigeria joint venture portfolio”, WoodMackenzie, (08/16/2021).

# PIA's outlook is positive: Top contenders for 2023 presidential elections are pro-reform

- Nigeria's system of government is presidential. Power is concentrated in the presidency and in state governors.
- Nigeria's political parties are not hardwired to ideology. Policy direction follows policy inclination of key political officeholders.

## Candidate: Atiku Abubakar

- Party: People's Democratic Party
- Background:
  - Former vice-president, responsible for privatization
  - Businessman with broad commercial interests
  - Top civil servant: customs and excise service
- Political strength: Coalition-builder
- **Policy inclination: Pro-reform / Pro-business**

## Candidate: Bola Tinubu

- Party: All Progressives Congress
- Background:
  - Former governor of Lagos (Commercial capital of Nigeria)
  - Ex senator
  - Oil and gas finance executive
  - Businessman with broad interests
- Political strength: Coalition-builder
- **Policy inclination: Pro-reform / Pro-business**

## Candidate: Peter Obi

- Party: Labor Party
- Background:
  - Former governor of Anambra (Major manufacturing hub)
  - Businessman with interests in trading and banking
- Political strength: Reputation for transparency and accountability.
- **Policy inclination: Pro-reform / Pro-business**

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Baba Freeman is a researcher at the Payne Institute for Public Policy, with a focus on the energy and natural resources sector. He has a background in oil and gas financial management and in management consulting. He has worked internationally in different business and consulting roles in both developed and emerging market countries.

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