The Changing Pattern of Private Foreign Investments in the Nigerian Oil Industry

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Résumé: *La première période de l'industrie pétrolière du Nigéria a été planifiée par les autorités coloniales britanniques. Plusieurs lois ont été passées qui donnaient au gouvernement colonial un accès privilégié à ce pétrole. A partir de 1971, le gouvernement fédéral du Nigéria prit un certain nombre de mesures législatives destinées à contrôler son industrie pétrolière. Ces mesures gouvernementales ainsi que leur impact sur l'industrie pétrolière nigériane sont analysées dans cet article. Ces analyses révèlent que malgré le changement intervenu dans le mode d'investissement des sociétés multinationales, leur domination de cette industrie n'en est pas pour autant réduite. Au contraire elle a non seulement augmenté mais elle a surtout renforcée leur contrôle sur ce secteur.*

Introduction

Private foreign investments in the Nigerian oil industry date back to the early twentieth century. During colonial rule, the colonial state granted oil concessions to foreign oil companies under very favourable terms. This pattern of oil concessions persisted even after independence in 1960, due to the effort of the fledging Nigerian Government to attract more foreign investments, and its limited experience in matters relating to the oil industry. Thus, it was not until 1971 that the concessionaire era came to an end - a process which had begun two years earlier through the enactment of the 1969 petroleum decree which gave the federal government more control of the industry and reduced the period for oil concessions from 30 years to 1 year (Soremekun 1987:280). The concessionaire era, gave way to that of government participation and regulation of the oil industry. Under this arrangement, the government not only regulated the oil industry, it went into partnership with private foreign investors in order to optimize its gains from the industry. The new pattern of investments that emerged were the joint venture agreement, the risk service contract and the production sharing agreement. The confidence with which the concessionaire era gave way to that of government participation, underscored the new sense of unity nationalism and consciousness of the federal military government and its desire to optimize oil revenues in order to boost national development.

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re-build the war-torn federation. External stimuli also came, in the forms of the radicalization of international oil politics by Muammar Ghaddafi of Libya who had successfully stripped the oil multi-nationals of their mystique thus exposing their vulnerability to other oil producers of Less Developed Countries (LDCs), the emergence of the Organization of Petroleum Exporting Countries (OPEC) as a powerful organization of Third World oil producers, which had successfully seized the pricing initiative from the oil multinationals, (Sampson 1973) and the rise in global demand and prices of oil. Nigeria's joining OPEC in 1971 thus offered her a platform to contest the stranglehold which the multinationals had over the Nigerian oil industry.

It has been pointed out that government participation in the oil industry took place within the context of the indigenization of the Nigerian economy or what was in reality an effort to create more elbow-room for the indigenous ruling class through its exercise of more control over the economy vis a vis foreign capital. As indigenization did not aim at the overthrow of foreign capital in the Nigerian economy, its expression in the oil industry stopped short of nationalization. The only exception, was the British Petroleum Company (B.P.), whose shares in the Shell-BP partnership, and the B.P. marketing outfit were nationalized in 1978, to put pressure on Britain to allow black majority rule in Zimbabwe and to protest Britain sale of Nigeria's oil to the South African apartheid regime.

Government participation in the oil industry apart from being guided by an ethos that sought more indigenous participation in the economic life-blood of the nation, what had been the exclusive preserve of foreign oil companies, also sought to transform the role of government from that of a collector of oil taxes and royalties, to that of an active participant in, and a regulator of both the upstream and downstream operation of the industry.[1]

In 1971, the federal government set up the Nigerian National Oil Corporation (NNOC) to regulate the industry. In 1977, the federal government merged the NNOC with the Ministry of Petroleum Resources to form the Nigerian National Petroleum Corporation (NNPC) which was not only to regulate the industry, but to function in it like any other Multinational Oil Corporation in both upstream and downstream sectors of the oil industry (Soremekun 1984:8). The NNPC, representing government interest, has played the role of being the regulator, partner and competitor to foreign private investors in the Nigerian oil industry.

Within the context of this study, foreign investments refer to the transfer of funds, materials and capital from one country to the other. Private foreign

1 This policy thrust was enshrined in the second national development plan. See federal government of Nigeria, Second National Development Plan, 1970-1974, Lagos, federal Ministry of Information, 1970.

investments are conceptualized as direct foreign investments by transnational corporations who export capital to other countries in order to generate profits. Such transnationals or multinationals are defined as 'vertically or horizontally integrated, globally oriented companies that own and/or control production facilities in more than one country and enjoy a transnational market' (Olukoshi 1989:2). Multinational Oil Corporations (MNOCs) are the largest, most sophisticated and richest multinationals in the world (Sampson op. cit.). Thus, private foreign investments in the Nigerian oil industry have been clearly dominated by the MNOCs who have historically charted the course, and shaped the character and structure of Nigeria's economic life-blood - oil.

Relating this to the growth of the Nigerian oil industry, there is no doubt that foreign investments greatly accelerated the expansion of the Nigerian oil industry for the unequal benefit of the MNOCs and the Government. In a bid to reverse this trend, the federal Government from the 1970s embarked on series of measures directed at wresting the control of the industry from the foreign companies which in turn, expressed itself in changing patterns of investments. But Nigeria's concrete dependence on the MNOCs who mine and produce the oil, and provide it with the bulk of national revenue, have seriously undermined the ability of government to organize to control the oil industry.[2] Thus, while offering incentives to the MNOCs to mine and produce more oil and more revenue, the Government granted oil concessions to wholly Nigerian owned companies (Soremekun 1992), including a subsidiary of the NNPC itself - the Nigerian Petroleum Development Corporation (NPDC). However, with the contradictions thrown up by the national economic crisis and the structural adjustment programme in the 1980s the government has become desperate to increase revenue from its fiscal basis - oil, in the face of declining global oil prices, and demand for oil and a domestic debt crisis. This has led to the conflicting attempt to promote all private foreign, state-directed and private indigenous investments in the oil industry at the same time (Soremekun 1992). The patterns of change, growth and the factors both internal and external that account for these within the context of investments in the oil industry - the jugular of the Nigerian state shall be critically examined. While the last part of the paper shall summarize our discussions and proffer policy options.

The Colonial Background: The Oil Concessionaire Era in the Nigerian Oil Industry

This form of foreign investment in the Nigerian oil industry during colonial rule, excluded Nigerians and Nigeria from the exploitation and management

2 This has been acknowledged by top NNPC officials and Government Functionaries.

of its oil resources. Under this system, the oil multinationals were granted concessions over large tracts of land for long periods in their search for oil. The rationale for such concessions being the need to make them attractive to the private foreign investors (MNOCs). It guaranteed for them oligopolistic control of the Nigerian oil industry.

Oil concessions in the early phase of the Nigerian oil industry were spawned within a context defined by British colonial rule and an international oil industry dominated by giant multinational oil corporations, also called the 'Seven-Sisters',[3] who had formed themselves into an oligopoly for the control and exploitation of oil resources all over the world. These oil concessions were linked to colonial legislative regulation. These were the 1889 Ordinance, the 1907 Mineral Oil Ordinance and the Mineral Act of 1914 (Omorogbe 1991). Based on the 1907 law, the German Bitumen Company was granted oil concessions. It did some exploratory work around parts of Ijebu Ode and Araromi in the Western part of Nigeria based on the investigation of surface oil seepages but had to break off work with the outbreak of the World War.[4] In the same year, the Colonial Government enacted the 1914 Mineral Act, which gave the Governor-General of the colony, the sole power to grant oil concessions:

> *... the powers conferred upon the Governor-General to grant licenses and leases for mineral oils shall be exercised subject to the following conditions: No lease or license shall be granted except to a British subject or to a British company and its principal place of business within her Majesty's dominions, the chairman and managing director (if any) and the majority of the other directors of which are British subjects* (Lolomari 1976).

Thus the role of the colonial state was limited to the granting of oil concessions to British or British-allied private investors. This guaranteed Britain, free access to exploit Nigeria's oil resources. Discussing the nature of concession agreements under colonial rule, Lolomari observes that:

> *The post-war concession agreements were characterized by their extensiveness, long duration, enduring low financial reward to government, e.g. frozen tax rates, blatant partiality for British companies and British subjects and an absence of provision for national participation.*[5]

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3 These are Royal Dutch Shell, Exxon, BP, Gulf, Mobil, Texaco and Standard Oil.

4 Progress of Public Participation in the Nigerian Oil Industry, Lagos: NNPC (undated), p.1.)

5 The oil companies determined and owned all oil mined in their concession areas. They also determined realized prices on which royalty and petroleum profit tax were based.

Thus, in 1938, Shell D'Arcy Petroleum Development Company, was granted an Oil Exploration Licence covering the entire Nigerian mainland, an area of 367,000 square miles (Shatzl 1968). Between 1938 and 1959, Shell d'Arcy which later became Shell-BP had a monopoly of oil concessions in Nigeria and was able to select choice acreages and reserves before its sole concessionary rights were reviewed in 1959 (Shatzl 1968). In this year, it retained 16,000 square miles of the original concession area, and various rights were extended to Mobil, Gulf (now Chevron); Agip, Safrap (now Elf) Tenneco and Amoseas (now Texaco/Chevron) (Shatzl 1968; Omorogbe 1991). Also the 1959 Petroleum Profit Tax Ordinance was promulgated. This act provided for the sharing of profits between the government and the oil companies on a fifty-fifty basis (Olayiwola 1987:23). Since the Nigerian Government had little knowledge of the industry, and did not possess the necessary managerial nor technological skills, it relied on its share of profits as declared by the oil companies. Pearson argues that what was shared was not profit, but economic rent (Pearson 1970). Even when the Nigerian Agip oil corporation provided a clause in its concession agreement in 1962, giving the Nigerian Government an option of equity participation to the tune of 33 1/3% (Pearson 1970), the government did not take up the offer until 1971. This goes to show, that during the concessionaire era of the Nigerian oil industry, the government was in no firm position to regulate, benefit from, nor participate in the industry. This left the field open to NNOC domination: 'What distinguished the concessionaire era was the degree of control and power that the oil companies welded in their concessions. Initially, oil companies owned all the oil produced in their concessions, determined the production levels. Above all, until 1966, they also determined the realized prices of crude oil upon which royalty and petroleum profit tax were based. Consequently, total oil revenue during the early period of oil production was very low' (NNPC 1977:222). Thus between 1937 to 1966 the oil multinationals were able to identify, and share out the oil reserves of Nigeria, to the exclusion of Nigerians and the government. Also, between 1958, when the first oil exports began, till 1965, all the petroleum produced in Nigeria was exported in its crude, unrefined form (NNPC 1977:222). The headstart enjoyed by Shell no doubt gave it an advantage in the Nigerian oil industry, which it has retained ever since (NNPC 1977:222).

In sum, the early phase of the Nigerian oil industry was clearly dominated by oil concessions granted to the giant oil multinationals who clearly set the pace and determined the structure of the entire industry. In this nexus, Nigeria economically speaking was structurally disadvantaged, with the government reduced to a mere collector of oil rents.

From Oil Concessions to Government Participation

After the Nigerian civil war in 1970, there was a noticeable shift in the pattern of private foreign investments in the Nigerian oil industry, as a result

of the federal Government's desire to have more say in the strategic oil sector, and the desire of the MNOCs to remain in the business of making profit from oil. This development had its roots in internal as well as external factors.

Although oil exports commenced in 1958, it was not until the mid-sixties that it began to have an impact on Nigeria's earnings. National revenue then was dominated by cash crop exports. But with declining world prices for cash crops, oil assumed more significance. According to Pearson (1970):

> *... in 1965, the federal Minister of Finance spoke optimistically about the balance of payments impact that oil production would have in Nigeria. Political feeling about petroleum ran high. Interest in controlling oil grew.*

Oil was not just perceived, as an economic, but a political asset. This was of significance for Nigeria's regionalized and ethnic-centred politics of the First Republic:

> *It was only by the mid sixties that the production of oil began to have a notable impact on public finance. The question of the control over oil producing territory (mainly the delta of the Niger River and the continental shelf) and the method of dividing, the revenue were crucial in the ongoing struggles between centralizing and separatist tendencies in the federation* (Beckman 1981:3.)

These struggles eventually led to the Nigerian civil war in 1967. While the war waged, the army of the secessionist eastern region made good its claims to the oil fields within its territory, and demanded payment of royalties from Shell-BP. When the rebellion was eventually crushed in 1970, the war experience affected government oil policy in several ways. First, the strategic importance of oil, as an economic as well as a political commodity and its importance to the countries of the West became clearer to those in government (Beckman 1981).

Again the political impotence of Shell-BP during the war showed the Nigerian ruling class, that the oil multinationals were not as powerful as they thought and could be subject to stricter government control and regulation.

Third, oil had finally replaced cash crop exports as the fiscal basis of the Nigerian federation, and the lifeblood of the state. In an era where the government needed revenue for post-war reconstruction, and economic development projects, all efforts were directed towards the maximization of government revenue from oil, especially against the background of rising world demand, and prices of oil. The Nigerian Government thus embarked on a more rigorous attempt to regulate and participate in the Nigerian oil industry. These measures were both legislative and political in order to regu-

late the 'excesses' of private foreign oil investors - the MNOCs in the Nigerian oil industry. And to place oil within the context of the indigenization programme which sought to transfer economic control from foreigners to Nigerians. Fourth, in terms of class relations in Nigeria, the shift to oil-based accumulation led to a struggle within the ruling class to win the greater share of oil surplus for the purpose of class consolidation and accumulation.

The growth in government regulation of the oil industry found an early expression in Decree 1 of 1967 which imposed OPEC terms on all oil companies, operating in Nigeria (Obi 1992). The foundation for this was laid as far back as 1964 when the federal Government sent two observers - Michael Feyide and Alhaji Musa Daggash to an OPEC meeting (Soremekun 1990). It followed the trends in OPEC and was well aware of the redistribution of power in global oil in favour of OPEC which had successfully seized the pricing initiative from the oil multinationals.

The government was also aware of developments in the global oil arena. First, was the radicalization of global oil politics by Muammar Ghaddafi of Libya who had successfully raised the prices for oil, and asserted Libyan control over its oil resources, the emergence of oil as a political weapon by the Arab states and the massive growth of the OPEC clout. This external stimuli prompted the Nigerian ruling class to act under the aegis of economic nationalism to win back profits from oil, by seeking to control the industry themselves.

In 1969, the federal Minister for Finance, Chief Obafemi Awolowo informed the federal Executive Council that Nigeria was being short-changed by the oil multinationals operating in the country (Soremekun 1990). His information was based on the report of the fact finding mission on petroleum taxation, and other problems affecting petroleum revenue and miscellaneous matters on the oil industry (Federal Ministry of Finance 1969). He advised the council that given the fact that: 'the Multinational companies are fully integrated, only a centralized national set-up can successfully face up to them' (Federal Ministry of Finance 1969). Increased state participation and regulation of the industry was articulated by Decree 51 of November 1969; which abrogated the 1914 Petroleum Act and all the oil concessions held by the oil multinationals and vested in the state the entire ownership and control of all petroleum:

a) in, under or upon any lands in Nigeria;

b) under the territorial waters of Nigeria (note increase in Nigerian territorial waters by Decree No. 38 of 1971 to 30 miles); or

c) all land forming part of the continental shelf of Nigeria (Etikerentse 1976).

Section 2 of the same decree, gave the Commissioner for Mines and Power now Petroleum and Energy, powers to grant oil exploration licenses, oil producing licenses and oil mining leases to Nigerian citizens or to companies incorporated in Nigeria (Etikerentse 1976). In addition to this, the royalty rate and petroleum profits tax were increased (Etikerentse 1976).

On 1st April 1971, in pursuance of the objective of government participation in the oil industry, and in accordance with the principle of OPEC Resolution XVI Article 90 of June 1968, which recommended 51% participation interest in oil concessions held by MNOCs in member states, the federal Government:

> *acquired 33 1/3% equity interest in the Nigeria Agip Oil Corporation (NAOC) in accordance with its Concession Agreement and 35% in Elf in a reaction to the stand and posture of France in the Nigerian Civil War* (Lukman 1987:21).

In the same month, the federal Government through Decree 18 established the Nigerian National Oil Corporation (NNOC) to engage in prospecting for, mining and marketing oil and in all other activities within the Petroleum Industry (Turner 1980:209). On 1st April, 1973, the federal Government extended its equity participation in the oil industry to Shell-BP, Gulf and Mobil where it acquired 35% equity interest in each of them.

Government's acquisition of equity participation interests in the concessions held by the multinational oil corporations was manifested in the main, in joint venture participation agreements. According to Omorogbe, the relationship is defined not only by the oil mining lease, (OML) but also by three other agreements:

a) the Participation Agreement;

b) the Operating Agreement; and

c) the Heads of Agreement (Omorogbe 1991:9).

While the participation agreement outlined the respective rights of partners in the joint venture, the operating agreement spelled out the level of relationship between the owners of the leases or concessions and the rules and procedures for the joint development of the area concerned and property jointly owned by the parties (Omorogbe 1991:9-11). The Heads of Agreement, lay down guidelines for the sharing of production, the procedure for nomination lifting and disposal of crude (Omorogbe 1991:12-15).

The joint venture agreement, thus formalized the new partnership between the Nigerian state and the operating oil multinationals: the private foreign investors in the oil industry. This was a significant development not just in terms of the emergent symbiotic relationship between Government and the MNOCs, but also because the bulk of Nigerian crude oil production and disposal was carried out under this arrangement. It thus guaranteed un-

restricted foreign investment in the industry as well as the maximization of state revenue from oil. It also showed the ability of the MNOCs to quickly adapt to changes in the distribution of power in the oil industry. By going into partnership with oil producing states, they changed their mode of operation to reflect more subtle forms of control and exploitation.

Another form of foreign investment in the Nigerian oil industry, that emerged under the 'new order' of government participation was the production sharing agreement, which vested a hundred per cent control in the host Government (Omorogbe 1991:15-17). The production sharing agreement had been successfully pioneered in Indonesia, and greatly appealed to the Nigerian oil bureaucrats who sought to win more state control, and wealth from the foreign dominated-industry. On 12th June, 1973, the NNOC acting on behalf of the Government entered into a production sharing agreement with Ashland Oil Company (Amu 1982:9).

> *The agreement, required Ashland to put up the necessary funds to explore, develop and produce oil on behalf of the Nigerian Government. Thereafter, their proceeds would be shared by setting aside up to 40% of the production for the recovery of costs and payments of royalties, and 55% of the rest to offset petroleum profits tax, while the balance defined as 'Profit Oil' will be shared 65/35% between the government and the company and 70/30% when topped 50,000 b/d* (Omorogbe 1991).

Still determined to push its advantage to squeeze more from the oil industry, the federal Government through Decree 33 of 1st April 1977 merged the NNOC with the Ministry of Petroleum Resources to form the Nigerian National Petroleum Corporation (NNPC) (Amu 1982:8). The NNPC combined the functions of the former NNOC (exploitation, production, transportation, processing of oil, refining, and marketing of crude oil and its refined products) with the regulatory functions of the former Ministry of Petroleum Resources (Omorogbe 1991). Between 1973 and 1979 the Nigerian Government had increased its participation interests in the oil multinationals operating in Nigeria to 60%. In August 1979, the Nigerian Government nationalized all BP assets in Nigeria in order to 'penalize' Britain for supplying oil to the Republic of South Africa, and to put pressure on Thatcher to support Majority Black rule in Zimbabwe (Aluko 1990:375-397). This action increased Government participation in Shell to 80%.

In September 1979, the NNPC introduced another form of government participation in the oil industry - the risk service contract. It was designed to be an improvement on the production sharing agreement (Amu 1982:10). Under the risk service contract entered into with the NNPC by Agip Oil, Elf Aquitane and Nigus Petroleum Nigeria Limited, the companies were to provide the funds for exploration, development and production of oil in allo-

cated acreages. If within two to five years there was no discovery, the contractor would be repaid his investment, and as an incentive for the risk taken be paid a remuneration based on an agreed formula. He also had the first option to purchase a fixed quantity of crude oil produced from the contract area (Amu 1982). The main feature of the risk service contract was that no title to, or right over the production ever passed to the contractor (Omorogbe 1991:15).

The period 1970 till the early 1980s witnessed a leap from foreign-controlled oil concessions to Government indigenous participation in the form of majority equity ownership in the MNOCs. In the marketing sphere, Shell-BP and Esso were nationalized. Government participation consequently involved a redefinition of its relationship with the MNOCs. This, had the effect of shifting the pattern of private foreign investments in the Nigerian oil industry from that of exclusive MNOC monopoly to that of MNOC/Government partnership. This however did not adversely affect the MNOCs nor did it lead to a fall in national oil output. Rather, using the instrumentality of joint venture agreements, the MNOCs have become more entrenched in the Nigerian oil industry. Due to the reliance of the Government on oil for over 80% of Government revenues and expenditure, it has had to rely on the MNOCs who possess the monopoly of technology, managerial skills and capital to mine and produce the oil. State weakness in the industry has provided ample leverage for the foreign investors to continue with the domination and exploitation of the Nigerian oil industry. In this scenario, in which foreign private investors produced the wealth of the nation, Government pursued an active policy of promoting unrestricted foreign investment in the oil industry, and the maximization of oil revenue. The efforts at state capitalism in the oil industry via the NNPC failed to wrest control from the multinationals, who used their leverage of oil technology, skills and the manipulation of corrupt oil bureaucrats, to an advantage. In terms of ownership, it has been pointed out that the federal Government does not own shares in the companies it does business (by virtue of the joint venture agreements and the acquisition of 60% equity participation) with. All the agreements provide is control over the oil produced, which is divided in proportion of their respective participation interests (Etikerentse 1990:10). This means that the federal Government would be entitled to 60% of produced oil, after all costs have been deducted. However, if the strategy of the MNOCs is placed side by side with state dependency, it is arguable that this scenario offers the MNOCs leverage to shortchange the Nigerian state. As Amu, a one-time Managing Director of the NNPC confessed:

> *... Proper cost monitoring of their operations has eluded us and one could conclude that what actually keeps these companies in operation is not the theoretical margin, but the returns which they build into the costs* (Amu 1982).

This position was amplified by the findings of the Irikefe crude oil sales' tribunal which showed that Shell, Gulf and Mobil - three MNOC joint venture partners of the NNPC had been paid ₦495 million by the NNPC between 1975 and 1978 despite the fact that no oil was mined for it.[6] It shows that far from being agents of development, the MNOCs have been active participants in the underdevelopment of the Nigerian oil industry, and the shortchanging of the Nigerian Government.

Another identified area of loss to the Nigerian economy is the flaring of over 75% of associated gas released during oil production. This has cost the nation billions of Naira worth of gas not counting the adverse environmental impact of gas flaring.

When the Second Republic was overthrown in December 1983, by the Buahari-Idiagbon regime, against the background of a national economic crisis linked to the global oil glut and collapse of oil prices, the pattern of oil investments in the Nigerian oil industry persisted with the new regime providing new incentives geared towards promoting unrestricted foreign investments in the oil industry, to maximize oil revenues, and resolve the national economic crisis. This situation remained the same even after the regime had been overthrown by the Babangida regime in August 1985. It must however be stressed that notable developments have taken place in terms of private foreign investments in the Nigerian oil industry and within a private foreign investment - friendly atmosphere engendered by the structural adjustment programme.

Private Foreign Investments in the Nigerian Oil Industry under Structural Adjustment

As we have argued elsewhere, state oil policy under structural adjustment was directed at reducing direct state involvement in the Nigerian oil industry, while promoting private foreign and local investment. However, private foreign oil investment has retained and reinforced its dominance of the Nigerian oil industry with the encouragement of the Government (Obi 1992).

When the Babangida regime came to power on 27th August, 1985, it did so against the background of a socioeconomic crisis worsened by the authoritarianism of its predecessors. Nigeria had lost most of its credit lines in the West, due to its refusal to reach an agreement with the International Monetary Fund and the World Bank (Olukoshi 1991:66). The new regime thus needed to reach an agreement with the Western credit institutions, and maximize domestic sources of revenue to ameliorate the socioeconomic

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6 Report of Tribunal of Inquiry into Crude Oil Sales; Lagos, Federal Government Press, 1980:4.

crisis. Being the fiscal basis of the state, the maximization of revenue from oil was central to this process. State oil policy embarked on a process of the withdrawal of domestic oil price subsidies and the encouragement of increased exports of oil to raise badly needed revenue. The strategy of raising oil exports and ipso facto government revenue lay in reducing direct state involvement and subjecting the oil industry to free market forces, especially those of foreign investors. According to Olorunfemi (1988:8), a high ranking official of the NNPC, it was a period of throwing completely overboard some of the overnationalistic economic policies which had closed the doors to the inflow of foreign capital. The Nigerian government thus increased its dependence on the oil multinationals to find, produce and market oil in the oil-saturated international oil market, characterized by falling oil prices. Its calculation was to make up for the short-fall in expected revenue by increased production and export of oil. To achieve this increased production, the Nigerian state offered incentives to foreign investors. In January 1986, the NNPC provided a package of incentives to the oil multinationals:

> *To stimulate their interests in the search for oil in Nigeria, a memorandum of understanding was agreed with joint venture companies early in 1986 in which, among other things, a fairly aggressive medium term exploration programme was agreed with them in exchange for a package of incentives. These incentives include a guarantee of US$2 profit margin per barrel of crude sold at a price not below US$12.5 per barrel, of US$1 profit margin on NNPC equity crude volume lifted on notice and emergency basis, and a substitution of realizable market-related price for official selling price (CSF) for Tax purpose* (Olorunfemi 1988:8).

The package also includes tax incentives (Olukoya 1988).

In addition, government still allows an investment tax credit for operation according to the following rules:

a) 5% for all land operations;

b) 10% for offshore operations in 0-100 meters water depth;

c) 15% for offshore operations 100-200 meters water depth; and

d) 20% for offshore operations in water depths exceeding 200 meters (Lukman 1987)

In addition the federal Government allowed the oil multinational to lift oil in excess of their equity share, and market the NNPCs share in return for a cut in the profits. However, in spite of these incentives, oil exports fell by 12.7% in 1987. Investments were not limited to upstream operations. In the downstream operations, the multibillion naira liquified natural gas project (LNG) was revived by the NNPC (60%), in partnership with Shell (20%), Agip (10%) and Elf (10%). It was designed to export liquified natural gas

(LNG) to target European and American markets and scheduled to go into operation in 1995 (Obi, 1992) Even, the newly commercialized NNPC which sought to operate as any of the major world oil companies was constrained to go into partnership with foreign investors in the technical aspects of the industry (Obi 1992).

The federal Government in pursuit of its disengagement from direct participation in the oil industry, apart from commercializing the NNPC on 21st January, 1988, also disposed of some of its shares in joint ventures. It sold 20% of its equity shares in Shell to its LNG partners - 10% to Shell, 5% Agip and 5% to Elf (*The Guardian*, Lagos, 1-7-1989). The Government also reduced its equity participation in three oil marketing companies, National, Unipetrol and Africa Petroleum via the public sale of Government owned shares.

In a situation where private indigenous oil investment yielded a meagre 0.03% of Nigerian oil production in 1988,[7] the field has been laid wide open for the continued domination of the Nigerian oil industry by the multinational oil companies. Thus:

> *private foreign investments in the oil industry have grown, hitting the ₦106 billion mark in 1992. These investments by Shell, Elf and BP/Statoil all joint venture partners of the NNPC are in response to Nigeria's campaign to raise its oil reserves to 20 million barrels by 1995* (Akinseye 1992:24).

This fresh package of incentives to foreign oil investors 'as guaranteed by the memorandum of understanding (MOU) approved by the federal Government in 1991 provides for higher profit margins, enhanced tax relief on capital investment and new financial bonuses for discovering new reserves (*National Concord* 1991). Foreign investors have also plied open other new 'treasure boxes' in the Nigerian oil industry. A good example is the Mobil-Oso condensate oil plant constructed at an estimated US$1 million. This condensate oil field of 15 production wells, six gas injectors treatment and storage facilities is expected to provide an initial production of 100,000 b/d (Quinlan 1990:10-12), and a source of foreign exchange earnings and profit for all the investors - the NNPC, Mobil, the World Bank, IMF, the Japanese Exim Bank and the European Investment Bank.

Taking the entire industry and private foreign investment as a whole, Shell has retained its status as the largest foreign operator in the Nigerian oil industry. Under the favourable conditions of the Nigerian oil industry under structural adjustment, it has increased its investments in Nigeria. According

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7 NNPC Statistics, Also see *Nigerian Petroleum*, October 1987.

to Quinlan, an experienced oil journalist, Shell indicated its desire to increase 'its annual investment in Nigeria from US$ 700 million in 1989 to US$ 1.2 billion by 1992 as part of a US$ 5.6 billion five-year programme' (Quinlan 1990).

If the history of the character of multinational oil corporations vis-à-vis the producer countries is anything to go by, and when placed side by side with state dependency on the MNOCs for its sustenance, it is our position that foreign control of the strategic oil industry has grown under structural adjustment to the detriment of Nigeria's economic security and development. For not only has foreign investment diffused into all phases and sectors of the oil industry, it has undermined the little control Nigeria had over the industry (Soremekun and Obi 1992). Although it is observed that it has provided the badly needed foreign exchange and government revenue to fuel the programme of economic adjustment and the transition to civil democratic rule, the abdication of the control of such a strategic asset to foreign control, exposes the country to exploitation and manipulation. It continues to foster the view of oil as a providential source of Nigeria's wealth to be consumed and sold off without much consideration to a proper integration of the industry to other sectors of the economy or the needs of future generations of Nigerians. The main beneficiaries remain the foreign oil investors, foreign credit institutions, state functionaries/bureaucrats who dispense of oil and oil revenues and their proteges (Soremekun and Obi 1992). In this scenario, foreign oil investment rather than being an agent of development, has remained an agent of domination.

Policy Options

It is clear that the shift in patterns of investments by the MNOCs have not in any way reduced their domination of the oil industry, rather the shift from the era of concessions to joint venture, production sharing and risk service contracts have only served to entrench the MNOCs and reinforce their control of the Nigerian oil industry.

The policy options to be suggested revolve around the issue of national control of the Nigerian oil industry; and the transformation of oil for the equitable and sustainable development of Nigeria.

The first option is that of outright nationalization of the entire industry and the takeover of all aspects of the industry by the Nigerian Government or wholly Nigerian owned companies, while the second option favours a gradual process of nationalization spanning an agreed number of years. The third option is to continue with the present process of a liberalized oil industry in which private foreign investors have free reign with little or no interference from government and were the state in partnership with MNOCs share profits from oil through joint venture agreements, production sharing agreements or risk service contracts. The Fourth and final option recognizes the fact that no transformation can seriously take place within the

Nigerian oil industry to transfer the control of oil to Nigeria, outside the transformation of the Nigerian state itself. This approach calls for a more critical approach and the democratization of the political interface of the nations most critical economic asset - oil. For indeed within the oil and state nexus, economic power is political power.

Thus to get power over oil, the present dependent state must be transformed in order to have the capacity and will to wrest the control of oil from the multinationals, and put an end to their domination of the Nigerian oil industry. This would ultimately lay the basis for a pattern of foreign investments that would serve the nation's purpose of autonomous and equitable development.

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