

IJV: What Really Can Go Wrong?

Arguably the most popular item in the 178 page Petroleum Industry Bill currently under consideration at the National Assembly is the Incorporated Joint Venture.

The item seeks to convert each of the existing six Joint Ventures, which collectively deliver 95% of Nigeria's oil and gas production, into a limited liability company.

There has been applause all over the place. "The planned IJV will lead to better governance structure and accountability", note the government personnel in charge of the bill. "There will be stress free funding of projects", enthuse officials of some of the operating companies.

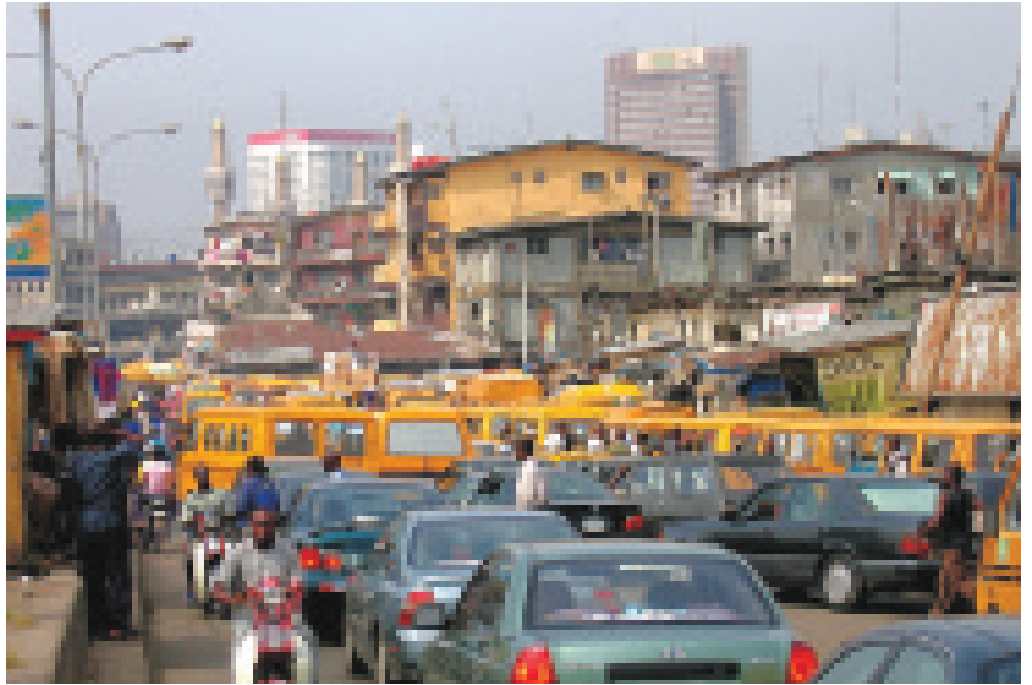
So, what could go wrong?

As presently constituted, each Joint Venture is between the state hydrocarbon company NNPC and one or several International Oil Companies (IOCs) acting in partnership. Each Joint Venture is operated by an IOC. In each of these Joint Ventures, the NNPC has at least 55% stake.

Thus, for instance, the TOTAL/NNPC Joint Venture is a 40/60 Joint Venture operated by the French supermajor. This joint venture produces around three hundred and fifty thousand Barrels of Oil Per Day (350,000BOPD). The Shell/TOTAL/Agip/NNPC Joint Venture is a 30/10/5/55 Joint Venture operated by Shell. The production capacity of this Joint Venture is 1.2million barrels of oil per day (1.2MMBOPD), but it is struggling to do even 700,000BOPD.

"In the existing arrangement, the Joint Ventures between NNPC and these IOCs are more like loose, adhoc partnerships", argues Jerry Tolkein, a Cairo based, upstream petroleum analyst focused on Africa. The

Incorporated Joint Venture (IJV) Companies are to take over the activities of the NNPC led Joint Ventures, as Nigeria's Petroleum Industry Bill suggests. Sully Manope tried to find out all that is positive about it and encounters some potential fault lines.



Lagos, the financial heart of Nigeria, goes to work

ventures, in proportion to their existing participating interests, with the exception of the participating interests held by the Nigerian National Petroleum Corporation, which shall henceforth be held by the National Oil Company".

The objective, according to the bill, is "to create an independent entity, capable of being financially self sufficient".

Avuru says that the IOCs "are hoping that the IJV will solve the twin problem of funding constraints and approval delays that the experience from NNPC". He emphasizes the word 'hoping'.

The Nigerian Liquefied Natural Gas NLNG Limited is the closest thing to the proposed IJV Structure. In the NLNG, partners-Shell, Agip, TOTAL and NNPC have come together to

form a company. "They (IOCs) look at NLNG and see that when the LNG board meets and take a decision, the partners put their money on the table", says Avuru. The NNPC is the largest shareholder in the NLNG and it always pays, but in the Joint Venture, as it is, the state company always has a problem in paying.

It wasn't always so. The JVs, which came to being in the 70s, did not have cash call problems until 1993, when a minister noticed that the NNPC was always paying so much and decided that such payment should be subjected to supervision. "Those days before 1993, a General Manager at the NNPC signed off on the cash call payments due to the IOCs. It wasn't a big deal. The Group Managing Director didn't even have to know", Avuru recalls. "The problem started when we

started to lump all the monies together".

The details of fiscal responsibility and reward of a prototype of an envisaged IJV reveals where potential fault lines can be. Out of a budget of \$1billion, say, for an ExxonMobil-NNPC IJV, the government is supposed to come up with \$600Million. The IOC lifts 40% of the hydrocarbon produced as a result of the investment, and is expected to pay Petroleum Profits Tax and Royalties out of its income. The government party lifts 60% of the hydrocarbon produced as a result of the investment, and is expected to pay Petroleum Profits Tax and Royalties out of its income. The PPTs and the Royalties are all that are due to the government, nothing more. That's what the NLNG does, albeit under a different tax regime and everything, so far, has been smooth.

The problem that Avuru sees, down the line, is that someone in government might begin to worry that a lot of money is being invested by government in IJVs that don't come through higher layers of government than the NNPC. "That's what happened to the JVs," he says. Today, government financial obligations to the NLNG doesn't get to any agency of government outside the NNPC, but there's no saying that what happened to NNPC Joint Ventures can't happen to the NLNG at some point."

Indeed, the conditions for interference in IJV governance by an outside body is already laid out in the proposed bill. The IJVs will operate under the supervision of the proposed National Petroleum Assets Management Agency (NAPALMA), whose key function is "to approve the commercial and cost elements of all field development programmes in the upstream sector of the Nigerian hydrocarbon industry. NAPALMA's job also entails, superintending and overseeing the activities of all operators involved in field development programmes. This is a potential route for government meddling in IJVs, in a way that the bill itself doesn't intend. ■

Next edition: Local content and manpower issues for the IJVs

The conditions for interference in IJV governance by an outside body is already laid out in the proposed bill. The IJVs will operate under the supervision of the proposed National Petroleum Assets Management Agency (NAPALMA), whose key function is "to approve the commercial and cost elements of all field development programmes in the upstream sector of the Nigerian hydrocarbon industry. NAPALMA's job also entails, superintending and overseeing the activities of all operators involved in field development programmes.

NNPC contributes their share of the agreed budget. The IOC/s do the same. The thinking through of which project to do, as well as the investment, is made by the IOCs on behalf of the partners, and there's always a lot of wrangling about the quality of the spend".

Austin Avuru, former NNPC staff geologist and managing director of the E&P company Platform Petroleum, says that "The NNPC plays a largely supervisory and auditing role" in the current JV set up, which is not a bad thing on its own.

The thorny issue in the current arrangement is the frustrating delay in the cash call from the NNPC.

Now the proposed law says that "each Incorporated Joint Venture company shall be owned by the parties to the existing joint