

Nigeria Oil Pipeline Infrastructure under Pressure

Losses Continue to Mount despite Fresh Enforcement Efforts

MEA Risk Opinion:

Nigeria faces greater instability as a result of compromised security along its oil pipeline infrastructure. Despite fresh efforts from the Buhari administration to arrest pipeline vandals, oil thieves and those involved in terrorism with direct impact on oil infrastructure, the risk on stability is high and will likely remain a thorny issue over the long run.

In short, MEA Risk assesses that:

- Lack of pipeline security is greatly affecting at least three major stakeholders: **Communities** are struggling with the rise in the incidence of environmental disasters and criminality. Tension is also rising between communities and pipeline owners/operators. **Pipeline owners/operators** and by extension oil companies are spending millions of dollars dealing with pipeline vandalism, and many are hemorrhaging money as a result of halting production and other operations. **The Nigerian government** and by extension State/Local entities are also on the losing side of the equation. Billions of dollars are unaccounted for each year as a result of lost revenue, while security cost is on the rise.
- The newly elected President, Muhammadu Buhari pledged to open a new front against vandalism as a campaign promise. Already actions are being taken, including outfitting the military with hundreds of surveillance drones to monitor pipeline and push for arrests of vandals.
- However, MEA Risk believes that securing Nigeria's pipeline infrastructure will not be easy. Beside the fact that the country's primary security focus is on terror group Boko Haram and corruption, the country also needs an honest and objective assessment of the root causes of vandalism, many of which are the result of bad social-economic policies. As such, MEA Risk sees the vandalism issue persist for a long while.

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Analysis:

This summer has seen a series of events that have drastically weakened the oil pipeline infrastructure in Nigeria. Sabotage, oil theft known as bunkering, vandalism, and terrorism have eroded the country's pipeline systems over this summer, and have led to mounting casualties as Nigeria launched a new offensive to reduce losses.

In the central state of Plateau, as well as in many other areas, authorities attribute kerosene and fuel scarcity to pipeline vandalism, a problem enforcement authorities are seeking to deal with, not without human losses. But the economic cost is enormous, estimated at over \$6 billion loss to Nigeria in the form of oil theft.

In all, the summer witnessed 125 deaths from pipeline-related incidents. Most (100 deaths) took place in one single event, near Lagos in the southwestern Ogun State. In late July, over a hundred suspected oil "vandals" burned to death in an explosion that destroyed a Nigerian National Petroleum Corporation (NNPC) pipeline in the Arepo area. The explosion was triggered by a spark from a speed-boat engine, according to reports from investigators.

Earlier, on July 9, 14 people were killed by the explosion of a pipeline at Agip's onshore Azuzuama oil field. Agip is a unit of Italy's ENI. Most of the victims were workers of the Italian company, and 2 others were officials from the Bayelsa State Ministry of the Environment and the National Oil Spills Detection and Response Agency. The explosion took place at an oil pipeline that was previously damaged by sabotage. Agip is now facing angry environmental groups. The Environmental Right Action and Friends of the Earth Nigeria, is requesting \$28 million for the families of the victims of that pipeline explosion.

In the Delta State, halfway between Lagos and Port Harcourt, a pipeline belonging to the Nigeria Petroleum Development Company, NPDC, was blown up in July. Police arrested the suspects who said they launched the attack in an effort to persuade NPDC to award them a pipeline surveillance contract.

The incidents affecting Nigeria's pipelines tend to concentrate in and around the country's largest cities and big industrial hubs. **The map below** shows Port Harcourt to be home of the highest number of incidents. Unsurprisingly, Port Harcourt is Nigeria's oil hub, and where a large number of foreign companies are based. It is also along the Gulf of Guinea.

Social and Environmental Impact:

In addition to the deaths, the ongoing issues affecting Nigeria's pipeline system are impacting the country from both the environmental and economic fronts. In Rivers State, a 20 inch pipeline owned by Shell was breached this summer, leading to a spillage affecting nearly 4 hectares of natural swamp land.

At the end of August, 2015, in Abia State, residents of the Isuikwuato region said their potable water had been affected by an oil spill following the rupture of the Nigerian National Petroleum Corporation pipelines in the area. In Delta State, inhabitants of the Ethiope West district have been on a war path seeking to lessen the environmental impact of an oil spill. A ruptured pipeline crossing the region is said to be the source, and authorities say vandalism may be the culprit.

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Foreign companies too are often blamed for sluggish response to the disasters affecting their infrastructures, leading to tension with local communities. The late June 2015 explosion of a pipeline owned by Nigeria AGIP exposed the company to the anger of the local communities representing Ohaji/Egbema and Oguta Local Government Areas in Imo State. Their political representatives have lashed out at Agip, which they accused of “lackluster stance to the plight of the affected communities.” Community leaders say “the pollution caused serious damage to aquatic lives inside major water in Egbema and all communities around as a result of spill of the carbon crude oil that has turned water black and destroying food crops.” Adding “as of now, the company in question has done nothing to show concern that what happened affected these communities.”

Needless to say, these positions do not help the image of any company involved in such crisis and hence, foreign companies are advised to constantly revisit their crisis management policies to avoid reputational damage.

Economic Impact:

The problem of pipeline security in Nigeria feeds into the broader issue of corruption affecting the oil sector in the country. For the *Independent Petroleum Marketers Association of Nigeria*, the oil and gas sector accounts for some 80% of the total corruption-related issues inventoried in the country. While oil and gas should have been a source of wealth creation, they actually have become a source of social and economic problems and the emergence of corruption in the broad society and across the economy. At the same time, redistribution of wealth has also not been equal, as the upper echelons have been receiving the main part of revenues. At the same time, pipeline vandalism is a key component of the problem. The issue is now front and center in the state oil company NNPC’s strategic assessments, where President Bouhari recently fired the managing directors of the company’s subsidiaries and forced 38 top management staff of the firm to retire, trimming down their number from 122 to 83.

Indeed, affected by pipeline security issues are both foreign and domestic oil companies. British-Dutch oil company Shell had to resort to shutting down two key supply pipelines this summer and declared a force majeure on crude oil exports. The pipelines are the Trans Niger Pipeline (TNP) and Nembe Creek Trunkline (NCTL), which move crude to the Bonny Light exports terminal. For a while, Shell has been struggled with oil thefts and sabotage in Nigeria. It is estimated that the company lost over 110,000 barrels of crude oil per day in 2014 to oil thieves and pipelines vandals. This year, the company’s daily crude oil loss to oil theft and pipelines vandalism reached 37,000 barrels.

In mid-August, Shell confirmed that seven oil spills took place in the Yenagoa District of Bayelsa. The spills were the result of sabotage of the company’s pipeline network linked to its Ikarama oil fields. Sources in Ikarama the sabotage occurred as a result of the termination of pipeline surveillance contract, at which point security guards were required to leave the area, leaving the pipelines vulnerable to criminal gangs. The decision made by Shell to divest vast parts of its onshore oil and gas producing assets in Nigeria is for a large part based on the ongoing security issues. For Shell, as is the case for others, onshore Nigerian oil and gas assets have become a big liability. Main stream assessments also

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show that international oil companies have now a major preference for offshore operations, which are more easily to be secured against third party interference.

State company NNPC was also forced to shut down production supply in Lagos due to a pipeline explosion in July 2015, which occurred in the Ikorodu district. Witnesses saw speed boats carrying suspected vandals. NNPC was also forced to shut down its Warri Refineries because there was insufficient crude oil in the system, with oil being diverted by thieves. NNPC also had to use boats to supply crude oil to its refineries as a result of attacks on the Bonny-Port Harcourt refinery pipeline and the Escravos crude pipelines, allegedly perpetrated by oil thieves.

Pipeline vandalism is also affecting many other areas of the economy, chief of which is Nigeria's power sector. The World Bank estimates Nigeria has lost about \$100 billion in just one year to daily power blackouts. And the institution lists pipeline vandalism as one of the main sources of the blackouts, in addition to corruption, funding issues, and other problems.

Enforcement with Human Losses:

While vandalism continued to be a key petroleum infrastructure problem, the Nigerian authorities have been seeking to enforce the country's laws. At this stage, it is difficult to assess the effectiveness of the anti-vandalism offensive, but from June 22 to September 22 (summer months) about 200 people involved in pipeline attacks were arrested.

All principal enforcement agencies are involved, whether they are the police or the military. Enforcement operations escalated ever since President Muhammadu Buhari took over the Presidency. The new President made campaign promises to deal swiftly with oil thieves, as a second priority after Boko Haram, targeting end of July as the start of a major offensive.

Earlier in June, the Nigeria Security and Civil Defense Corps (NSCDC) concluded plans to deploy some 500 drones to monitor oil installations across the country. Oil theft was the primary motive of such deployment. Other technologies are being considered for tracking and monitoring. The first regions to benefit from drone surveillance are key areas in the Niger Delta, specifically Bayelsa.

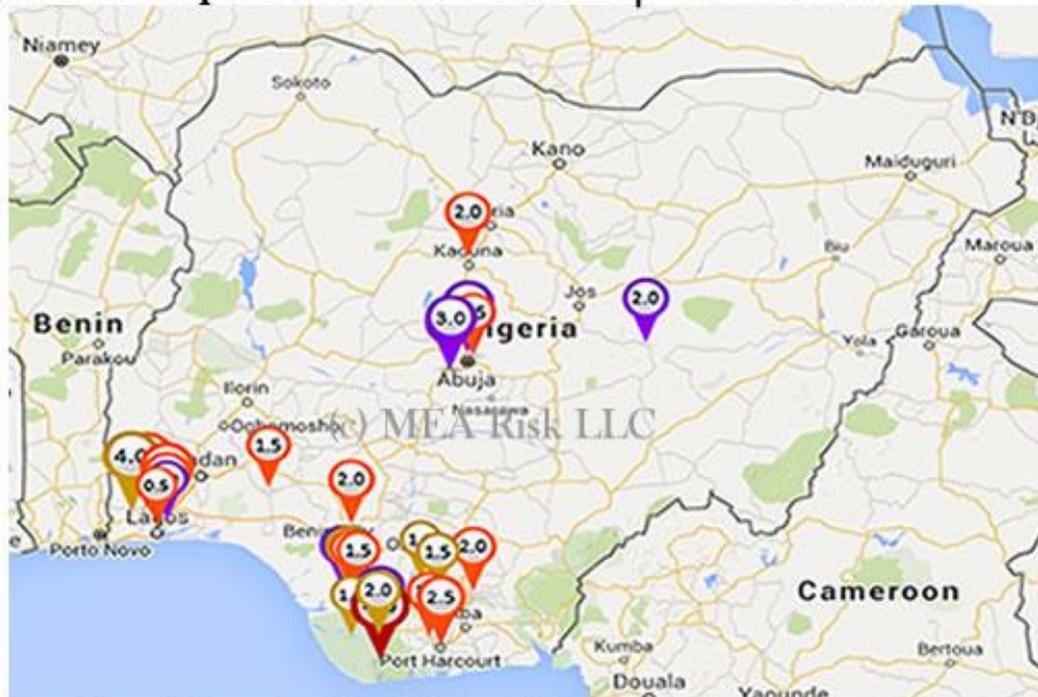
Security forces have also stepped out their work on the ground. Arrests of vandals are daily occurrences this season. The latest comes from the State of Abia, where 14 suspected pipeline vandals were arrested on September 18. Police in Abia have seized trucks and busloads of stolen oil. Lagos authorities also announced 45 arrests over the past 9 months. Similar arrests were made in Edo, with the capture of 102 suspects, and another gang in Ondo State. In addition to arrests, illegal small oil refineries were destroyed by authorities, including 78 of them in River.

But authorities also incurred major losses in their campaign. This month, 10 agents of the Department of State Security were killed by pipeline vandals in the Arepo area of Ogun State, not too far from Lagos, where a recent shootout involving pipeline vandals and policemen in Ikorodu left three police officers dead. The police officers were checking a tanker carrying petroleum stolen from a Nigeria National Petroleum Corporation (NNPC) pipeline around Oke-Okoko when they came under fire.

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Nigeria's Oil Pipeline-Related Incidents | Summer 2015



Source and Copyright: MEA Risk's Critical Incidents Tracker | September 26, 2015

Outlook

The outlook for Nigeria's onshore and offshore oil and gas operations are rather bleak. Ongoing thefts, vandalism and outright terrorist activities are still continuing. Onshore oil and gas operations, which partly already have been left by IOCs to Nigeria's indigenous operators, is still hard hit. Investments and the setup of a new security strategy by Nigerian companies, government and security forces is needed to stabilize the specific oil and gas producing regions onshore. At the same time, threats to offshore Nigerian oil and gas assets have largely been quelled. The ongoing cooperation between Nigerian security forces and international navy forces (NATO, US) have had a positive effect on the security situation. The fear in 2013-2014 that Nigeria offshore could become a new arena for major piracy operations has not materialized.

Meanwhile, despite efforts to beef up security and arrest thieves and saboteurs, Nigeria may be less able to focus on that security front due to two reasons.

- The first is economic and tied to the country's dwindling oil revenues. With less money, it becomes difficult to justify spending on security, even though it must be a priority for the Buhari administration. This means security may have to be further enhanced by pipeline operators/owners, who are also struggling with a poor oil market environment.

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- The second is related to the country's multi-front wars. Buhari's biggest focus is on the Boko Haram organization that has been terrorizing the northeast and now focused on the southern industrial and economic cities. While the northeast was often considered of a secondary important, last week's twin bombings in Nyanya and Kuje towns of the Federal Capital Territory and a third attack in the Zamfara Market in Kuje killing in all 18 people are likely to force the government to put all its resources on Boko Haram. This means the much needed resources to secure oil infrastructure are likely to be diverted.

Recommendations

Yet, according to our assessments, Nigeria will need to focus more on the security situation onshore even as the Boko Haram threat continues to mount. Tackling issues such as oil theft, terrorism and vandalism, in combination with the still existing corruption, should be a high priority for the next years. If not being put in place, the current situation will hit Nigeria's oil and gas potential very hard, as international operators and investors are not willing to take the risk of losing their overall investments.

The current oil and gas price settings, which have already hit upcoming and future projects, also will need to be taken into account. Lower overall revenues, forcing the Nigerian government to cut back on their investment plans and lower government budgets, will also have a possible negative impact on security. The need for economic diversification, lower subsidies and better redistribution of wealth, could be constrained by lower oil and gas income.

Further security instability only will increase the troubles the new Nigerian government will have to cope with. Part of this could be to involve more local parties in setting security arrangements in the oil and gas producing regions. By incorporating regional issues, local political and economic concerns, will have a positive effect overall. At the same time, NNPC and the Nigerian government will need to show a willingness and openness to address local concerns. By increasing the local economic situation this could be decreasing the security conflicts and stabilize the potential for economic growth. Stability in the onshore oil and gas regions also will attract further investments by international operators.

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