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C. O. Mgbame
Ph.D, Department of
Accounting, University of
Benin, Nigeria

P.A. Donwa
Ph.D, Department of
Accounting, University of
Benin, Nigeria

E.O. Osunbor
Department of Accounting,
University of Benin, Nigeria

Nigerian oil and gas sector background, reform efforts and implication for economic growth

C. O. Mgbame, P.A. Donwa, E.O. Osunbor

Abstract

Crude oil and gas became the pivot of the Nigerian economy, after witnessing a shift from the agricultural sector. The huge oil revenues since the late 1960s, have not translated into prosperity and development in the Nigerian economy. In spite of the numerous plans, policy frameworks and reforms, economic growth remains epileptic. Hence, the country still ranks among the poorest in the world in terms of major indicators of development.

However, this study examined oil & gas industry in Nigeria, its background, reforms effort, challenges and implication for economic growth. Findings from extant literature revealed that the oil & gas industry in Nigeria possess huge potentials capable of placing the Nigerian economy among the best in the world, in which oil and gas can be a veritable tool for achieving the vision 20:2020. We therefore concluded that the existing reforms in the industry must be absolutely implemented and the existing Bills passed into law for the industry to be efficient, effective, visionary, focused and productive.

Keywords: Petroleum Industry, Economic-growth, Gross Domestic Product, Reforms

Introduction

Oil and gas industry arguably has the most pervasive influence on the world economic scene today and even more so in Nigeria where the commodity constitutes the life wire of her economy. It has been the pivot of the economy for quite some time now and will in foreseeable future maintain the dominant role in shaping the economic and political destiny of the country. Although, Nigeria's oil industry began to play a prominent role in the economic life of the country at the end of the Nigeria civil war which took place from 1967 – 1970, the discovery of oil has had both positive and negative impacts on the Nigeria economy. On the negative side, this can be considered with respect to the surrounding communities within which the oil wells are exploited. Some of these communities still suffer environmental degradation, which leads to deprivation of means of livelihood and other economic and social factors. Although large proceeds are obtained from the domestic sales and export of the petroleum products, its effect on the growth of the Nigerian economy as regards returns and productivity is still questionable, hence, there is need to ascertain the impacts of oil and gas on economic growth. Despite the fact that crude oil has generated a lot of revenue for Nigeria, its effects are still not visible because of mismanagement and absence of judicious use of funds. Considering the fact that there are other sectors in the economy, the excess revenue made from the oil sector can be invested into other sectors in order to diversify the economy and to increase the total Gross Domestic Product (GDP) of the country.

It is regrettable that despite the seemingly total reliance on oil and gas as the mainstream of the Nigerian economy, the future of this sector is still uncertain. Over the years government has used regulatory authorities, laws and reforms to ensure the efficiency and effectiveness of the oil and gas sector, still, the Nigerian oil and gas industry is bedeviled by insincerity fraud and corruption, oil theft, subsidy scam, gas flaring, environmental hazards, fluctuations in world oil price, pipeline vandalism, illegal refining of oil, under utilization and collapse of refineries, importation of refined petroleum products, marginalization of host communities and a host of other issues.

In line with the foregoing, this paper seeks to examine the oil and gas industry in terms of its background, reform efforts, implication for economic growth as well as measures to repositioning the oil and gas industry for economic development.

Following this Introduction, the rest of the paper is divided into section II which is centered on the review of literature and section III is on conclusion and recommendation.

Correspondence
C. O. Mgbame
Ph.D, Department of
Accounting, University of
Benin, Nigeria

Literature review / conceptual framework

The petroleum industry includes the global processes of exploration, extraction, refining, transporting and marketing petroleum products. The largest volume products of the industry are fuel oil and gasoline petrol. The industry is usually divided into three major components: upstream, midstream and downstream. The upstream sector includes the searching for potential underground or underwater crude oil and natural gas fields, drilling of exploratory wells, and subsequently drilling and operating the wells that recover and bring the crude oil and/or raw natural gas to the surface. The midstream sector involves the transportation storage, and wholesale marketing of crude or refined petroleum products. The downstream sector touches consumers through products such as gasoline or petrol, kerosene, jet fuel, diesel oil, heating oil, fuel oils, lubricants, waxes, asphalt, natural gas, and liquefied petroleum gas (LPG) as well as hundreds of petrochemicals.

Economic growth: This can be defined as an increase in value of goods and services produced in a country. Growth implies an increase in real GNP per unit of labour input. This refers to changes in labour productivity over time. Economic Growth is conventionally measured as the rate of increase in Gross Domestic Product (GDP). Growth is usually calculated in real terms (netting out the effect of inflation on the price of the goods and services product). Growth improved the standard of living of the people in that particular country.

Growth Domestic Product: This can be defined as all products that are produce in a country irrespective of the nationals that produce it. For example, all goods and services produced in Nigeria regardless of the nationality. If a Ghanaian based in Nigeria produced output it is usually included in the GDP of Nigeria. GDP is calculated without deductions for depreciation. There are various types of Gross Domestic Product which are; Nominal GDP: (GDP at current factor cost) equal GDP at current market price less indirect taxes net or subsidies, REAL GDP measures the performance of a country and it takes care of inflation, GDP at current market prices equals GDP at current factor cost plus indirect taxes net of subsidies, and OIL RENT which is defined as the price of crude oil in the international market multiplied by the quantities of oil.

Historical perspective of oil and gas in Nigeria

The advent of the oil industry can be traced back to 1908, when a German entity, the Nigerian Bitumen Corporation, commenced exploration activities in the Araromi area which is now the present day Ondo state of Nigeria. These pioneering efforts ended abruptly with the outbreak of the First World War in 1914 (Madujibeya, 1976).

Oil prospecting efforts resumed in 1937, when Shell D'Arcy was awarded the sole concessionary rights covering the whole territory of Nigeria. Their activities were also interrupted by the Second World War, but resumed 1947. Concerted efforts after several years and an investment of over N30 million, led to the first commercial discovery in 1956 at Oloibiri in the Niger Delta. This discovery opened up the Oil industry in 1961, bringing in Mobil, Agip, Safrap (now Elf), Tenneco and Amoseas (Texaco and Chevron respectively) to join the exploration efforts both in the onshore and off shore areas of Nigeria. This development was enhanced by the extension of the concessionary rights previously a monopoly of Shell, to the newcomers. The objective of the government in doing this was to increase the pace of exploration and production of Petroleum. Even now more companies, both foreign and

indigenous have won concessionary rights and are producing. Actual oil production and export from the Oloibiri field in present day Bayelsa State commenced in 1958 with an initial production rate of 5,100 barrels of crude oil per day. Subsequently, the quantity doubled the following year and progressively as more players came onto the oil scene, the production rose to 2.0 million barrels per day in 1972 and a peaking at 2.4 million barrels per day in 1979. Nigeria thereafter, attained the status of a major oil producer, ranking 7th in the world in 1972, and has since grown to become the sixth largest oil producing country in the world (NNPC).

The Nigerian economy and oil and gas industry

Nigeria is situated in West African sub-region with a land mass of 923,768 sq km and Nigeria is Africa's most populous, resource rich country with a population of about 140 million. It is made up of over 250 ethnic groups and chequered in the past by incessant political instability, bad governance, inadequate infrastructure and macro-economic mismanagement (Atakpu, 2007). The global perception of Nigeria is that of a rich oil producing nation but with a growing poverty index (Odularu, 2008). Nigeria economy is basically an open economy with international transactions constituting an important proportion of her aggregate economic activities. Over the years, the degree of openness of the economy has grown considerably. The Nigerian economy is driven by oil and gas exploration, production and sales. It is import- oriented but also the biggest oil exporter in Africa. However, the simple measure of any economy is the gross domestic product (GDP) which is defined as the value of goods and services produced in a given year (Ojinaka, 2005). The Central Bank of Nigeria (2010) defines GDP as the money value of goods and services produced in an economy during a period of time irrespective of the nationality of the people who produced the goods and services. It is usually calculated without making any allowance for capital consumption (or deductions for depreciation). According to Augusto (2002) as cited in (Odeh 2011), Oil remains the mainstay of the Nigerian economy, contributing about 55% to the GDP, 95% of export earnings and about 70% of governmental revenue. Between 2000-2009, the price of crude oil which has contributed about 80% of the country's GDP rose from \$13 per barrel to a high rate of \$125 per barrel. This also resulted in significant increase in revenue generated. The annual budget expenditure between the period under review increased from 470 billion (naira) to 2.676 trillion (naira). Budgeted Capital expenditure stood at 36.2% of total budget in 2000 which amounted to 300 billion naira and 20.6% in 2009 amounting to 1.524 trillion naira. Total recurrent expenditure increased between this period as a result of increase in salaries and expansion of government ministries and agencies. Besides the large crude oil and natural gas deposits, there are also deposits of gold, tin, talc, gemstones, kaolin, bitumen, iron ore and barites that can be harnessed to earn foreign exchange for the country; oil and gas remains the country's major source of foreign exchange earnings and revenue base (Agbogun, 2004). In addition to the low capital budget ratio, government ministries have been unable to deploy capital funds effectively. One of the reasons being that some of these ministries still operate an ineffective manual system which has given rise to inconsistency, lack of transparency and accountability problems. Increased unemployment, poor health facilities and lack of adequate power supply are some of the economic problems that have resulted. Available evidence in history shows that the country

has proven oil reserves of 36 billion barrels, condensate of 4 billion barrels, proven gas reserves of 187 trillion cubic feet and the present average daily production of oil is 2.6 million barrels (Agbogun 2004; Egbogah 2010; Onwe, 2012).

Previous studies on the Nigeria economy in the last decade shows that the petroleum industry has been playing a dominant role and occupies a strategic position in the economic development of Nigeria (Azaiki & Shagari 2007). This is evidenced by the total oil revenue generated into the Federation Account from 2000 to 2009 which amounted to N34.2 trillion while non-oil was N7.3 trillion, representing 82.36% and 17.64% respectively. The mean value of oil revenue for the 10 year period is N3.42 trillion compared to non-oil revenue at N732.2 billion (CBN Statistical Bulletin, 2009). Further evidence was ten year's average crude oil and condensates production of 832,866,752.1 barrels from 2000 to 2009. The problems with Nigerian economy have been traced to failure of successive governments to use oil revenue and excess crude oil income effectively in the development of other sectors of the economy. Over all, there has been poor performance of national institutions such as power, energy, road, transportation, politics, financial systems, and investment environment have been deteriorating and inefficient (Baridam, 2008). According to Odularu (2008), outside of the energy sector, Nigeria's economy is highly inefficient. Moreover, human capital is underdeveloped. Nigeria ranked 151 out of 177 countries in the United Nations Development Index in 2004 and non-energy-related infrastructure is inadequate. Nigeria's economy is struggling to leverage the country's vast wealth in fossil fuels in order to displace the devastating lack that affects about 57 percent of its population. In 2009, persistent inflation and environmental degradation led to deprivation of means of livelihood and other socio-economic factors to the people of Niger Delta which is the major oil producing state in Nigeria. Despite the fact that crude oil has been the source of Nigerian economy, the economy is faced with high rate of unemployment, wide spread oil spillage, increasing poor standard of living as a result of decreasing gross domestic product, per capita income and high rate of inflation which has led to the effect of the economic development (Nwezeaku, 2010). Bawa and Mohammed (2007) assert that "Nigeria with all its oil wealth has performed poorly, with GDP, per capita today not higher than at independence in 1960". This means that an average Nigerian was better off before independence in 1960. Bawa and Mohammed acknowledged poor performance of Nigeria's economy but did not provide any empirical evidence or percentage figures by way of hypotheses testing and thereby confirming the fact that some of their works must have been based on assumptions that cannot be statistically verified and generalized (Baridam, 2008). Oil revenue which is supposed to be a source of finance for economic development has turned out to be a bone of contention between many interest groups, precisely the government and oil and gas companies.

For a number of years, the oil industry has made an immersed contribution to the Nigerian economy. This includes the creation of employment opportunities for the masses and at the moment total oil industry employment in Nigeria represents only 1.3 percent of total modern sector employment in the country; local expenditure on goods and services; contributions to government revenues (in recent years, there has been a significant increase in government receipts which is a reflection of three factors: increased crude oil production in Nigeria; the huge increase in crude oil prices and the more favorable fiscal arrangements obtained by the government as a

result of its improved bargaining position over the years) gross domestic product, foreign exchange reserves; and the supply of energy to industry and commerce. (Odularu, 2008).

Current Status of the Petroleum Industry in Nigeria

Estimates suggest that over 1000 people are still killed every year owing to restiveness in the Niger delta area. (Galegroup, 2012). While Nigeria's oil revenue has totaled \$940 billion in exports since the 1970s and it is the fifth largest producer, 70% of its population is living below poverty line. The standard of living is still less than \$1 a day, and 43% have no access to clean water (Raymond, 2013). Though Nigeria is a major oil exporter, most of her gasoline are still imported, even when fuel subsidies were lifted in January 2012, Fuel increased from about \$1.70 per gallon to \$3.50. Nigeria seems to be well set up; because it produces a form of oil deal for the United States, has huge reserves and has increased its production to 2.8 million barrels of oil a day but the benefit of this has not been really felt by the people of Nigeria (Egan, 1999).

Challenges of the oil sector

A serious challenge to oil and gas exploration in Nigeria is the issue of oil theft Junga (2011) reported that Nigeria lost out on \$10.9 billion of potential oil revenue between 2009 and 2011 due to oil theft. Poor management of the petroleum resources has led to socio-economic, socio-political and complex interaction problems involving the people, economic development and the environment. Despite massive influxes of oil revenues, Nigeria seems to suffer from the oil curse or the natural resource curse due to poor governance, lack of effective environmental and sustainability awareness, lack of autonomy, poor funding investments, communal disturbances, smuggling and diversion of petroleum product, high technical cost of production, restrictions imposed by crisis and production disruptions caused by host communities (Odularu, 2008). The development of a sustainable society is vital in any nation's economic development both in the short and long term. Presently, the petroleum industry in Nigeria is battling against rising oil theft and oil bunkering has become a major cost to the nation's treasury, which depends on oil for over 80 % of its earnings. In spite of the enormous contributions of the petroleum resources in the nation's economy, the past and present petroleum exploration and production operations by the multinational oil companies has led to environmental contamination with associated adverse human health effects and socio-economic consequences in the Niger Delta.

The Niger Delta environment can be broken down into four ecological zones; the coastal barrier island, mangrove swamp forest, fresh water swamp and lowland rainforest. Thus they have a well endowed ecosystem with a very high concentration of biodiversity on the planet. Oil and gas activities have affected this ecosystem negatively through oil spills; gas flaring, water contamination, construction and unrest in the area (Amnesty international, 2006).

Oil and Gas Reform Efforts in Nigeria

The reform of Nigeria's oil and gas industry started when former President Olusegun Obasanjo on April 24, in the year 2000, set up the Oil and Gas Reform Implementation Committee (OGIC), headed by his Honorary Special Adviser on Energy and Strategic Matters, the late Dr. Rilwanu Lukman, to carry out the first comprehensive reform of the oil and gas industry. The beginning of the reform signaled the dwindling fortunes of Nigeria's oil and gas sector as the deep-

pocket multinational companies started to increasingly cut their investments due to the uncertain outcome of the reform. Unfortunately, the reform dragged on until Obasanjo left office without implementing the National Oil and Gas Policy (NOGP) report of the Lukman's committee.

However, the imperatives for reform in the sector prompted the late President Umaru Musa Yar'Adua to reconstitute a new committee, also headed by Lukman, on September 7, 2007. Lukman's new committee, which submitted its report on August 3, 2008, was mandated to "transform the broad provisions in the NOGP into functional institutional structures that are legal and practical for the effective management of the oil and gas sector in Nigeria" (this day live 2014). Hence, a number of reforms have been done in the Nigeria oil and gas sector and these reforms have undergone series of changes over time with different governments in power. Notable of these are the petroleum industry bill, the local content act and the Nigerian gas master plan.

Petroleum Industry Bill (PIB)

In recent years, the country has sought to overhaul the legislative framework relating to the oil and gas industry. This has resulted in the draft of the Petroleum Industry Bill (PIB), which is currently before the Nigerian parliament. The draft contains changes to taxation regimes, improved economies for small, onshore developments and an amended royalty structure. Whether or not the PIB passes into law remains to be seen, but any legislative overhaul is likely to have a significant impact on the Nigerian oil and gas industry. Ajayi (2013) opined that, the petroleum industry bill (PIB) was the comprehensive outcome of the Nigeria oil and gas sector reforms implementation committee as an attempt to restructure and redirect the industry towards achieving sustainable development of the country in general and the oil producing region of the Niger Delta in particular. Despite federal government's receipt of about 95% of accruing oil revenue after costs, an estimated 70% of the over 160 million residents in Nigeria live below the poverty line with the attending social and environmental consequences. Realizing the need to integrate the oil producing communities with the rest of the Nigerian economy through infrastructure investment and businesses, the proposed PIB seeks to enhance the drive to reduce the pervasive unemployment scourge while spreading the oil wealth more equitably through establishing linkages between the petroleum industry and other critical sectors of the Nigerian economy. However, the petroleum industry bill was designed to address the NNPC's perennial financing difficulties for its share of joint venture operations with International Oil Companies (IOCS) operating in Nigeria and to plug the pervasive culture of corruption while creating industry incentive for sustainable investment in gas production and processing, both for export and domestic consumption. Also the PIB supports domestic gas utilization through effective implementation of the National Gas master plan. The establishment of the midstream sub-sector and the creation of a regulatory framework for mid-stream activities suggest that oil and gas delivery systems by law are subject to regulatory oversight through the establishment of the open access rule (NNPC). Although the PIB acknowledges domestic gas supply obligations which are linked to delivered commitment to existing or new gas processing and transmission systems, the uncertainties entrenched in the bill have become a source of worries to industry players and these have generated heated debate and controversies on an ongoing basis. In 2012, the PIB was review to check if its objectives

over the years have been achieved. The PIB, which seeks to address the legal, institutional and funding challenges of the oil and gas industry, has the following objectives to; create a conducive business environment for petroleum operations; enhance exploration and exploitation of petroleum resources in Nigeria for the benefit of the Nigerian people; optimise domestic gas supplies particularly for power generation and industrial development; establish a progressive fiscal framework that encourages further investment in the petroleum industry while optimising revenues accruing to the Government; establish commercially oriented and profit driven oil and gas entities; deregulate and liberalise the downstream petroleum sector; create efficient and effective regulatory agencies; promote transparency and openness in the administration of the petroleum resources of Nigeria; promote the development of Nigerian content in the petroleum industry; and promote health, safety and protects the environment in the course of petroleum operations.

The PIB also seeks to promote good governance, transparency and sustainable development in the management and allocation of petroleum resources by providing for: an orderly, fair and competitive system; clear and effective legal and institutional frameworks for organising petroleum operations; and a fiscal regime that offers fair returns on investments while optimising benefits to the Nigerian people. While the PIB is a laudable step towards achieving government's objectives of a transparent, deregulated and efficiently managed oil and gas sector the Bill appears to raise more questions than proffer solutions. Several analyses have been carried out on the provisions of the PIB vis-à-vis other jurisdictions, which concluded that there are issues that need to be addressed if the PIB is to achieve its intended goals (Johnston, 2012).

The Local Content Policy

The term Local Content (LC) which can also be seen as 'Nigerian Content' has been defined as 'The quantum composite value added or created in the Nigerian economy through the utilization of Nigerian human and material resources for the provision of goods and services to the petroleum industry' (NNPC). However, according to the Chairman Nigerian House of Representative Committee on Petroleum (Upstream), Tam Brisibe, "Local content means different things to different people...the common denominator is value addition in the country" (Ogbodo, 2008). Obuaya (2005), a leading voice in the clamour for higher participation of local companies in the industry, provided his definitions in line with this idea of value addition. LC as: a set of deliberate orientation and actions to build domestic capacity relevant for service and product delivery comparable within that industry and an opportunity to locally build a sustainable culture of service quality and capabilities exceeding customers expectations and comparable to international standards through key local personnel and management. Though, Obuaya's definitions reflect on some important indices to examining the concept of LC such as deliberate orientation, capacity building, sustainable capability, product deliverability systems and comparability.

The concept of local content is global and not restricted to Nigerian, as it has previously been undertaken in several other oil-producing countries. Warner (2007) views LC from an angle of community content; stating that ultimately, community content is about realising a competitive advantage for an oil and gas development company in the eyes of both the local population and the country's guardians of economic

policy. Two distinct public policies strategies for achieving higher local content targets stand out vis-à-vis: the first strategy is where the state requires oil companies to give greater preference to those nationals and national suppliers who can compete internationally on cost, quality and timeliness i.e. what can be termed local content participation. This policy is implemented through negotiated conditions and agreements between host countries and multinationals evidenced by issues such as lower pre-qualification and tender appraisals criteria and lower tariffs on imported machinery and semi-finished materials not available in the country. The second policy strategy is where governments propose a step change i.e. gradual change of LC capacity achieved by consciously building the capability of national and local skills to access opportunities, considered as 'local capability development' (Warner, 2007). It can also be argued that while the former strategy can be considered more of a Push model; the latter is more of a Pull model. Warner (2007) considers the latter is a potentially more progressive model that would involve considerable undertakings from the oil companies such as providing direct and prolonged assistance to indigenous firms to improve their quality and reliability; payment of premiums or subsidies to overcome some of the higher costs incurred in capacity development; payment of additional insurance premiums to support local suppliers and contractors; investing in physical infrastructure such as buildings and utilities; and providing financial services such venture capital, credit guarantees and short-term loans to local suppliers and contractors.

Changes in local content and community investment practices should not be expected to occur in the absence of the right dedicated incentives. As such, the model suggested by Warner (2007) may be difficult to apply. We therefore posit that for a country like Nigeria, an effective LC policy would need to be driven by an optimal balance of both incentives on one hand and strict regulations on the other. This is because, in comparison to other countries, Nigeria has very low level of local content in the oil industry operations. According to the Nigerian National Petroleum Corporation (NNPC), only about 14 percent of the amounts spent servicing the industry used to be invested in Nigeria.

Nigerian Gas Master Plan

Due to the lack of gas infrastructure and the widespread flaring of associated gas, the Nigerian gas sector has been relatively underdeveloped and surveys have put the country's proved natural gas reserves at about 5.29 trillion cubic metres – about 2.82 percent of the world's gas reserves (Ajayi, 2013). In a bid to tackle this underdevelopment, the federal government prepared a Gas Master Plan in 2008, the implementation of which is currently underway. The initiative is geared at promoting natural gas production, and encouraging the supply of natural gas to domestic power stations so as to alleviate the country's energy shortage. As part of the Gas Master Plan, the National Gas Supply and Pricing Policy (Gas Pricing Policy) and the National Domestic Gas Supply and Pricing Regulations (Policy Regulations) have been issued by the government and both instruments impose obligations on gas producers to set aside a predetermined portion of their gas production for supply to the domestic market. The Nigerian gas master plan has the objective of explaining the huge gas availability in Nigeria for both export and domestic consumption. Ajayi (2013), opined that the gas sector in Nigeria Presently is export oriented, lack of confidence in domestic market by IOCS, has limited

infrastructure, has pricing issues, has gas supply constraints and has some ambiguous legal and regulatory issues. According to Nigerian National Petroleum Corporation (NNPC), the Nigerian gas master plan seek to achieve these and provide a framework for Nigeria to maximize value from gas resource by leveraging multiplier effect of gas in domestic economy and optimizing export market value; reposition the gas market for sustainability and facilitate timely and cost effective gas capacity additions to meet unprecedented global and domestic gas demand. Other objectives include minimizing public sector investment in gas infrastructure, developing an internal market for national gas, increase private sector participation, and development of a legal, regulatory and policy framework to promote competitive environment for private sector participation in the gas sector (Adeniji, 2008).

The gas infrastructure blueprint being proposed should be implemented immediately and all legislations currently at the National Assembly regarding oil and gas should be given speedy passage. There is also need to initiate the gas exploration master plan for Nigeria.

Implications of Oil and Gas Reforms and Prospects on the Nigerian Economy

The Nigerian economy is basically an open economy with internationally transactions constituting an important proportion of her aggregate economic activities.

The oil and natural gas export have generated huge revenue for government and have a surplus balance of payment over the years. 80% of Nigeria's revenue goes to the government, 16% spent on administrative expenses and 4% go to investors. The huge revenue from oil export only benefit 1% of the population due to corruption in Nigeria (Odulam, 2008). This mismanagement over the years has hindered economic reforms from achieving its full economic potentials. However, Nigeria Gross Domestic Product at purchasing power parity become more than doubled from \$ 170.7 billion in 2005 to \$ 374.3 billion in 2010, with informal sector patting the actual numbers greater than\$ 374.3 billion. The gross domestic product per capital doubled from \$12.00 per person in 2005 to an estimated \$2500 per person in 2009, with the informal sector included, the Gross domestic product per capital was estimated around \$3,500 per person (Samad, 2011).

The Nigerian economy is tied to oil and gas as her budget factor and fluctuations in the world oil market tends to affect its economy. The oil boom of the 1970s led to the neglect of the agricultural sector since the nation has access to cheap money to import all sorts of things including foodstuff, raw materials and manufactured goods. The economy witnessed structural changes in the 1980s which was attributed to a slow growth of the output in all sectors of the economy. The over reliant on petroleum oil is clear in the external sector trends. The desire for imports reflects in the current account balanced, whose oil component expanded by an annual average of 57.7% during 1971 – 1980, 43% in 1981 – 1990 and 40.3% in 1991 – 1998. (CBN, 2008).

The Petroleum Industry Bill (PIB), Nigerian gas master plan, the local content policy and other reforms in the oil and gas sectors can transform the Nigerian economy if implemented. Firstly, the creation of employment opportunities, with the inclusion of the private sector to play a more active role, jobs can be created in the construction of refineries, transportation of materials and equipment, building of staff housing and recreational facilities, drilling operations, supervisory and managerial functions e.t.c.

Another area the Nigerian economy will benefit if these reforms are implemented is the Gross Domestic Product (GDP). The gross output of the petroleum sector consists of the proceeds from oil exports, local sales of natural gas. The industry's value added can be obtained by adding together the various payments to the government in form of rents, royalties, profit taxes, the wages and salaries of employees paid locally and any net retained earnings. The oil and gas industry can provide more revenue for the Nigerian government. Also the foreign exchange reserve can be improved on through oil and gas. The Nigeria oil and gas industry also has the potential for providing cheap and readily available energy for industries and commerce through the operation of the local refinery discovered natural gas (Okubote, 2001).

These reforms can improve on Nigerian investment environment over the years; Nigeria has proven to be among the most investment friendly nations for IOCS, not only because of the geological configuration of its terrain but for the relative security of investments in the industry. Also the fiscal regime has been near stable while the industry has experienced growth in real terms over time. Investment in the Nigerian petroleum industry had continued to grow steadily between 2005 and 2010. More than \$ 67 billion of new investment was recorded during the foregoing period. With the enactment of the Nigerian local content policy initiative, a significant portion of new investment in the industry is being retained in the country (Akanni, 2011).

Strategies for Repositioning the Oil and Gas Industry

The National aspirations of reserve and producibility enhancement, natural gas monetization and increasing intersectoral linkages between the oil and gas sector and the rest of the economy cannot be achieved unless there is an efficient resource allocation and special attention is given to research and integrated development. Operational efficiency is the key word today in the industry and this is why we witness today, acquisitions and mergers in the industry. We will need to continue to embrace that the country benefits maximally from the exploration of its natural endowment. The following strategies must also be put in place if the industry is to be repositioned to face the challenges of the 3rd millennium and ensure sustainable economic development (Okubote, 2001).

(i) Timely Funding of the Joint Venture Cash Calls:

Before the present crude oil price recovery, the funding of joint venture cash calls has been a major challenge for the realization of the nation's planned hydrocarbon reserves and producibility enhancement. Several million dollars have been owed to the operators and this has created some creditability problems for the nation. With the present Administration, the government has paid more attention to the funding of Joint Ventures operation and the budgetary allocation for the 2001 fiscal year which was a testimony to this resolve. Outstanding arrears were being settled so as to encourage the operators and enhance additional foreign capital investment in the country. In addition, government has approved the alternative funding shares whereby bankable development projects could be executed without recourse to the treasury. In an effort to reduce the financial burden of this strategic business, the government has encouraged production sharing contracts (PSC) for allocation of acreage. To effectively position the industry, therefore, the corporation continues to ensure that fiscal regimes are competitive and attractive

to all investors while guaranteeing the stability of operations.

(ii) **Capacity Building:** The oil industry is technology driven over the years; technology has improved tremendously in all phases of the industry from surface geology to seismic data gathering and interpretation, drilling, production, refining, shipping and distribution. In the upstream sub-sector, advances made in the acquisition, processing and interpretation of data in recent times will go a long way to effectively locate potential hydrocarbon deposits at reduced risk and cost. The corporation should enter into profitable strategic alliances for potential transfer of technology and enhance its operational efficiency in these areas of operation. In addition, the corporation should also maintain and enforce its engineering policy that requires joint nature operators to undertake its detailed engineering work locally. It should also continue to encourage local fabrication work so as to effectively utilize local resources and enhance local value Added. The attestation of the Nigeria Engineering and Technical Company (NETCo) as a world class engineering unit confirms that such local capacity is available in house and should be encouraged to develop further.

Though oil activities have spared over four decades, efforts in research and integrated development has been limited. Hence there should be researches and development of modern research centres with capacity to use local materials as an input substitution strategy.

(iii) Reviewing Plant Maintenance Strategy

With the deregulation and liberation of the sector on line and stream availability becomes the index of plant performance. In order to ensure and maintain the integrity of equipment and facilities, a review of the maintenance strategy will have to be developed while the training and development of the personnel will be aggressively pursued to ensure operators are up to date with the latest technology. The co-operation is poised to become a net exporter of both crude oil and petroleum products, as well as meet the domestic raw materials required for the industrial take off on the national economy.

(iv) Enhancing the Local Value Added

As previously indicated, the local content in the Nigerian oil and gas industry is very low. The corporation will continue to support and encourage increased participation of local / indigenous core investors and engineering/contracting firms in the active participation in the industry. In addition, the corporation should encourage the pooling of resources and status to form local consortiums independently or in association with foreign engineering and construction companies. This is an effort to take advantage of globalization and advances in technology, thereby developing the needed capability to face the challenges of the future (Odularu & Okonkwo 2009).

(v) Sustain Industrial Harmony within the Oil Producing Communities:

it is generally appreciated that development can only thrive in an atmosphere of industrial peace and harmony. In the past few years, there has been increasingly unrest in the oil producing areas because of the long neglect in terms of development. Flaring of associated gas and other forms of pollution arising from oil activities which have done a

lot of damage to lives and properties as well as ecology of the oil producing areas.

To effectively tackle these problems, government has established the Niger Delta Development Commission (NDDC), which is to pursue an integrated development of the entire Niger Delta. In the course of time, both the economic and environmental issues will be adequately addressed and it is hoped that willful destruction of crude and product pipelines, flow stations and other forms of disturbances will stop.

(vi) The Passage of the Petroleum Industry Bill into Law:

Until the PIB is unanimously passed in both houses of the national assembly and subsequently signed into law, Nigeria's oil and gas industry will remain viciousness, without strategy, direction and a model to compete in a globalised petroleum industry. The PIB must not be politicized or considered with sentimental tendencies.

Conclusion

With the peculiar nature of the petroleum industry as the bedrock of the Nigerian economy and a budget factor, concerted efforts must be put in place to ensure that the sector improves in terms of efficiency, effectiveness, revenue generation, domestic utilization and export of both crude and refined products.

The various reforms should be implemented absolutely and the pending bills should be passed into law. The capacity, infrastructure and personnel should also be developed on a continuous basis to meet global standard and meet the challenges of global competitiveness.

The oil and gas sector will only be dependable, effective and efficient if these recommendations are carried out.

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