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27/7/09.

**The Chairman,
House Committee on Petroleum Resources (Upstream),
The New House of Representatives Building,
National Assembly Complex,
Three Arm Zone,
Abuja.**

**SUBJECT: MEMORANDUM PRESENTED BY MO ENERGY LIMITED IN
COLLABORATION WITH PETRO STAR (NIGERIA) LIMITED TO THE
HOUSE COMMITTEE ON PETROLEUM RESOURCES (UPSTREAM),
FOR CONSIDERATION AND ADOPTION IN THE PETROLEUM
INDUSTRY BILL 2009.**

**TITLE: DEVELOPMENT AND PROMOTION OF NIGERIAN CONTENT IN
THE TRANSPORTATION OF THE NIGERIA CRUDE OIL AND OTHER
PETROLEUM PRODUCTS: A RESPONSE TO ITEM EIGHT (8) OF PART
ONE (1) OF THE PROPOSED PETROLEUM INDUSTRY BILL 2008**

INTRODUCTION:

Mo Energy Limited is the Development Consultant to the Senate Committee on Petroleum Resources (Upstream), on Crude Oil Shipment; and has prepared this document in collaboration with Petro star (Nigeria) Limited, who provided the technical information, and would make the expanded presentation of this memorandum to the Senate Joint Committee on Petroleum Industry Bill 2009 during the public hearing.

PRESENT SITUATION:

Nigeria is the world's sixth largest producer and exporter of crude oil in the world; oil and gas jointly contribute over 95% of the country's foreign exchange denominated revenues. Ironically, in spite of this, the industry does not contribute more than 30% of Nigeria's GDP, and this is despite the significant increases in crude oil revenue. The reason for this situation has long been identified as low value added on oil and gas activities in Nigeria by previous administrations.

It is in response to this, that the Federal Government has initiated the local content policy, which seeks to domesticate at least 70% of the activities in the oil and gas industry by 2010. This policy, which has been relatively well received, has led to a sharp increase in value adding activities, the evolution of various Nigerian companies in the oil and gas industry, and significant increase in economic growth in Nigeria.

However, this laudable development notwithstanding, the transportation of Nigeria's crude oil exports has continued to be a major area with little or no Nigerian presence.

While Nigeria has continued to ignore this major area of the sector, countries like India, China, UK, etc, who do not produce significant oil and gas, control a significant portion of the industry.

Since hydrocarbon exports commenced in Nigeria for over 50 years ago, the transportation has been left in the hands of foreign shipping interests and their crude oil tankers. They also dominate this service in Nigeria's import of petroleum products to supplement local production.

For over 50 years, Nigeria has lost Hundreds of Billions of Dollars in revenue, Tens of Thousands of Jobs, and Hundreds of value-adding activities associated with this industry to foreign shipping interests, to the detriment of the Nigerian economy.

CURRENT GLOBAL TREND:

Even before the recent global economic meltdown, some recently developed countries, like Malaysia and Indonesia have taken strategic steps to re-invent their economy, through deliberate policies that empower their citizens to favourably compete locally and on the international scene. This reform has accounted for their rapid economic growth and development.

The major step has been the modification in the carriage of their crude oil exports and petroleum products imports, which was movement away from FOB to the more beneficial CIF.

With the present global economic challenges, it has become imperative for Governments of the countries of the world to re-invent their economies, which is primarily to maximize all the business and economic opportunities existing locally, by empowering their citizens through competitive participation.

REMEDIAL PROPOSITION:

It is to remedy the existing situation that I seek in collaboration with other patriotic stakeholders in the industry, to present this memorandum for the strategic reform of the Nigerian Petroleum Industry, for the participation of Nigerian Shipping Companies in the carriage of the Nigerian Crude Oil exports and petroleum products imports;

1. The proposed Bill should seek to address and outlaw all excuses given by NNPC in the past for non- implementation of the existing clause in the NNPC CRUDE OIL SALES AGREEMENT ON THE PARTICIPATION OF INDIGENOUS SHIPPING COMPANIES IN THE TRANSPORTATION OF NIGERIAN CRUDE OIL EXPORTS.

Most importantly, the Bill should also seek to strengthen for full implementation, all the existing statutory legislations to involve Nigerian Shipping Companies in the carriage of Nigerian Crude Oil Exports and Petroleum Products Imports.

EXISTING LEGISLATIONS (DECREES/ ACTS) FOR NNPC AND NIMASA:

The following provisions have been made by Nigerian Government at different times for the two key Government Agencies that should drive the involvement of indigenous shipping companies in the transportation of the Nigerian crude oil and petroleum products – the Nigeria National Petroleum Corporation (NNPC) and the Nigeria Maritime Administration and Safety Agency (NIMASA).

The NNPC policy recognizes the right of Nigerian Flagged Vessel Suppliers in the carriage of crude oil. **This is contained in paragraph 19 of the NNPC General Conditions of Sales which states;**

“Buyers shall give preference to Nigerian Flag Tankers for the transportation of Nigerian crude oil, under the contract whenever such tankers are competitively available. The Seller shall have the right upon reasonable notice of not less than ninety (90) days to convert up to 50% of the contract volume to CIF or C&F sales provided it can offer reasonable competitive freight rates and other terms are mutually agreed upon”.

On the other hand, the Nigeria Maritime Administration and Safety Agency (NIMASA) is mandated by virtue of the Shipping Policy Decrees no. 10 of 1987, to oversee the carriage of at least 50% of Nigeria's bulk cargo, wet or dry. This is contained in section (1) and (2) which state;

"Subject to sub-section (2) of this section, and in addition to cargo as defined under the UNCTAD Code of Conduct of Liner Conference, the National Carriers shall have the right to participate in the carriage of bulk cargo (dry or wet)".

"Participation of National Carriers in the carriage of bulk cargoes to and from Nigeria shall be subject to the carriage right of not less than 50% of such cargoes".

The NMA (now NIMASA) Act, in section 18 (1) is also empowered to;

"Ensure that Nigerian vessels carry Nigeria's share of cargo in volume and earnings in accordance with provisions of this Decree or any other form cargo sharing agreement entered with ad agreed to by the Federal Government of Nigeria".

Also in section 9 (6), NIMASA can determine the following;

"Ways and means of involving National Carriers in the carriage of Crude Petroleum in Nigerian vessels".

OUR PRAYERS/ SUBMISSION:

1). SUBSTITUTION OF FOB PROVISION WITH CIF OR C&F IN THE NNPC SALES AGREEMENT:

The strategic nature of transportation of petroleum liquids, especially crude oil calls for Government's action through the proposed Bill for the reform of the petroleum industry, to ensure full and unhindered participation of indigenous shipping companies in the transportation of Nigerian Crude Oil and Petroleum Products through quick substitution of FOB provision with CIF or C&F in the NNPC Crude Sales Agreement or trade term.

2). FREE FLAG (TANKER/ VESSEL) REGISTRATION:

For rapid and strategic development of the industry and to boost the Nigerian economy, in line with the current global trends; Nigeria Government should adopt the registration of Nigerian free- flagged Vessels by incorporating this initiative as her deliberate policy in the reform Bill.

BENEFITS OF THE ABOVE MODE OF CRUDE OIL AND PETROLEUM PRODUCTS TRANSPORTATION TO THE FEDERAL GOVERNMENT OF NIGERIA AND NIGERIANS.

Over 500, 000 (Five Hundred Thousand) vessels are available globally in the industry for Free-flag registration and services. It costs a company to register itself for services in the free flag areas with \$1,500 to \$3,000. Imagine Nigeria as the 6th world largest producer and exporter of crude oil attracting 10% of the global 500,000 free-flagged vessels for registration in Nigeria; the following great benefits would be accruable to Nigeria, her Government and her economy;

1). The Federal Government of Nigeria through registration of at least 10% of the global 500,000 free-flag vessels at the minimum rate of \$1,500 would be generating at least **\$75 Million annually**, from registration flags alone.

2). This same amount of **\$75Million** is also generated annually from registration of the shipping companies.

3. a) Wealth creation for the Government and Nigerians through employment generation;

25 staff for 4 months per vessel multiplied by 3 shifts (replacements) = 78 staff per vessel annually, multiplied by 50,000 vessels annually = 3.9 million Nigerians employed.

3. b) Salary average of \$2,500 per staff multiplied by the total of 3.9 million Nigerians per

Month = \$9.750 Billion, multiplied by 12 months = **\$117 Billion annually** coming into the Nigerian economy.

4). Vessels coming back to Nigeria to reload, would require the following value-added services;

a). Food Supplies; \$35,000 per vessel monthly, multiplied by 50,000 vessels = \$1,750 Billion Monthly, multiplied by 12 months = **\$21 Billion annually**.

b). Bunker fuel for vessels; smallest vessel take at least 3,000 tons of bunker fuel each voyage at the cost of \$350 per vessel = \$1, 50,000 Million per vessel, multiplied by 50,000 vessels = **\$52.5 Billion per voyage**.

With the above simple analysis, Nigeria has been losing over **\$190.650 Billion annually** for several decades, but would start gaining same and more if this submission is adopted in the on-going Petroleum Industry Reform Bill.

5). Other areas of value adding activities include monthly supply of minimum of 3,000 litres of prima and 5,000 litres of marines finishing coat per vessel on board monthly, paints and manpower for each vessel, under the IMO (International Maritime Organisation) regulation, to which flag states must ensure compliance.

This would also generate millions of dollars and high volume of jobs for Nigeria and her citizens.

Apart from the financial and job analysis of the benefits accruable to Government and people of Nigeria, the following general benefits would abound;

1. Development of Nigeria's Shipping Tanker Fleet, associated transfer of technology, control of the mechanics of sea transportation and capacity development; this would ensure awareness of market trends and customer knowledge.
2. Provision of ready and available tanker fleet; this would afford Nigeria the strategic advantage of controlling the direction of its trade.
3. National, regional and international strategic considerations; freight supply would also be assured in emergencies, such as international or regional conflicts, blockades or sabotage. The US, Great Britain, and of recent, Iran and Iraq are good testimonies of this during their various conflicts, and this cannot be ignored in the consideration of emerging global, and regional realities, and Nigeria's growing regional and international influence in the comity of nations.
4. Significant boost to the Nigerian banks' balance sheets in terms of good quality earning assets.
5. Significant growth opportunities for the Nigerian Capital Markets, since the resulting fleet assets would of necessity be listed on the exchange.

REQUIREMENTS FROM THE FEDERAL GOVERNMENT OF NIGERIA TO ENSURE THE ENABLING ENVIRONMENT FOR THE REALIZATION OF THE PROPOSED REFORM:

1. Government should ensure through policy mechanism or legislation, that cargo owners give preference to Nigerian Flag Vessels to load dry cargo abroad, which is Nigeria bound,

before foreign flags. By so doing, Government would be encouraging ship owners take up Nigerian flags, because this reduces demurrage, encourages Nigerian flags and discourages foreign flags.


2. Port dues should be reduced for Nigerian flags; this would encourage preference for Nigeria flags and ports usage.
3. Reduction of cost of bunkering for Nigerian flags, by 10% cheaper than the international price.
4. Nigerian flags at home ports should be given preference to discharge and load before foreign flags; this would encourage ship owners to prefer Nigerian flags to other foreign flags.
5. Government should dredge Nigerian ports to allow big vessels come in.
6. Repair the roads leading the terminals for easy and safe access.

CONCLUSION:

The proposed Bill for the reform of the Petroleum Industry is urgently needed and long over-due to reposition Nigeria for a more effective and prosperous Nation, for the common good of all her citizens; hence this memoranda. MO Energy Ltd, Petro Star (Nig) Ltd and other patriotic stakeholders in the industry wish the chairman and the members the wisdom and courage to do justice to the Bill, by making sure that our memorandum is considered and adopted.



For: MO Energy Limited
Jeff OKoli



For: Petro Star (Nig) Ltd
for: Elias A. Daaboul