

AGIP

**MEMORANDUM ON THE REVIEW OF A BILL FOR AN ACT TO ESTABLISH THE
LEGAL AND REGULATORY FRAMEWORK, INSTITUTIONS AND
REGULATORY AUTHORITIES FOR THE NIGERIAN PETROLEUM
INDUSTRY, TO ESTABLISH GUIDELINES FOR THE OPERATIONS OF THE
UPSTREAM AND DOWNSTREAM SECTORS AND FOR THE PURPOSES
CONNECTED WITH THE SAME
(THE PETROLEUM INDUSTRY BILL – SB.236)**

**DELIVERED TO
HOUSE OF REPRESENTATIVES NATIONAL ASSEMBLY
BY
Nigerian Agip Oil Company, Nigerian Agip Exploration and
Agip Energy and Natural Resources**

**Distinguished Chairman and Members of this esteemed Committee, all
other protocols observed**

We thank you for your kind invitation and for the opportunity to present our views at this public hearing and contribute to a consultative process of this very important reform and legislation under consideration by this Committee.

A review of the petroleum and gas laws in Nigeria is really welcome and appreciated by our Company, 40 years after the Petroleum Act. We believe it is advisable at this stage to have a new and comprehensive regulation in Nigeria to encourage and sustain the growth of the oil and gas business for the benefit of all Nigerian citizens.

Naoc has been present in Nigeria since 1962 with a significant contribution to the oil and gas production of the Country. NAOC gross operated production is at the moment about 250,000 boepd, out of which a large portion of gas reserves is dedicated to supply the domestic market, and to power generation.

Throughout its history, which dates back to the early 60's NAOC has always engaged constructively the FGN in a spirit of open and transparent dialogue and with the humility to listen to the aspirations of the Nigerian Government and meet them as much as possible. This constructive dialogue is one of the reason of NAOC's story in Nigeria which is paved by a number of firsts such as the production from the deep off-shore started in 2003 with Abo field (OML 125), the start up of the first high efficiency power plant in 2005 (Okpai IPP) which represents a significant part of the National electricity supply, the service contract with NNPC on Agbara field (OML 116) and then with NPDC (OML 119) which is now the operator of the field.

We are utilizing 80% of the associated gas and we are planning to reach zero gas flaring in the short/medium period. Finally we have implemented Corporate Social Responsibility (CSR) and social projects such as the Green River project, Roll-back malaria, microfinance scholarships, and health infrastructure.

We remain committed to Nigeria, intend to continue maintaining this mutually beneficial relationship and invest in this Country. For this reason we are here today to respectfully present to this distinguished audience our comments on the PIB as well as our proposal on how it should be amended to meet the aspiration of the FGN, to adapt the Nigerian oil and gas industry to a context which has changed over the last 40 years, while setting the conditions for a new cycle of economic and social growth.

Naoc broadly supports FGN desire for a change in the Industry and would endorse change through the means of the PIB. The PIB under discussion is a good first step in a consultative process towards industry reform and Naoc would welcome the opportunity to work with Government and Industry to finalize a Bill which will sustain and support the Nigerian economy growth.

While we support the reform of the oil and gas sector through the PIB, we have some concerns on the text of the reform.

Naoc believes the proposed Bill will not deliver the FGN targets. The reform will not lead to sustainable oil and gas production or to growth in reserves, including domestic gas for power generation.

The increased fiscal burden of the Bill will make Naoc's plans for power development and gas supply to the domestic market unsustainable. The Naoc business in Nigeria will be seriously affected from the PIB and many projects will not be able to generate sustainable economic returns.

The PSC Deep Water projects, which represent about 50% of our production and require significant technical skills, technologies and investments, will not be sustainable and impact adversely on the required production target of the Country.

In addition such provisions will seriously hinder new exploration investments.

PROPOSED ALTERNATIVE SOLUTIONS FOR THE ACCOMPLISHMENT OF REFORM ASPIRATIONS

Naoc supports the expansion of the tax and revenue base for both government and industry. The best way to increase Government revenues is by encouraging investments in new developments thereby increasing the tax base.

Naoc agrees and supports the Industry concerns and recommends the introduction of the following amendments in the reform:

1. Gas projects

In the absence of market prices for domestic gas, fiscal enablers, particularly cost or tax consolidation of gas with oil revenues and reduced royalties, are required to make gas projects economic and to encourage growth of the sector. Current gas domestic low prices require both consolidation at corporate level and progressive price increase to support gas development.

In order to accelerate gas development in Nigeria, enablers such as gas or investment allowances, time-limited royalty waivers are required.

2. PSC Deep Water

Progressive PSC fiscal terms will provide sustainable investment environment for low prices, and increased government take in a high price scenario
New PSC investments must generate acceptable economic return – high technical costs and smaller field sizes challenge

2. JV

The JV business cannot bear additional fiscal burden (royalty or taxes) as it is already one of the more onerous fiscal environments globally.

A JV level taxation instead of a tax account for every license is demanded.

A JV level taxation may not only be an instrument to sustain and grow the government take on long term basis. It also helps to reach a scale of operations necessary to efficiently and effectively develop and produce the hydrocarbons resources of Nigeria, and to keep up the capacity to acquire external financing.

3. Incorporated Joint Ventures

A key towards achieving the objective of resolving the long term industry funding challenges is to make the I-JVs capable of securing financing. The I-JV in the form proposed in the Bill will not be able to acquire external financing affected by the increased government take arising from the new fiscal regime. Governance rules and balances of the existing unincorporated JVs need to be preserved.

Finally, we recommend that the demonstrated track record of operational and technical excellence of existing operators should be recognized and maintained.

CONCLUSION

Distinguished Chairman and members of the Committee we thank you for your attention to our memorandum and for the opportunity given to NAOC to present this document to you.

Naoc would like to close by reiterating the fact that we appreciate the FGN willingness to enact the Bill nonetheless we would appreciate if you could consider addressing our inputs in the subsequent review of the PIB.

We would welcome the opportunity to cooperate with you to best progress the PIB, and look forward to providing further information and clarification on our proposals if needed.

Respectfully yours,

Ciro Antonio Pagano
Vice Chairman/Managing Director

Abuja, July 29th 2009