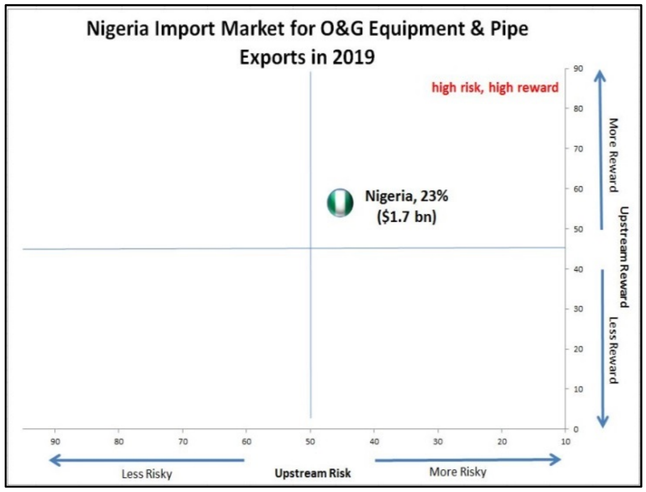
2016 Top Markets Report
Upstream Oil and Gas Equipment
Country Case Study

Nigeria

Overall Rank: 25

Nigeria's large hydrocarbon resources hold significant potential for U.S. exports, but existing aboveground risks have caused uncertainty for greater development of Nigeria's O&G sector. Regulatory issues, security concerns and corruption have contributed to declining investment in O&G projects in recent years and have challenged the Nigerian government to balance its revenue and its investment needs. It is expected that the government will consider more flexible regulatory reforms to stimulate increased investment and to support greater development of the O&G sector. President Buhari has also undertaken reforms to improve security and combat corruption within Nigeria's O&G sector, which should also contribute to a more predictable business environment. The impact on Nigeria's O&G equipment market from Buhari's reforms, however, may be muted due to the low price of oil and the prospect for a depressed market in 2016.



Background

Nigeria is the largest oil producer in Africa and has an estimated 28 billion barrels of proven crude oil reserves. Despite declining production in recent years, the Nigerian government aims to increase oil production in the coming years. Nigeria has the largest natural gas reserves in Africa and was the fourth largest world exporter of liquefied natural gas (LNG) in 2014. To meet rising domestic consumption and maintain current levels of LNG exports, the country's natural gas production is expected to rise by almost 25 percent to 46.7 Bcm per year in 2019.

The majority of O&G projects in Nigeria are funded through joint ventures (JVs) between international oil companies (IOCs) and the Nigerian National Petroleum Corporation (NNPC), with NNPC as the majority shareholder. Deepwater projects are usually managed through production-sharing contracts with IOCs and have more attractive fiscal terms to incentivize investment. The Nigerian government is currently in the process of restructuring NNPC and unbundling the vertically integrated company.

Market Analysis

Nigeria represents a small-sized global import market for O&G field equipment. In 2015, Nigeria was the 24th largest destination for U.S. exports of O&G equipment, with $234 million in exports (less than 1 percent of global U.S. exports). U.S. exports of O&G equipment to Nigeria peaked in 2007 at over $500 million and declined in recent years due to an unfavorable investment environment and the introduction of strict LCRs in 2010. While we expect that U.S. market share in Nigeria will increase by 2019, we do not anticipate that U.S. exports of O&G equipment will reach levels similar to those of 2007 in the forecast period.

In 2014, the United States was the second largest source for Nigerian imports of O&G equipment, holding a 17 percent market share. South Korea was the largest source for Nigerian imports of O&G equipment, with a 32 percent market share and $536.8 million in exports. Nigeria's largest imports were floating or submersible drilling or production platforms (34 percent of imports) and non-stainless steel line pipe (13 percent). In 2015, the largest U.S. exports to Nigeria were floating production platforms, machinery/mechanical appliances and parts for boring or sinking machinery, which represented more than 60 percent of total U.S. exports of O&G equipment to Nigeria.

Policy Context: Challenges and Opportunities

ITA anticipates the investment environment for Nigeria's O&G industry will become more hospitable as new regulatory framework is considered and as progress is made through President Buhari's anti-corruption and security initiatives. Aboveground impediments such as regulatory issues, security concerns and corruption continue to slow new O&G project development in Nigeria. Regulatory issues including strict local content requirements (LCRs) and the Petroleum Industry Bill (PIB) pose fiscal and operational challenges to U.S. companies working in Nigeria. In addition, security concerns, such as oil theft and pipeline attacks, and pervasive corruption within the O&G sector discourage international investment in Nigeria's O&G industry. Furthermore, restricted access to the U.S. dollar for foreign exchange is also a challenge to international investment in Nigeria's O&G industry.

Strict LCRs limit the amount of U.S. O&G equipment exports to Nigeria. Companies undertaking O&G projects are subject to LCRs for goods, services and labor ranging from 45 to 100 percent. In addition, requirements to hire Nigerian workers and deposit 10 percent of annual profits into a Nigerian bank pose operational challenges to U.S. companies working in Nigeria. Additional regulatory constraints are outlined in the country's *Oil and Gas Content Development Act of 2010*, which is intended to increase Nigerian participation in the O&G industry and retain greater economic benefits from oil production.

New legislation to replace the fiscal and regulatory reforms outlined in PIB has yet to be drafted but will likely include more favorable conditions for investors in an effort to increase government revenues and minimize the effects of declining crude oil prices on the economy. The Nigerian government has proposed fiscal and regulatory reforms through PIB, including a strict fiscal regime with increased royalties, higher taxes and potential renegotiation of contract terms with IOCs. The prolonged consideration of PIB, however, has created regulatory uncertainty and discouraged new investment. To address these concerns, the government recently split PIB into two draft laws in the hopes that separate pieces of legislation will be more easily passed through the National Assembly and support greater regulatory stability in the sector. The current terms under consideration would likely make large-scale upstream oil projects in Nigeria (particularly capital intensive deepwater projects) economically unattractive for U.S. upstream O&G companies.

In addition to regulatory challenges, U.S. companies operating in Nigeria face security concerns and corruption. The presence of Boko Haram and new groups threaten O&G projects in the northeast of the country, but does not impact projects in the south, where the majority of Nigeria's O&G deposits are located. Onshore projects in Nigeria, however, are vulnerable to oil theft and pipeline attacks, and offshore projects may be targeted by piracy. In recent years, security concerns have led IOCs to leave projects in Nigeria. In addition, corruption remains widespread in the O&G sector, and President Buhari has admitted publicly that as much as 250,000 barrels of Nigerian crude oil are stolen daily.

ITA anticipates that Nigeria's fulfillment of the Extractive Industries Transparency Initiative (EITI) membership conditions as well as President Buhari's continued efforts to fight corruption and improve security will create more favorable conditions for U.S. companies operating in Nigeria. Since his election in April, President Buhari has taken steps to reduce pipeline attacks by reorganizing existing military task forces to secure O&G pipelines. He has also launched anti-corruption initiatives (independent of EITI) to regain investor trust in Nigeria's O&G industry, replacing the entire board of NNPC in July and banning 113 vessels suspected of illicit activities from lifting crude oil from Nigerian ports. In addition to efforts initiated by President Buhari, Nigeria has been compliant with EITI since 2011. As a result of Nigeria's participation in the initiative, Nigeria passed EITI-dedicated legislation, exposed outstanding NNPC debts to the federal government, published estimates of the volume of oil theft and identified weaknesses in regulatory bodies. U.S. O&G equipment suppliers may be affected by foreign exchange restrictions in Nigeria, which have led to challenges in securing the U.S. dollar for international transactions. Low oil prices and a high level of imports for consumption have significantly affected the Nigerian economy. To avoid devaluing the currency, the central bank adopted strict foreign exchange restrictions. While trade itself is not banned, the restrictions have banned dollar access for the purchase of 41 items, including steel pipes and drums.

Similar to oil projects, ITA anticipates that the investment environment for natural gas projects will improve as regulatory issues, security concerns and corruption are addressed by the Buhari administration. Due to rising domestic demand, Nigeria will need to increase natural gas production to maintain current levels of LNG exports, and it is expected that rising demand for electricity will be met through increased use of gas-fired power plants.