



Nigeria is a Mess and Getting Worse

Posted by [Dave Cohen](#) on February 19, 2006 - 4:00pm

Topic: [Supply/Production](#)

Tags: [alhaji dokubo-asari](#), [mend](#), [niger delta](#), [nigeria](#), [oil production](#), [olusegun obasanjo](#) [[list all tags](#)]

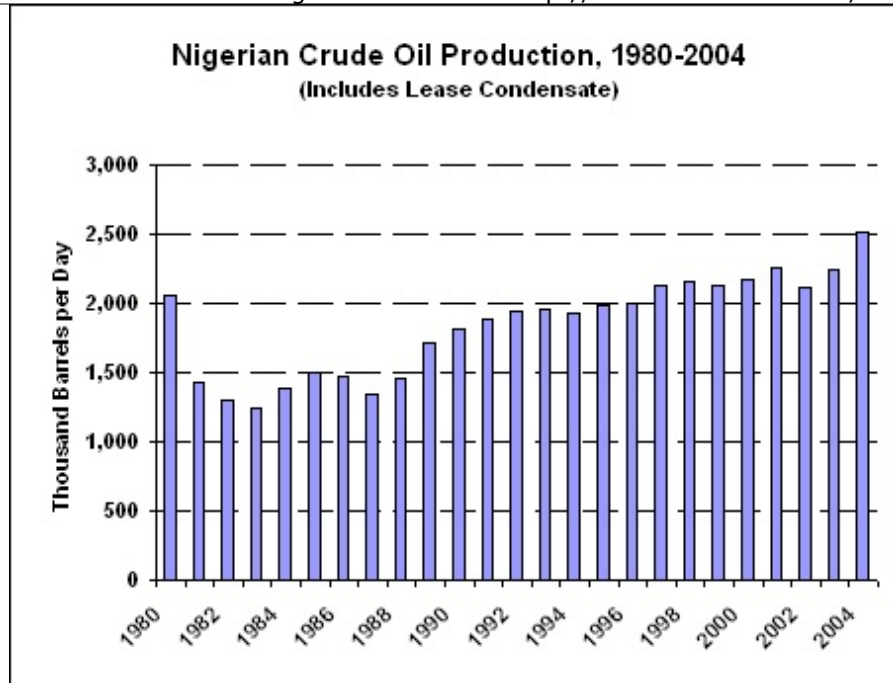
Let's take an in-depth view of the the ever-worsening potential oil shock in Nigeria and its implications for US imports and world oil prices.

First, for some background. Almost of all of Nigeria's cuurent production of about 2.6/mbpd comes from the onshore Niger Delta region shown here.



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Let's look at some basic supply and export numbers first. From the [EIA Nigeria Country Brief](#)



Most importantly, as recently as November of 2005, Nigeria was the 4th largest crude oil exporter to the US--1.163/mbpd.

Oil and Gas Journal (1/1/05) estimates Nigeria's proven oil reserved at 35.2 billion barrels. The Nigerian government plans to expand its proven reserves to 40 billion barrels by 2010. The majority of reserves are found along the country's coastal Niger River Delta, with the majority of the oil located in approximately 250 small (i.e., less than 50 million barrels each) fields. At least 200 other fields contain undisclosed reserves.

Nigeria is the largest oil producer in Africa and the eleventh largest in the world, averaging 2.5 million barrels per day (bbl/d) in 2004. In August 2004, Nigeria's finance minister announced plans to produce 2.6 million bbl/d of oil in 2005. The Nigerian government plans to increase oil production to 3 million bbl/d in 2006 and 4 million bbl/d in 2010.

Are these kinds of projections realistic at all given the escalating violence and civil unrest there?

Problems in Nigeria

The causes of unrest in the Niger Delta region are not hard to understand. But a good place to start is with Nigeria's president Olusegun Obasanjo.



*Good Friends — President Bush and Nigeria's
President Olusegun Obasanjo*

From the Christian Science Monitor article — "Yet Shell and other oil companies pay the government royalties and taxes that amounted to a whopping \$27 billion in 2004. This is one of the world's most corrupt countries, however, and much of the oil money disappears into personal accounts of officials" — naturally, the corruption starts at the top.

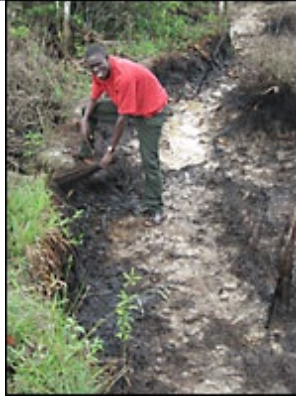
Needless to say, the ethnic groups living in the Niger Delta itself do not benefit from any of this oil revenue and thus large scale oil production stands side by side with great poverty in the region.

Next to an impoverished settlement of mud houses and rusted zinc roofs lies the Utorogu oil facility run by Royal Dutch Shell in Nigeria's oil-rich Niger Delta. As a giant tongue of flame leaps repeatedly in the wind - making a ferocious hissing sound as its fire feeds on disused natural gas from a pipeline - local women keep a respectable distance to dry their cassava flakes in its heat.

"The opportunity to dry our farm produce by this fire is the only benefit we derive from having oil in our land," said Reivu Umukoro, a 38-year-old mother of four among the women.

According to Umukoro, while oil workers who run the Shell facility and Nigerian troops who guard them live in air-conditioned comfort, the Utorogu community nearby manages without electricity, potable water, and health amenities.

There has also been substantial environmental damage in the region including natural gas flaring, ruptured pipelines and other accidents.



On July 21, 2005, the pipeline that runs near here ruptured. Streams of black goo oozed into farmers' fields and a fishing creek. Because of a complicated dispute between villagers and the major oil company in this region, Royal Dutch Shell, the oil hasn't been cleaned up. Black residue still covers thousands of plants.

Residents are angry. "We will face Shell," says village chairman Daniel Oweh surrounded by agitated young men. "The next stage will be violent."

The levels of violence are now increasing rapidly. As much as (or more than) 100/kbpd are either shut-in due to attacks on oil facilities or pipelines. The EIA has estimated that in 2004 139/kbpd of production were being disrupted on a daily basis due to attacks on oil facilities or sabotage. For example, the EIA states that "in December 2004, SPDC and ChevronTexaco suspended Nigerian oil exports of 134,000 bbl/d due to unrest in the Niger Delta. In January 2005, ChevronTexaco announced that it was losing 140,000 bbl/d of oil due to the closure of facilities in the Niger Delta". In other cases the oil is just *bunkered* (stolen) by militant groups to support their activities and buy weapons.

One important player — no doubt, a self-serving African chieftain and despot on the rise — is Alhaji Dokubo-Asari (shown at right) a prominent member of the Niger Delta Ijaw ethnic group and militant head of the Niger Delta People's Volunteer Force (NDPVF). In fact, after President Obasanjo threw him in jail last September, one of the four MEND demands after kidnapping the oil workers recently was for his release. Alhaji Dokubo-Asari seeks to create a new country in the Niger Delta, taking the oil money with it.



The situation in the Niger Delta is so chaotic and unstable that it is impossible to do it justice in a short post. However, in August of 2005 NPR's Steve Inskeep "traveled to Nigeria for two weeks to see firsthand a country of increasing importance to America's oil-driven economy". It is a series of 7 reports examining various aspects of the problem entitled [Oil Money Divides Nigeria](#). Only partial transcripts are available online but there are complete audio segments for each story available at the cited link. So if you are interested in learning more and have a broadband connection, I highly recommend that you listen to these stories. You will hear unbelievable stuff about the precarious nature of the situation there.

Violence, sabotage and kidnapping are now a daily occurrence in the Niger Delta. Oil company operations are almost all heavily fortified and protected by Nigerian army troops. The situation is a mess and getting worse. And the latest news is ominous. From the *The poverty of oil wealth in*

Nigeria's delta link cited above, we learn

"This release [of the kidnapped oil workers] does not signify a ceasefire or softening of our position to destroy the oil export capability of the Nigerian government," MEND said in an email to reporters. The group said it soon would launch fresh attacks aimed at cutting Nigeria's exports by 30 per cent in February. It warned all foreign oil workers to leave as new hostages taken by the group would not be freed....

An expert security study commissioned by Shell two years ago fingered illegal sale of crude oil as the major source of funds for illegal weapons now awash in the region. An average of 1,000 lives are being lost in the region every year due to militia violence, the report said, predicting that at the current pace of violence Shell may be forced to abandon all onshore oil production in Nigeria by 2008.

And although we have the usual assurances from President Obasanjo that all will be well,

What remains is to see how the government plans to pacify the armed militants, who have vowed that oil will no longer flow without their consent, and have mastery of the delta's maze of rivers and creeks so far impenetrable to the military.

Nigeria may not be in the same league as Saudi Arabia or Russia but it is a very important exporter to both the US and Europe and is counted on to increase exports in the future. As reported in the CS Monitor article, David Goldwyn, a former US assistant energy secretary who now consults in the region says, "the loss of more Nigerian oil could send the price to \$80 or \$95 per barrel or higher.... The likelihood of a significant disruption always has to be counted as relatively high". If MEND makes good on its promise to reduce Nigerian exports by 30% in the near future, that will have a significant affect in the US and other importers of Nigerian oil.

To put this in perspective, the 4 other largest oil exporters to the US are Canada, Mexico, Saudi Arabia and Venezuela. Mexico seems to be about to tip over into permanent declines (given Cantarell), Hugo Chavez has shown some inclination to sell his oil to China instead, Saudi Arabia has the usual uncertainties we're all familiar with and in Canada, production is flat despite the over-hyped promise of tar sands from Alberta. So, Nigeria is looking pretty important in the overall scheme of things in the near term. And the way things look now, the likelihood of a significant disruption of oil exports from Nigeria must be taken very seriously indeed in 2006.

(Original introduction has been moved down here...tied to the news of that day...)

Things are [not looking good in Nigeria](#) (also pointed out by [Leanan](#)):

Armed militants carried out a wave of attacks across Nigeria's troubled Niger delta on Saturday, blowing up oil and gas pipelines and seizing nine foreign oil workers.

[editor's note, by Prof. Goose] Originally posted 2/3.

Earlier this week, Nymex LS crude prices for March delivery surpassed \$68/barrel mostly over concerns about Iran. But that was not the only reason. In [Behind rising oil cost: Nigeria](#), the Christian Science Monitor reported that —

Unrest in the country's oil-rich delta region helped to drive crude prices this week to \$66 a barrel...



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