



KEYNOTE ADDRESS BY THE COMMISSION CHIEF EXECUTIVE

**NIGERIAN UPSTREAM PETROLEUM REGULATORY COMMISSION
(NUPRC)**

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AT THE

**LCCI PUBLIC-PRIVATE DIALOGUE ON CRUDE OIL THEFT & ARTISANAL
MODULAR REFINERIES**

(Commerce House, Victoria Island)

30th JUNE 2022

**Theme: Creating an Enabling Environment for Local Refining
(Artisanal Modular Refineries & Private Refineries)**

Protocols

Distinguished Guests, Ladies and gentlemen, It is a pleasure and honour for me to be invited by the Lagos Chamber of Commerce & Industry to deliver a keynote speech at this important Seminar. Let me quickly commend the LCCL and its executives for always setting the pace in organising regular enlightenment forums to sensitize the public on important National and economic issues. It is on record that outcomes of such engagements have played significant in shaping and influencing Government policies.

2. As the focus of this Public-Private dialogue is on **Crude oil theft and Artisanal Modular Refineries**, this keynote speech will highlight the Commission's regulatory initiatives in mitigating oil theft as well as creating enabling regulatory environment for Local Refining in Nigeria.

3. Distinguished guests, permit me to state that the illegal access to Crude oil/Condensate by economic saboteurs popularly known as “**crude oil theft**” has been affecting the oil and gas sector for over a decade, particularly the onshore/shallow water terrains. Typically, oil is stolen by vandals through either “**hot tapping**,” where an unauthorized secondary pipeline is attached to an operator’s facility (well head, flowline, or pipeline) in which oil flows under pressure OR by “**Cold tapping**,” which involves blowing up or cutting off pipelines and putting it out of use to enable illegal connections. The prevalence of “**hot tapping**” and related engineering contraptions today underscores the growing sophistication in the illegal practice.

4. It is worthy to state that an unprecedented level of theft estimated at a daily average of **103,000 barrels** was recorded in the year 2021 and **108,000 barrels in 2022**. The effect of this level of theft has resulted in the declaration of force majeure at Bonny Oil & Gas Terminal (BOGT) and shut-in of Wells

from fields evacuating through the Nembe Creek Trunk Line (NCTL) and the Trans Niger Pipeline (TNP). Similar trend has continued in 2022.

5. Ladies and gentlemen, the monumental scale of losses arising from crude oil theft has created a hostile environment and disincentive to investors in the Nigerian upstream oil sector and magnitude of divestments in the industry. Furthermore, many operators have undertaken deliberate shut-in of wells, facilities and pipelines which has further exacerbated the low production scenario. It is instructive to note that the above challenges have also impacted gas production, both for domestic utilisation and export.

6. Distinguished participants, for the earlier stated reasons, the daily combined average production in 2021 stood at 1.53 million BPD of crude oil and condensate whereas the national production potential advised by the Commission to all producers stood at approximately 2.2 million BOPD

for crude oil and 420 thousand BCPD for condensate, totalling approximately 2.62 million BPD. Consequently, only Fifty-Eight Percent (58%) of the Technical Allowable Rate (TAR) was achieved in 2021. Similar performance has continued in 2022; hence the need for more concerted efforts across all quarters to stem this tide.

7. Unfortunately, the crude oil theft, which initially reduced from about **71,000 bopd in 2012** to **21,000 bopd in 2016**, has consistently increased to an average of **103,000 bopd in 2021** and even **108,000 bopd in Q1 2022**. In the first Quarter of 2022 alone, out of about 141 million barrels of fiscalized oil production at the Nation's flow stations only approximately 132 million barrels of oil was received at the terminals. This indicates that over nine (9) million barrels of oil was lost to crude oil theft. Utilising an average cost of \$116/barrel, this amounts to a loss in Government revenue of about 1 billion United States Dollars or about 434 Billion Naira (at CBN rate

of ₦ 415/\$) in just one quarter of the year. This trend poses an existential threat to the oil & gas sector and by extension, the Nigerian economy if not curbed.

8. Distinguished ladies and gentlemen, aside from the negative impacts of production loss and associated revenues losses to both Government and investors, the associated challenges of oil theft also include the following:

- i. **Threat to National security:** non-state actors are enriching themselves with illegal proceeds of oil theft.
- ii. **Erosion of Investor's Confidence** – the investor's confidence is further threatened.
- iii. **Unemployment** – Loss of jobs in the industry and allied services due to economic strain on operators.
- iv. **Health, Safety and Environment (HSE)** – Widespread environmental degradation and health risks to dwellers in oil producing areas.

Displacement of people from heavily impacted communities and settlements.

- v. **Global Competitiveness** – Insecurity, increase in operating costs, and loss of revenues reduces the competitiveness of Nigeria in the global arena thus severely hampering investments in the country.

9. Ladies and Gentlemen, in view of the above and the ongoing effort of enabling the industry to deliver on the Government production target of three (3) Million barrels of oil per day in three (3) years, the Commission has developed some key initiatives aimed at reducing the menace to the barest minimum in the short run, and eventual elimination in the long run, such as:

- a) Roadmap for tackling the security challenges in the industry: Identification and implementing areas of collaboration between the government and operators and ensuring

that operators realize their full production potential.

- b) Collaborating with the top echelon of the Nigerian Security Forces for a robust security framework that ensures Government Security Forces (GSF) provide pipeline and asset security.
- c) Promote the implementation of Nodal surveillance technologies on the main trunk lines at each manifold for real-time loss detection that will enable swift and more proactive responses.
- d) Enforce installation of tamper detection technologies as part of designs for pipeline and related oil & gas production facilities for approval of the Commission.
- e) Ensure that Operators implement approved security protocols in areas within their control to promptly identify and remove illegal connections and conduct remedial works in record time.

10. It is worthy to note that the activities of the entire oil and gas value chain has very substantial impact on the Nation's economic well-being. To this end, a refinery revolution in terms of more modular refineries is strongly advocated by the Commission. In this wise, a modular refinery is defined by Lexology as a mini-refinery which is easier and relatively more cost-effective to build in terms of capital and time than the traditional refinery. Usually, modular refineries have installed capacities from 1,000 to 30,000 barrels per day.

11. On the issue of artisanal refining, Ladies and Gentlemen, the Cambridge dictionary defines an artisan as a person who does skilled work with his/her hands, however, the activities of artisans in crude refining in Nigeria is completely done outside the ambit of the law and absolutely below acceptable minimum standard of technology in the 21st Century. Clearly, the crude oil refining process and technology requirements are beyond the level of

artisanal activities. Consequently, the mode of operations of artisanal refiners in Nigeria poses constraints for regulation. We must acknowledge that the activities of artisanal refiners are done in a criminal manner which must at best be curbed for the preservation of the economic, health, safety, and well-being of impacted communities in particular and the country in general. Evidently, the feedstock to artisanal refineries is from crude theft, all of which create the ripple effect of national revenue reduction and a depletion of our commonwealth.

12. Furthermore, Distinguished ladies and gentlemen, you would recall the unfortunate event which occurred at Abaeze community of Imo state in April this year where over one hundred and ten (110) persons lost their lives due to activities of illegal refineries. This sad occurrence underscores the high level of risk involved in the continuous indulgence in artisanal refining activity.

13. Distinguished guests, ladies, and gentlemen, other than engage in criminal activities disguised as artisanal refining, the youth in oil producing environment could better be engage through establishment of more modular refineries and derivative legitimate activities. It is in this regard that the PIA, 2021 recognizes the immense importance of host communities and dedicated the entire Chapter three (3) of the Act to Host Communities Development. The objectives as stated in Section 234(1) of the Act are to foster sustainable shared prosperity and provide direct social and economic benefits from petroleum operations to host communities while enhancing peaceful and harmonious coexistence between Settlers (operators) and host communities.

14. Indeed, it is noteworthy that The Commission has made a tremendous stride by unveiling on 28th of June 2022, the Nigeria Upstream Host Communities Development Regulations, Procedure Guide and

Template which will serve as a navigational aid for the implementation of the Host Community Development Trust (HCDDT) in line with the provisions of Section 235 of the PIA, 2021.

15. It is noteworthy that the implementation of the provisions of Host Communities as enshrined in the PIA, 2021 will provide employment and sustainable development to the host communities. The establishment of the Host Communities Development Trust is to mitigate community restiveness as each community would take ownership in the implementation of developmental projects while ensuring a conducive operating environment for the settlers. The Act also provides that each Host Community will be held liable for any wilful destruction or actions that disrupt production activities within their community in line with Section 257(2) of the PIA.

16. This address will be incomplete without thanking the Lagos Chambers of Commerce and Industry (LCCI) and the executives for honouring us to participate in this event to further enlighten the Nigerian audience and creating awareness on the challenges of crude oil theft and proffering way forward. On our part as Nigerian Upstream Petroleum Regulatory Commission, we shall continue to create predictable and enabling regulatory environment to attract investment into the sector in the interest of the Nigerian economy and optimum utilization of our hydrocarbon resources.

Thank you for your attention.