LINKING THE OIL AND GAS INDUSTRY WITH DOMESTIC ECONOMY: AN APPRAISAL OF THE LOCAL CONTENT MANAGEMENT DEVELOPMENT POLICY IMPLEMENTATION

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Abstract

Nigeria's development is still sluggish, the nascent democracy notwithstanding. It behoves theoreticians and practitioners to chart the way forward. This review study appraises the implementation of the Local Content Policy recently introduced by the Government to effect positive changes in the oil and gas sector. Findings show that the implementation is yet to meet the expectations, eventhough the present government at the centre is determined to deliver.

Introduction

Following the discovery of petroleum in Oloibiri in the present Bayelsa State in 1956 and its subsequent commercial exploration in 1957, Nigerians shifted emphasis on economic activities from agriculture to crude oil, as petroleum became the chief source of Nigeria's national income. Thus, the production of groundnut pyramid in north, cocoa in the west and the palm produce in the east have all dwindled. Worse still, oil exploration activities have ruined the farmland in the Niger Delta region of the country, leaving the people with no alternative than desertion of the farmland in the region (Ugwu, 2009).

Of greater concern is that the domestic economy is crowded out from the crude oil and gas production, leading partially to dwindling fortunes of citizens in the local places of crude oil extraction. Nigerian youth are disenfranchised from the oil activities, which displaced the traditional agriculture, which not only witnesses very low output on the fouled farmland, but also volatile prices in domestic and international markets. Food security has, therefore, become farce.

The oil boom in the 1970s consolidated the systematic and gradual disenfranchisement from the natural resource endowment. Nigeria's oil reserves are the ninth in the world. According to Reuters (2011), "Nigerian crude oil is similar in some respects to Libyan grades and have been attracting strong interest from oil companies unable to load crude oil from the North African producer due to the uprising against Libyan Muammar Gaddafi". The CBN (2004) submitted that the Nigeria's crude, known as the Bonny Light, attracted a very high price premium and was in heavy demand outside the shores of Nigeria.

A lot has been written on the factors responsible for the disconnect of the oil and gas sector from the domestic economy, but little, if any, on the working of the Local Content Development Management Policy of the Federal Government of Nigeria, which sought to address the disconnect. This review sought to analyze the implementation of the policy thrust aimed at enhancing productivity in oil and gas sector within the domestic front. After this brief introduction, the remainder of the paper is structured as follows: conceptual issues and challenges, which discusses the resource curse theory as it applies to Nigeria, the Nigeria's local content policy, systemic challenges, the capital-intensive and sophisticated technology-driven Nigerian oil and gas sector, and the development reforms; local content dministration and challenges, which looks at the issues of quality standards, skills, competence, funding, infrastructure, and legislative framework; effects of local content deelopment management policy implementation on Nigerian economy, which examines linkages, education, pricing system, medical facilities, tax, entrepreneurship, and social; the structure on ground at the Peroleum Training Institute; findings; capabilities; support from joint vrnture companies; and conclusion.

Conceptual issues and challenges

Resource curse theory

According Perkins et al (2001: 643): "Booming Primary exports may fail to stimulate development for another more pervasive reason, which has been labeled Dutch Disease". The oil boom of 1970s and early 1980s produced similar paradoxes in some other countries of the world. While other countries learnt from their past mistakes, Nigeria has continually failed to learn from the errors of past leaders. Rather, Nigerian leaders seem to be experts at replicating the mistakes of their past leaders. This has been the bane of economic development in Nigeria.

Ahmed (2008: 29) posited that:

> *While Nigeria has been an oil and gas producing country for over 50 years, it is obvious that beyond collecting crude sales revenue and related taxes, Nigeria is at best a peripheral player in the industry, which is inconsistent with the present trends in major oil producing nations in South America, Middle East and Asia.*

The Nigerian (Local) Content Development Policy was conceived for implementation and enforcement, in order to make the expected strategic contributions in areas of economic and social development. As is the case with many impeccable policies in Nigeria, poor implementation and enforcement may lead to failure in actualising its objectives. Consequently, social malaise may continue to increase (Eneh, 2011a).

Local content policy

Local content, as defined in connection with the extractive industry, is the quantum of value added or created in a country's economy through a deliberate utilization of local human and material resources and services in the exploration, development, exploitation, transportation, marketing and sale of the country's crude oil and gas resources without compromising quality, health, safety and environmental standards. This type of business obviously would require joint venture partnerships with foreign experts as technical partners. The desired change would be in the area of ownership structure. The Nigerian Organized Private Sector (OPS) specialized in the field of oil exploration and production should bring in and partner with the technical expertriates in the processing of supplies and training the right caliber of personnel for effectiveness.

Ahmed (2008: 30) recalled that:

> *The Nigerian government, in an attempt to correct the huge capital flight in the strategic oil and gas sector, under a Nigerian content development policy developed in 2004, issued a set of directives in March 2005, to the extractive industry operators.*

The directives sought to promote utilization of labour and materials that are produced within the domestic economy. This meant the prohibition against new joint venture projects that do not substantially benefit Nigerians and indigenous companies.

The essence of Local Content Management Policy is not doing away with the non-indigenous personnel in the industry, but that the foreign partners should integrate local companies in their oil and gas activities, to the point of 50:50 terms enacted into the Act through a bill in 2010, as the only way to stimulate and create proper linkages of the oil and gas sector with the rest of the economic sector within the domestic market. This would create employment and pave way for the total privatization of the crude petroleum industry.

The Nigerian National Petroleum Corporation (NNPC), or better still another corporation, may serve as a melting pot between the oil companies and the local content suppliers. The effective implementation of the local content initiative is a *sine qua non* and a prescribed leverage and necessary structure for the deregulation of the oil and gas sector of the petroleum industry. The impact of the crude oil sector is not preponderantly noticeable in all the component parts of the domestic economy due to the insignificant linkages of the sector with the rest of the economy. It is unfortunate that the impact of the sector is only felt in all aspects of the domestic economy when the rising petroleum product prices are transmitted into the prices of all other products in the domestic market.

Systemic challenges

There are certain structural barricades that have always short-changed government's programmes and projects (Eneh, 2011b). For instance, rather than being complementary, the asymmetrical multi-ethnic differences in the Nigerian polity are diametrical and the major causes of development programme and project failures. In addition to replication of errors made by predecessors, other challenges that seem to be structurally endemic in the political leadership of the country include the placement of a square peg in a round hole, and an entrenched profligate lifestyle in the political leadership.

Tokumboh (2000: 53) stated that "One important factor giving rise to maladministration is the employment of incompetent staff, particularly to management and sensitive positions. This was the situation at the early stages in many public corporations." This is a typical example placing round pegs in square holes, which renders the ministries, departments and agencies (MDAs) dysfunctional, a mistake repeated by successive leaders in Nigeria. Even the high level of cognitive learning could not redress some of these structural defects.

Owolabi (2007: 11) posited that:

> *Economically, misallocation of resources is worsened by corruption, and government officials will not press for changes in the regulations from which they enrich themselves. In fact, officials may press for more of such regulations and license procedures hoping for more bribes.*

Corruption is an anti-development phenomenon, which aggravates income inequalities and poverty. Those who benefit from bribery, kick backs and preferential deals are not likely to be among the poorest. Corruption adversely affects economic growth, as it acts as additional monetary tax on companies, raises costs and discourages investment. Informal payments on public projects may be twice their actual cost. These are some of the reasons why government interventions and control introduces inefficiencies, in line with the neo-classical model of economic development, which asserts that any government intervention in the economy is distortionary and counter-productive. Again, also opposed to government intervention are the New Political Economy Approach and Public-choice Theory, which argue that government can do nothing right, but politicians, bureaucrats, citizens, and states act solely from a self-interested perspective, using their power and the authority of government for their own selfish ends. Corruption exerts pressure on prices within the domestic market.

In this way, it exacerbates the incidence of poverty and complicates operation of fiscal and monetary policies, thereby making them less fruitional, especially on the rising price levels. The private sector, which is judicious in the utilization of resources, is therefore, preferable as a market economy.

Capital-intensive and sophisticated technology-driven oil and gas sector

The crude oil and gas sector is capital-intensive and sophisticsted technology-driven. But, to imagine that over 50 years after the commencement of oil production in Nigeria, virtually every input is sourced from overseas, leaves a lot to be desired.The situation needs to be addressed by way of aligning the thoughts of and co-opting in proper manner the multinational oil companies, who feel reluctant to embrace the local content concept because of fear of being dispossessed of their various offshore procurement offices. There is the need for a compromise or trade-offs on both sides, especially as Nigeria's rate of capital formation is very slow, according to CBN (1995).

The essence of capital formation is to be prudent and conservative in consumption expenditures in order to leave surplus balances for investment in the future (Jhingan, 2007). Although, this is the essence of Sovereign Wealth Fund, it is reluctantly embraced by Nigerian successive administrations. A situation in which about 80% of the total federally collected revenue goes into recurrent expenditures is an aberration working against capital formation. However, the 2012 budget has a shocking reversal of the trend to cut the deficit budget to 2.77% of the GDP (from the 2.97% in 2011 budget). This is a heart-warming initiative of the present administration.

The development reforms

Initially, levels of acceptance or support for the local content policy varied from one joint venture operator to another, and have been generally very low. While some were willing to accept the policy, others were reluctant, as they saw local content as taking away the business of their various off-shore procurement offices. According to Ahmed (2008:30), despite all efforts and publicity given to Nigerian local content policy, especially with regard to the establishment of local content division within the Nigerain National Petroleum Corporation (NNPC), the placement of work orders with Nigerian companies is yet to materialize at significant levels. Some upstream oil companies are reluctant to accept Nigerian content directives issued by the NNPC, and perhaps hope that this will be one of those initiatives that will soon collapse.

The Nigerian Content Development Monitoring Board (NCDMB) was established to perform the following roles:

- Opening the Oil and Gas industry to involve the Nigerian people;
- Cementing access to Oil fields for higher productivity;
- Building capabilities in Nigeria to support increased investment in the industry.

It is expected that these roles will be expanded as new occasions or circumstance that may warrant expansion of roles emerge.

The Local Content Development Act 2010 has gradually started to garner the support and recognition of major stakeholders in the Oil and Gas Industry. For example, Shell Global has adopted Nigeria's local content model, unlike three years ago, when some upstream oil companies were reluctant to accept Nigeria local content directives issued by NNPC (Ahmed, 2008).

In another development, the management of Integrated Logistics Service Nigeria Limited (INTELS) teamed up with the NCDMB in collaboration with the Onne Oil and Gas Free Zone, a type of emporium which show-cased many of the industry stakeholders at Port Harcourt, Rivers State. The conference, which was tagged "First Practical Nigerian Content

Conference," was an opportunity for in-country capacity building, through the present administration's implementation imperative (Obi, 2011).

Since Oil and Gas is occupying a strategic position in the overall corporate interest and existence of Nigeria, the whole country will be at a very high risk, if the objective of the local content policy to streamline the local content initiative for adequate linkage with the agricultural sector in particular and the domestic economy as a whole, fails. The Extractive Industries Transparency Initiative (EITI, 2010) submitted that the Crude Oil and Gas sector accounts for over 95% of the annual export proceeds and over 80% of federal government revenue. However, it contributes marginally (40%) to the Gross Domestic Product (GDP). The low contribution of Oil and Gas industry to GDP was corroborated in CBN (2004), which reported the Non-Oil (GDP) contributions as 67.55, 67.35, 70.25, 66.56 and 67.44% for 2000, 2001, 2002, 2003 and 2004 respectively.

The low GDP contribution from the Oil and Gas sector has been traced by experts to the absence of the Local Content Act. Now that the Act is in place, the onus is on all stakeholders to play their roles creditably to ensure that the primary objective of the Act to create employment is achieved. When the productivity of the Oil and Gas Sector within the domestic economy is increased, then its GDP contribution would also be increased.

Ideh (2003) in Briggs (2008: 25) opined that "The Loss of opportunity in the days of plenty to establish an industrial foundation and afford the nation an earlier technological take off ..." is an opportunity now re-appearing as a second chance to Nigeria in the guise of Local Content Act 2010.

Local content administration and challenges

The promotion of Nigerian involvement in Oil and Gas industry is a fundamental national economic and security issue, and its implementation is imperative. It is thus, critical that the NCDMB's strategies for Oil and Gas industry operations in Nigeria should address and reflect this fundamental issue of increasing local content value-added in terms of quality without compromising international standards, as well as domiciliation of industry skills and technology. As a matter of fact, the NCDM may have to contend with a number of issues, as follows:

Adhering to high quality standards

Ultimately, businesses are managed and sustained by a combination of product capability (inferior product shall not be accepted) and prices should be competitive enough. The petroleumindustry is an international industry; hence Nigerian companies must learn and seek to develop world-class capabilities and recognition through knowledge acquisition and acquaintance with the Local Content Act requirements strategies for quick and easy integration of Nigerians into the Oil and Gas Industry.

Investment in skill and technical know-how

Presently, Nigeria is in the dearth of competent engineering and technical skills to support the Local Content delivery. In the short-run, external technical partners may need to be sought, pending future adjustment through restructuring the educational curricula to maiinstrem crude oil and gas and allied classroom and practical training. Experience has shown that Asian and East Europe countries have ducational curricula that offer skills that are comparably competitive and more cost-effective than similar skills available from Western Europe and North America. The Petroleum Training Institute (PTI), Effurun may not be able to cope with the skill acquisition training demands of the industry. Nigerian staff in the oil and gas sector may be sent abroad for training and competitive compensation, which is critical to employee overall performance and skill retention.

The federal government may have to acquiesce in the establishment of more Training Centres under the supervision of the PTI.

PTI is also expected to establish, for the purpose of achieving the local content objectives, partnership with other oil and gas companies, the type of relationship reminiscent of that existing between law schools and universities, the Institute with Brass Liquefied Natural Gas (Brass LNG), Shell Petroleum Development Company (SPDC) and Ondo State Oil Producing Development Commission (OSOPADEC), Akure. The curriculum development should encourage students of the local content in the areas of purchasing and supply and in the knowledge of how to prepare quotations and contract pricing in line with the oil and Gas sector of the extractive industries. Besides, there is the need to train the trainer. The inadequacy of lecturers in the fields of Crude Oil and Gas may hamper the short-term capability of Nigerian institutions, and needs to be addressed as well.

Commercial competence

Business relationship can only be sustainable in long-term, if and only if they are profitable. Engineering excellence only makes sense in the context of commercial viability. The essential commercial aspect here is contract pricing, payment terms, procurement of materials, and commitment to sensible and practical delivery schedules.

The 50:50 Nigerian Content requirements means the capability of Nigerians performing at the same levels as the foreign companies who have been in the business all these years (over 50 years). This has to be worked at, as these foreigners have acquired the experience and commercial competence required, but Nigeria is just about to start.

Capitalization and funding

Successful implementation of the Nigerian Content Act 2010 requires significant capital formation for re-investment into world-class manufacturing of oil field materials or consumables and a robust working capital to sustain operations. The business leaders in the local content companies must possess the maturity, experience and the will to accommodate broad shareholding, since the level of funding required will not allow the typical family company mentality.

Infrastructures

The local content development policy concept can only succeed if government and the private sector put in place adequate infrastructural facilities and the enabling environment, particularly in the areas of transportation, power and special and affordable training schools, for the desired technical and manpower development. Since the independence in 1960, Nigeria's educational system has unwittingly shied away from equipping technically inclined tertiary institutions. This has to change, if the "implementation imperatives" of the present administration will succeed in bringing to fruition the objectives of the Nigerian Content Law in order to checkmate capital flight and create employment within the domestic economy.

Legislative framework

There is the need to formulate from time to time adequate legislative framework to nurture and protect the local content companies and prevent the policy from collapsing half-way.

Effects of Local Content Development Management Policy Implementaion on Nigerian Economy

Nigerians would reap enormous benefits from the effective implementation of the Local Content Development Management Policy, especially in the area of employment generation to result from sourcing of the materials or consumables with value-adding process that calls for the employment of workers within the domestic front.

The oil and gas sector generates series of economic activities which stimulate demand in material inputs, such as chemical powders and liquids that may or may not be produced locally. The process of producing or procuring these inputs which are critical to oil exploration and drilling requires the engagement of labour. Consequently, we shall discuss the employment creation in the form of linkage of the crude oil sector with the various economic units in the host country.

Linkage effects

Perkins et al (2001: 628) asserted that:

> *Another potential benefit from primary product export is the possibility of stimulating from production in other related sectors. Indeed, the very notion of export-led growth implies that exports would lead to more broad-based economic growth.*

The possible linkages may be upstream (forward linkage) or downstream (backward linkage) industries, increased production of consumer goods, enhanced infrastructure, more widely available skilled labour, and increased government revenues.

For over 50 years of oil production, Nigeria has witnessed retarded development resulting from the failure of the Oil and Gas industry to properly link up with the rest of the country, in particular the agricultural sector. With the agriculture sector employing about 70 percent from the labour market and about 42 percent contribution to GDP, the adequate linkage with this all-important international primary export commodity would place Nigeria on the long-wait path to industrialization. What is now required is for the stakeholders to work as a team with common national interest to bring the dreams of the national integration and development through the local content management policy to fruition.

Educational Effects

The Oil and Gas sector of the extractive industries is sophisticated technology-driven. The training workload in the PTI, Effurun, may expand in terms of increased curriculum content in the areas of purchasing, supply and stores management. The course contents may be increased to also include the different types of consumables (materials) that are majorly used in the oil and gas business, as well as the inclusion of how to prepare viability and feasibility studies, the contract pricing techniques and format, and how to ultimately meet delivery schedules. The nature of the industry may not be business as usual in the orientation of a typical civil service delivery, but essentially differs in all ramifications, as world-class standards must be met.

The educational workload may also need to be extended into existing tertiary institutions, icnluding the polytechnics and universities of science and technology. The foreign technical partners (FTP) may opt for opening more training schools to improve the skills of local personnel.

Effects on pricing system

The local content monitoring policy, when completely implemented and institutionalized, may lead to market oriented pricing system that may spill-over to other-related markets in the domestic economy. If the roles of the foreigners are properly integrated into the policy, the effects of corruption in bloating contract prices may be minimized, since it would not be under the control and influence of corrupt bureaucrats.

Effects on medical facilities

There is a high tendency that medical services will increase in terms of number and quality as incomes increase and the oil companies may have their own clinics with better facilities and world-class services. The expatriate may not seek to patronize local medical services due to the preponderance of fake drugs in most patent medicine shops.

Effects on tax revenue

The state government revenue will increase, as many firms registered as suppliers under the local content initative would pay taxes on their taxable revenues. Documents showing evidence of payment of taxes may have to be part of the documentations necessary for each year's contract renewal, an oversight function of the NCDMB.

Entrepreneurial opportunity effects

Many small and medium sized firms would emerge as the number of suppliers to oil and gas industry increases. Young graduates interested in acquiring knowledge and skills on how to service the crude petroleum industry may be employed in the registered firms or enter into the main supply chain.

Social effects

The local content may serve as a tranquilizer to the already overheated social environment due to the youth restiveness. The Nigerian content initiative of oil and gas sector of the extractive industries would, no doubt, create many opportunities for employment. This may keep some of the employed youths very busy in the oil well locations and no more time for any form of social malaise. When the youths are idle, they create more trouble, since an idle mind, they say, is the devil's workshop. Depending on the type of market that may emerge, if it is open to entry and competitiveness, the impact would be felt all over the country and activities of the Yahoo boys (scammers) may be reduced drastically.

Petroleum Training Institute (PTI): Structure on ground

According to the Petroleum Training Institute (PTI) (www.ptinigeria.org, 2011):

> *The Petroleum Training Institute (PTI) where our objective is to deliver quality education and provide efficient technological man-power to build a competent and committed workforce that will sustain and service the continental oil and gas industry. The institute is also poised to become the best in using state-of-the-art information technology infrastructure for effective service delivery.*

The PTI was not fashioned *ab initio* toward Nigerian content policy. PTI may have to upgrade and establish more outlets for clearing and perfection of technically and technologically trained graduates. The errors of over-ambitions of our past leaders by thinking and believing that technically trained persons, who may even have better chances of being employed into the oil and gas industry, are inferior to university graduates, who though are degree holders, may have slim chances of employment in the industry of our focus, is a travesty of knowledge and learning. The government's sympathy for the teeming unemployed graduates can only be justified through repositioning the technically inclined graduates into their proper place in the Nigerian polity. The hope of enlisting Nigeria among the comity of industrialised nations may be realised through effective implementation implementation of the local content initiative.

Recommendations

While the conception of mainstreaming Nigerians into the Oil and Gas Sector, it noteworthy that certain critical issues need to be resolved:

- Preparing Nigerian educational system to meet up with the training capabilities for world-class standard in the Oil and Gas industry.
- The school curriculum needs to be adjusted to make for the technical and technological development needs of the industry.

- Teachers/instructors/trainer need training to handle the crude petroleum studies.

Conclusion

The policy decision to link the Oil and Gas Industry with the domestic economy is a *sine qua non* for the long awaited industrial take-off in Nigeria. However, the lacuna in the institutional structures may impinge on the sustainability of the policy. Although, the present government drive is quite promising and plausible in fast-tracking the development reforms in the downstream Oil and Gas Sector, there is the dire need to restructure and reform the educational typology in cognizance of the hitherto relegated technical and technological education. Nigeria needs the type of will-power the Asia Tigers employed for reformation and transformation.

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