

## AFRICA RISK CONSULTING

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**Senate president Abubakar Bukola Saraki challenges vice president Yemi Osinbajo, the acting president in President Muhammadu Buhari's (2015-present) absence, as part of manoeuvring to succeed Buhari. The Nigerian National Petroleum Corp (NNPC) signs a \$700m offshore joint venture with Schlumberger Ltd amid improved security in the Niger Delta and increased clarity over regulatory terms after the senate passes the Petroleum Industry Governance Bill (PIGB). The Central Bank of Nigeria (CBN) publishes first quarter capital importation data showing that total imported capital increased 28% year-on-year.**

#### Relationship between presidency and senate deteriorates

The absence of President **Muhammadu Buhari** (2015-present) has increased long-standing tensions between the presidency and the senate.<sup>1</sup> The dispute suggests Buhari may find it difficult to re-energise his legislative agenda on his return from **London (United Kingdom)** where he remains on medical leave.<sup>2</sup> President Buhari has been in London since 7 May receiving medical treatment for an unspecified condition.<sup>3</sup> There is continued speculation that President Buhari may have received treatment for a brain tumour.<sup>4</sup> First lady **Aisha Buhari** announced on 3 July that she would visit her husband in London the following day. The opposition has claimed that the lack of prior notice about Aisha Buhari's visit indicates that her husband's health is in decline. Aisha Buhari last visited President Buhari in early June when she said she expected her husband to make an imminent return to **Nigeria** as he is "*recovering fast*".<sup>5</sup> The government continues to refuse to provide additional information about Buhari's health, prognosis, or the reason for his longer than expected stay in London. The continued silence has damaged the credibility and stability of the ruling **All Progressives Congress (APC)** ahead of the 2019 election,

*"Buhari's prolonged absence from the scene is a major blow for the APC at this midway point in his administration. Critics are having a field day calling for his resignation and reminding Nigerians about how he had called for late President **Umaru Musa Yar'Adua** (2007-2010) to stand down due to his ill health. Keeping the APC united and together through these turbulent times is a task that needs to be faced headlong because it is more than likely that overtures are being made to key figures from the north to shift camp and perhaps run for president in 2019 to maintain the delicate power rotation balance. These issues and factors alongside other critical ones will shape events in the country over the next few months."*<sup>6</sup>

In Buhari's absence, the tense relationship between the presidency and the senate has deteriorated further. The tension originated with the election of **Abubakar Bukola Saraki** as senate president in June 2015. While Saraki is a member of the APC, he did not have the backing of the APC and required opposition **People's Democratic Party (PDP)** support to win. Saraki has proved himself an "*accomplished diplomat*"<sup>7</sup> in subsequent disputes between the presidency and the senate over the

<sup>1</sup> Source, political analyst, Lagos

<sup>2</sup> Vanguard, 4 Jul 2017.

<sup>3</sup> Vanguard, 4 Jul 2017.

<sup>4</sup> Source, private sector executive, Nigeria

<sup>5</sup> Reuters, 29 Jun 2017.

<sup>6</sup> Source, political analyst, Kaduna

<sup>7</sup> Africa Confidential, 12 May 2017.

pace and direction of the government's legislative agenda. This has delayed or derailed key pieces of legislation including the **Petroleum Industry Bill (PIB)** (see below). Saraki, alongside former **Lagos State** governor **Bola Tinubu** and former vice-president **Atiku Abubakar**, are also the frontrunners within the APC to succeed Buhari should he stand down, die in office, or decide not to contest the 2019 election.<sup>8</sup> The weakening or replacement of Osinbajo would bolster Saraki's chances. He is a key political ally of Tinubu as he was Lagos State attorney general under him.<sup>9</sup> It was Tinubu who secured Osinbajo's appointment as vice president.<sup>10</sup> There are also members of the APC who continue to back Buhari and are seeking to undermine Osinbajo.

*"There are those who want Osinbajo to be seen as less effective so that he does not take the shine off his boss [Buhari] and get credit for achieving things."<sup>11</sup>*

As part of this maneuvering to succeed Buhari, Saraki has looked to weaken or replace Osinbajo, the acting president in Buhari's absence.<sup>12</sup> According to the 1999 constitution, should the president be incapacitated or die, the vice president assumes the office. The trigger for the dispute between Saraki and Osinbajo is the permanent appointment of acting **Economic and Financial Crimes Commission (EFCC)** chairman **Ibrahim Magu**.<sup>13</sup> The senate has twice rejected Magu's nomination to become the permanent EFCC chairman.<sup>14</sup> However, Osinbajo argued in April that senate approval is not constitutionally required for the head of the EFCC.<sup>15</sup> The senate convened to discuss Osinbajo's nomination of **Lanre Gbajabamila** as **National Lottery Regulatory Commission** director general on 4 July.<sup>16</sup> However, senators interrupted the nomination hearing, alleging that Osinbajo has disregarded the senate by refusing to remove Magu or retract the comments he made in April.<sup>17</sup> The senate subsequently threatened on 4 July to refuse to consider all presidential nominations until Osinbajo removes Magu from the EFCC.<sup>18</sup> This may hold up a speculated cabinet reshuffle that may take place on Buhari's eventual return to Nigeria.<sup>19</sup>

Osinbajo has reportedly said that Magu will remain at the EFCC under the Buhari administration.<sup>20</sup> Magu is particularly popular with APC supporters as he has acted as a figurehead for anti-corruption investigations into members of the former President **Goodluck Ebele Jonathan** (2010-2015) administration.<sup>21</sup> Saraki, however, is personally hostile towards Magu. As EFCC chairman, Magu reportedly has *"built up a substantial dossier"*<sup>22</sup> on the **Societe Generale Bank of Nigeria**, which the Saraki family owns.<sup>23</sup> Magu also oversaw the EFCC's case against Saraki for falsely declaring his assets when, as **Kwara State** governor at the time, he was first elected to the senate.<sup>24</sup> The **Code of Conduct Tribunal** dropped the charges against Saraki on 14 June.<sup>25</sup>

<sup>8</sup> Source, political analyst, Lagos

<sup>9</sup> Source, political analyst, Lagos

<sup>10</sup> Source, western diplomat, Lagos

<sup>11</sup> Source, political analyst, Kaduna

<sup>12</sup> Daily Trust, 10 Jul 2017.

<sup>13</sup> Daily Trust, 10 Jul 2017.

<sup>14</sup> Daily Trust, 10 Jul 2017.

<sup>15</sup> Daily Trust, 10 Jul 2017.

<sup>16</sup> Daily Trust, 10 Jul 2017.

<sup>17</sup> Daily Trust, 10 Jul 2017.

<sup>18</sup> Daily Trust, 10 Jul 2017.

<sup>19</sup> Source, political analyst, Lagos

<sup>20</sup> Daily Trust, 10 Jul 2017.

<sup>21</sup> Daily Trust, 10 Jul 2017.

<sup>22</sup> Africa Confidential, 12 May 2017.

<sup>23</sup> Africa Confidential, 12 May 2017.

<sup>24</sup> Source, political analyst, Lagos

<sup>25</sup> Premium Times, 14 Jun 2017.

Osinbajo and Saraki have held a series of backroom meetings, facilitated by APC governors, to end the dispute but the outcome is uncertain.<sup>26</sup> The APC governors are also not disinterested observers in the power struggle. According to a source within the party,

*"The APC governors are moving to seize the political reins of the party, since the president has failed or is unable to provide leadership for the party at the national level. With the situation of things – health of the president and poor approval rating – if they do not take over the reins of the party now and make it very viable, they will be swimming in troubled waters by 2019."*<sup>27</sup>

According to a second source,

*"I think it is disingenuous and irresponsible for anybody to talk about whether President Buhari will run for the 2019 elections at this point in time. Our attention and focus should be on governance. I also believe that the issue of grooming a successor does not even arise. Our electoral processes are anchored around political parties. It is political parties that sponsor candidates for elections. So, it is the responsibility of the APC as a political party to groom candidates for elections. It is not the responsibility of the president to groom candidates for elections. The responsibility of a president is to lead the country and lead the country well. But the APC is not short of successors to the president in case anything happens."*<sup>28</sup>

Local media has speculated that Saraki might look to impeach Osinbajo over his alleged disregard for the constitution over the Magu appointment. Any impeachment effort is unlikely to succeed. In Buhari's absence, Osinbajo has developed a positive reputation for delivering investor friendly reforms which have reassured the APC business elite in **Lagos** that the government understands their economic concerns (see *ARC Briefing Nigeria February 2017*). However, the longer-term picture is unclear. In March, Buhari appointed Osinbajo to head a committee to improve relations between the government and the national assembly, but it has yet to achieve tangible results. It is unclear if the ongoing dispute has ended attempts to facilitate improved relations between the presidency and senate which are central to accelerating Buhari's legislative agenda.

### **NNPC signs \$700m joint venture with Schlumberger**

The state-owned **Nigerian National Petroleum Corp (NNPC)** announced on 29 June that it has reached agreement on a \$700m joint venture to develop new shallow offshore oil fields in the **Niger Delta**.<sup>29</sup> The joint venture is indicative of increased investor confidence in the oil sector due to improved security in the Niger Delta, with a marked decline in theft and militant attacks. The NNPC reached the agreement with Lagos-based **First Exploration and Petroleum Development Co** and **France**-based oil and gas services company **Schlumberger Ltd**.<sup>30</sup> The joint venture covers the **Anyala** and **Madu** fields under oil mining licences (OMLs) 83 and 85.<sup>31</sup> The NNPC will hold a 60% interest in the licences and field operator First Exploration and Production the remaining 40%.<sup>32</sup> According to the NNPC, Schlumberger has agreed to provide \$700m in financing and services to develop the fields.<sup>33</sup> The NNPC said the fields have estimated reserves of 193 million barrels of crude and 800 billion cubic feet of gas.<sup>34</sup> The NNPC expects field development completion in early 2019.<sup>35</sup> Once online, the fields will produce 50,000 barrels of oil and 120 million standard cubic feet of gas daily.<sup>36</sup>

<sup>26</sup> Source, political analyst, Lagos

<sup>27</sup> Source, APC insider, Abuja

<sup>28</sup> Source, constitutional lawyer, Abuja

<sup>29</sup> Bloomberg, 29 Jun 2017.

<sup>30</sup> Bloomberg, 29 Jun 2017.

<sup>31</sup> Bloomberg, 29 Jun 2017.

<sup>32</sup> Bloomberg, 29 Jun 2017.

<sup>33</sup> Bloomberg, 29 Jun 2017.

<sup>34</sup> Bloomberg, 29 Jun 2017.

<sup>35</sup> Bloomberg, 29 Jun 2017.

<sup>36</sup> Bloomberg, 29 Jun 2017.

Improved security has resulted not just in increased investor activity but also in increased output. International media reported on 22 June that preliminary loading plans for August suggest that crude oil exports will reach a 17-month high in August.<sup>37</sup> Increased oil export receipts will reduce pressure on both federal and state government finances. Crude oil exports are expected to reach 2.02 million barrels per day (bpd) on 67 cargoes, with an additional 97,000 bpd of Akpo condensate.<sup>38</sup> The August export level compares to 1.84 million bpd planned for July, with loading delays pushing a number of shipments into August.<sup>39</sup> This is the highest level of exports since March 2016 when a militant attack on the **Trans Forcados Pipeline** the previous month suspended Forcados exports.<sup>40</sup> UK-based **Royal Dutch Shell Plc** lifted force majeure on Forcados this month, though imposed force majeure on Bonny Light after an export pipeline leak resulted in 10-day-long loading delays.<sup>41</sup> Nigeria is exempt from the present **Organization of the Petroleum Exporting Countries (OPEC)**-organised production cuts.

In addition to improved security, greater certainty over regulatory terms will further unlock foreign investment in the sector, especially in capital-intensive deepwater projects. The joint venture comes a month after the senate passed the **Petroleum Industry Governance Bill (PIGB)** on 25 May.<sup>42</sup> The PIGB is one of three pieces of legislation that have replaced the unbundled PIB.<sup>43</sup> The PIGB focuses on improving transparency and governance in the sector to curb corruption.<sup>44</sup> The PIGB provides for the establishment of a new regulatory agency, the **Nigeria Petroleum Regulatory Commission (NPRC)**.<sup>45</sup> The NPRC will oversee and enforce compliance with oil sector policies and regulations.<sup>46</sup> The NPRC will absorb the functions of the **Petroleum Inspectorate**, the **Department of Petroleum Resources** and the **Petroleum Products Pricing Regulatory Agency**.<sup>47</sup> The NPRC will also have responsibility for decision-making currently held by the president and petroleum resources minister to curb the powers of individual office holders.<sup>48</sup> The PIGB prepares for the unbundling of the NNPC into two entities: the **Nigeria Petroleum Assets Management Co (NPAM)** and the **National Petroleum Co (NPC)**. The NPC and the NPAM will absorb the assets and liabilities of the NNPC. The NPAM will manage production sharing contracts (PSCs) and service agreements.<sup>49</sup> The NPC will manage the state's interest in joint ventures but as an independent commercial entity.<sup>50</sup> The senate will now send the PIGB to the house of representatives, which if it approves the bill, will send it to Buhari for ratification. The other two pieces of legislation unbundled from the PIB are the **National Petroleum Fiscal Policy** and the **Host Community Development Fund Bill**.

State petroleum minister **Emmanuel Ibe Kachikwu** set out the government's three-pronged strategy to end petroleum product imports by 2019 on 19 June.<sup>51</sup> Petroleum self-sufficiency will reduce pressure on foreign exchange, create employment, and curb opportunities for corruption. According to Kachikwu, the first component of the strategy is securing financing for rehabilitating and upgrading the **Port Harcourt, Warri and Kaduna** refineries to increase and stabilise petroleum supplies.<sup>52</sup> Kachikwu estimated the cost of the requisite investments at \$1.2 billion, and said that unnamed investors have expressed interest.<sup>53</sup> The second component is improving government support for

<sup>37</sup> Reuters, 22 Jun 2017.

<sup>38</sup> Reuters, 22 Jun 2017.

<sup>39</sup> Reuters, 22 Jun 2017.

<sup>40</sup> Reuters, 22 Jun 2017.

<sup>41</sup> Reuters, 22 Jun 2017.

<sup>42</sup> Vanguard, 25 May 2017.

<sup>43</sup> Vanguard, 25 May 2017.

<sup>44</sup> Vanguard, 25 May 2017.

<sup>45</sup> Vanguard, 25 May 2017.

<sup>46</sup> Vanguard, 25 May 2017.

<sup>47</sup> Vanguard, 25 May 2017.

<sup>48</sup> Vanguard, 25 May 2017.

<sup>49</sup> Punch, 3 Nov 2016.

<sup>50</sup> Punch, 3 Nov 2016.

<sup>51</sup> This Day, 19 Jun 2017.

<sup>52</sup> This Day, 19 Jun 2017.

<sup>53</sup> This Day, 19 Jun 2017.

private sector-developed greenfield refineries.<sup>54</sup> The third is government support for modular refineries to further increase supply.<sup>55</sup> Nigeria spent 3.35 trillion naira (N) (\$10.6 billion) on petroleum product imports last year, as domestic output only covers approximately 23% of total consumption.<sup>56</sup> Almost 30% of **Central Bank of Nigeria (CBN)** foreign exchange is spent on fuel imports.<sup>57</sup>

The joint venture is indicative of the oil sector's longer-term positive outlook. However, the pace of regulatory reform will be slow due to the politicisation of the oil sector with vested interests and labour unions slowing long-overdue reform.

### Imported capital increases 28% in first quarter

The CBN published first quarter capital importation data on 5 June showing that total imported capital increased 28% year-on-year.<sup>58</sup> Uncertainty around the March 2015 general election has distorted the baseline for first quarter data. The total value of capital imported into Nigeria during the first quarter was \$908m.<sup>59</sup> While this represented a large year-on-year increase, it was a 41% decrease compared to the previous quarter.<sup>60</sup> January was the lowest inflow at \$200m.<sup>61</sup> "Other investments" was the largest component of imported capital, accounting for 42% of the total.<sup>62</sup> However, it decreased 58% on a quarter-by-quarter basis.<sup>63</sup> Portfolio investment was worth \$314m and was the second largest component, accounting for 42% of the total.<sup>64</sup> Portfolio investment increased 10% quarter-by-quarter and 16% year-on-year.<sup>65</sup> Analysts cited relative stability in the foreign exchange market for the increased portfolio investments.<sup>66</sup> Money market instruments were worth \$212m, accounted for 67% of portfolio investments, the largest share by type, and represented a 100% quarter-by-quarter increase.<sup>67</sup> Portfolio equity inflows, however, were worth only \$102m, representing a 42% quarter-by-quarter decrease.<sup>68</sup> Foreign direct investment was the lowest contributor to capital importation, worth only \$211m in the first quarter.<sup>69</sup> This represented a 39% quarter-by-quarter decrease.<sup>70</sup> With regard to the provenance of capital, the UK accounted for 33% of the total, the largest allocation, followed by the US (24.1%), **Singapore** (8.1%) and **Mauritius** (7.9%).<sup>71</sup>

The baseline makes the investment data look considerably more positive than it is. Weak domestic demand, tight foreign exchange liquidity, and continued restrictions limiting importers of certain goods to the parallel market will continue to undermine investor sentiment in the short to medium-term. The size of the Nigerian market, however, means the longer-term investment picture is more positive.

<sup>54</sup> This Day, 19 Jun 2017.

<sup>55</sup> This Day, 19 Jun 2017.

<sup>56</sup> This Day, 19 Jun 2017.

<sup>57</sup> This Day, 19 Jun 2017.

<sup>58</sup> www.cbn.gov.ng

<sup>59</sup> www.cbn.gov.ng

<sup>60</sup> www.cbn.gov.ng

<sup>61</sup> www.cbn.gov.ng

<sup>62</sup> www.cbn.gov.ng

<sup>63</sup> www.cbn.gov.ng

<sup>64</sup> www.cbn.gov.ng

<sup>65</sup> www.cbn.gov.ng

<sup>66</sup> FBN Capital Research, 5 Jun 2017.

<sup>67</sup> www.cbn.gov.ng

<sup>68</sup> www.cbn.gov.ng

<sup>69</sup> www.cbn.gov.ng

<sup>70</sup> www.cbn.gov.ng

<sup>71</sup> www.cbn.gov.ng

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