1.8mbpd: Between plugging leakages and increasing oil production

Nigeria's oil production is gradually increasing, hitting 1.75 million barrels per day (bpd), according to the Nigerian Upstream Petroleum Regulatory Commission (NUPRC). However, underlying issues such as deep-rooted inefficiencies, high production costs, ageing infrastructure, and leakages persist within the upstream sector, ***KINGSLEY JEREMIAH*** *reports.*

FROM 1.1 million bpd last year, Nigeria has seen an increase in crude oil and condensate production to 1.8 million bpd, if data from NUPRC is anything to go by. At the same time, the number of oil rigs in the country has risen to 50, up from less than half that figure about two years ago. Activities at fields like Otakikpo, a coastal swamp asset in Oil Mining Lease Eleven(OML 11), operated by Lekoil where production is increasing from 10,000 bpd to nearly 20,000 bpd, further stressed a renewed commitment by operators to defy the odds and improve their operations.

For years, Nigeria has struggled to meet its crude oil production targets. Despite being Africa's largest oil producer, inefficiencies, theft, underinvestment, corruption and ageing infrastructure have stifled growth. Meanwhile, stagnant reserves and a global push towards energy transition have intensified pressure on the country to maximise existing resources before they become unattractive.

Over the past year, Nigeria has taken steps to boost oil production. The Nigerian National Petroleum Company Limited (NNPC Ltd) has intensified efforts to curb oil theft while indigenous companies have ramped up drilling activities. However, the critical question remains: can Nigeria sustainably increase oil output without addressing fundamental structural challenges?

If you have a leaking roof that has flooded your house, a critical first step is to seal the leak before cleaning up the mess. This analogy aptly reflects what Nigeria's upstream petroleum sector urgently needs; a sincere, strategic approach to tackling ageing pipelines, crude oil theft and regulatory loopholes.

While the recent rise in oil production is promising, Nigeria still relies heavily on barges and tankers for crude evacuation, operating in an environment challenging for investors. This reality is evident in the persistently high oil production cost per barrel, which further points to deeper structural inefficiencies that must be addressed.

For the Chief Operating Officer of Lekoil Nigeria Limited, Sam Olotu, while operators like his organisation have experienced significant growth due to government efforts and improved stakeholder engagement alongside the addition of new rigs, sustaining this momentum and pushing Nigeria's capacity beyond three million bpd remains a challenge. Given the country's mounting debts tied to unproduced crude, achieving this target is less about expansion and more about stabilising aspirations.

The Nigerian government has introduced various executive orders to improve the ease of doing business in the sector. President Bola Tinubu's administration has also emphasised streamlining processes, but have the efforts translated to tangible benefits for operators?

"Yes, we're seeing some impact. Production has grown, but 1.8 million barrels per day is still insufficient. Nigeria needs at least three million barrels per day to sustain its economy and attract new investments."

Beyond production challenges, regulatory uncertainty also plays a role in deterring investments, even as divestments by major oil companies signal a shift toward indigenous operators, with questions remaining about whether these new players can navigate the industry's complex terrain.

According to Olotu, divestments are good primarily because they create jobs for Nigerians. Still, the new operators will face significant hurdles, especially in security, infrastructure, and cost management."

The country has long suffered from high crude oil production costs, currently averaging $40 per barrel. This is far above the government's target of $10 per barrel, making Nigeria less competitive in the global market, especially as major buyers like India and China seek cheaper alternatives.

Olotu is sceptical about achieving the government's cost target, stating that "a single vessel costs $800,000 per month. That alone translates to about $2.40 per barrel—before factoring in salaries, diesel, well maintenance, and other operational costs. This isn't civil service accounting; we are running a business."

While the chairman of the Federal Inland Revenue Service (FIRS), Zacch Adedeji, told lawmakers that oil companies operating in Nigeria gave tax authorities $48.71 as their average cost of producing crude oil per barrel, *The Guardian* reported that the country spent a whopping $11.4 billion on operating costs in the first half of 2024 from the 235.9 million barrels of crude oil produced, making profitability for investors and revenue for the government a critical issue.

The situation is different in other oil-producing countries. While Libya is a highly attractive oil producer due to extremely low production costs, as low as $1 per barrel in some fields, Angola's production cost is $20 per barrel. In Brazil, improved well productivity has reduced the breakeven cost for pre-salt fields from $70 per barrel in 2014 to $35 in 2022. Saudi Arabia's production costs have hovered between $2 and $8 per barrel.

A respected energy expert, Professor Wunmi Iledare, noted that the expectation for a technical cost of $10 per barrel remains elusive because it was unrealistic at conception, as there is no evidence suggesting the existence of any cost management and control instruments.

Iledare said: "What is easily observable is rising direct costs of operations, with inefficiency written all over them as Niger Delta fields mature and easy-to-produce reservoirs diminish."

Even if production increases, the question of crude evacuation remains unresolved for many investors. Nigeria's pipeline infrastructure is severely outdated, with many trunk lines over 30 years old. Frequent breakdowns, coupled with vandalism and theft, make pipeline transportation unreliable.

"Nigeria's infrastructure is old," Olotu admitted as he asserted "that pipelines like Forcados, Trans-Niger pipeline as well as Nembe Creek Trunk Line have been in place for close to 30 years".

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Many indigenous companies, including Lekoil Nigeria Limited, have resorted to alternative means of crude evacuation, such as vessels and offshore terminals. While these options provide temporary relief, they are expensive and unsustainable in the long term.

Beyond production hurdles, financing remains a major issue. Traditionally, Nigeria's oil sector has relied heavily on foreign investment. However, recent trends show an increasing shift towards local financing, with companies like Lekoil receiving approval from Security and Exchange Commission on a N100 billion bond programme, which FBN Quest Merchant Bank and Iron Global Markets Limited support.

Olotu explained the rationale behind this strategy, disclosing: "No oil company, whether international or indigenous, funds its development with its cash."

He said the Africa-focused organisation has attracted local participation in the oil sector investments.

While this approach reduces dependence on international markets, especially at a time when the African Petroleum Producers Organisation (APPO) has recorded massive success with the African Energy Bank, it raises concerns that Nigerian banks are not capitalised enough to support large-scale oil and gas investments and they often rely on offshore partnerships.

As far as Chief Executive Officer of Green Energy International Limited, Prof. Anthony Adegbulugbe, is concerned, Nigeria is missing opportunities by not addressing logistical constraints.

"Many fields with proven reserves remain underutilised due to evacuation issues. With relatively simple solutions such as re-entering existing wells and connecting them to efficient evacuation routes, we could increase output significantly," Adegbulugbe submitted.

Another major challenge is crude oil theft, which costs Nigeria billions of dollars yearly. The government has intensified security efforts, including awarding pipeline surveillance contracts to private firms. While this has led to a reported reduction in theft, the long-term effectiveness of these measures remains debatable.

Industry insiders argued that addressing oil theft requires more than just security contracts. It involves tackling corruption within regulatory agencies, deploying pipeline monitoring technology, and ensuring host communities benefit adequately from oil revenues. Without these structural reforms, theft will continue to undermine production gains.

Nigeria's push to increase oil production comes when the global energy landscape is shifting. Many Western countries are scaling down fossil fuel investments in favour of renewable. Even major oil companies like Shell and ExxonMobil are gradually reducing their footprint in Nigeria.

However, recent geopolitical developments could open new doors. President of the United States, Donald Trump, for instance, has advocated for more drilling and foreign investment in oil-producing countries by suspending the Foreign Corrupt Practices Act (FCPA). Some analysts believe this could make Nigeria a more attractive destination for American oil companies.

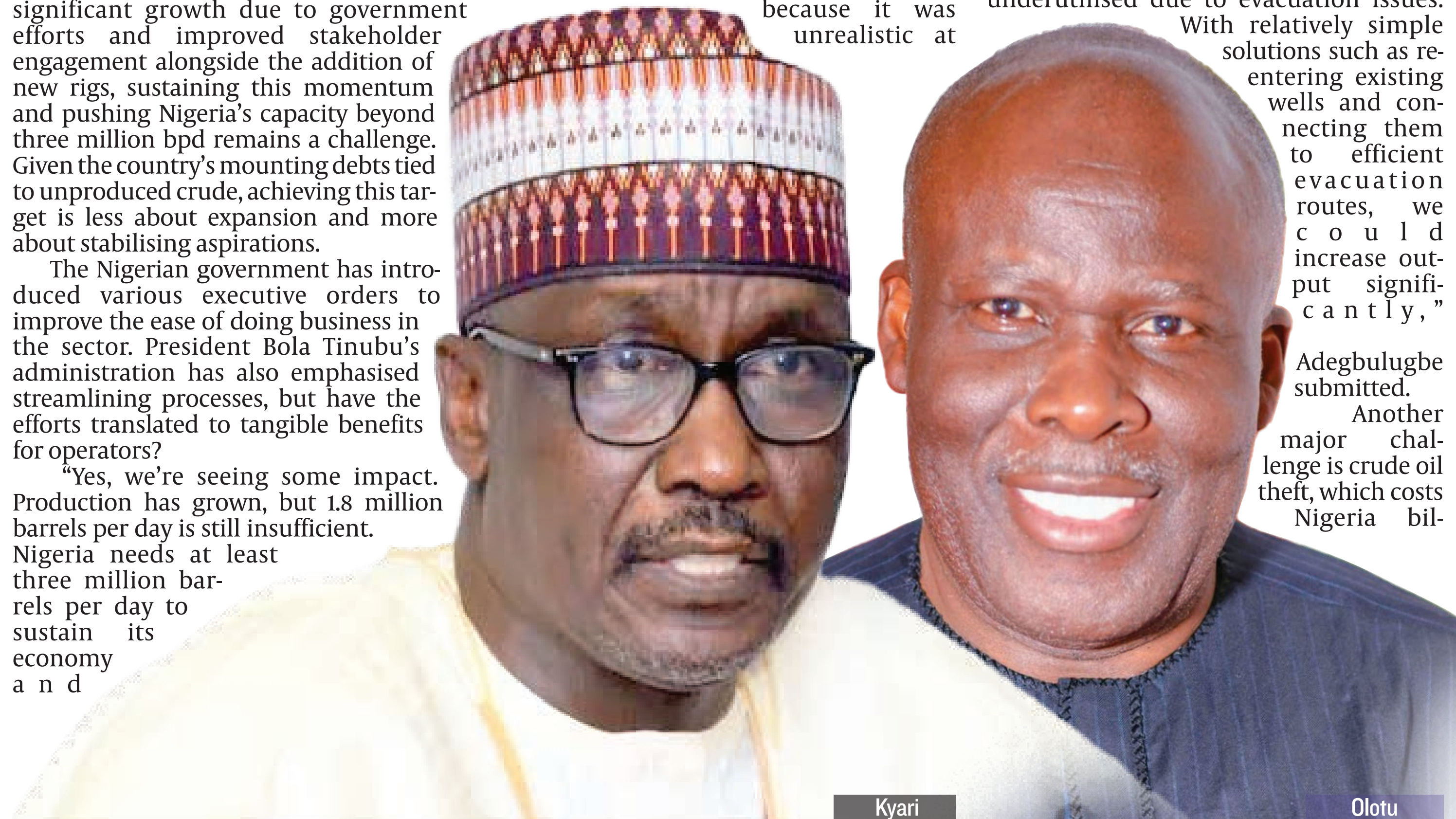
Olotu, however, is not convinced that external policies will dictate Nigeria's fortunes.

"We have been saying for years that Nigeria needs to grow its production. Our economy is struggling and oil is our primary revenue source. It is a no-brainer that we need to increase output. Trump's push for drilling is nothing new. We've been advocating this for years."

On his own, energy expert, Dan Kunle, warned that the cost and logistics of deploying hydrocarbon production facilities in Nigeria have become prohibitively expensive since the COVID-19 pandemic era. This, he said, has eroded the country's competitive advantage in oil production costs. He further noted that Nigeria is losing its position in the oil and gas sector to other African nations and the U.S. as global focus shifts toward agriculture and sustainable development.

While the Petroleum Industry Act (PIA) created the Nigerian Upstream Petroleum Regulatory Commission (NUPRC) and Nigerian Midstream Downstream Petroleum Regulatory Authority (NMDPRA), Iledare, like other stakeholders, said the development added to the rising cost of governance of the sector.

"The way to go is to implement the intent of the PIA and limit the unnecessary regulation for agency fees. Secondly, gold plating needs to be penalised. Finally, to the extent possible, NNPCL needs to review its JV portfolio of assets and perhaps let indigenous companies buying divested IOC assets buy NNPCL's equity in those divested assets," Iledare said.



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