

Equipping the Nigerian National Petroleum Corporation for the Low-Carbon Transition

How Are Other National Oil Companies Adapting?

Key Messages

- Nigeria is in trouble: its oil dependency is not sustainable. The country's oil has lost its competitiveness and oil prices tend to remain below its production cost. Nigeria's inefficient refineries are draining public money. Public and private debt in Nigeria is indexed on oil prices. The country's sovereign debt rating was downgraded in March 2020 in the midst of the COVID-19 pandemic and could be downgraded further if low oil prices are sustained as expected by rating agencies. These circumstances tend to compromise Nigeria's ability to borrow to face the challenges of the health, economic, and climate crises.
- Moreover, the oil industry is now one of the worst-performing sectors in the financial market. Hit hard by the current COVID-19 crisis, the industry is affected by pessimistic scenarios on the return of demand and prices to past levels, putting oil-producing countries in dangerous economic, financial, and political situations. In the post-Paris Agreement world, marked by the low-carbon energy transition, renewables play a leading role, whereas the prominence of oil is set to diminish. As the world moves forward, the industry is a reminder of the past.
- The oil crisis looms large in Nigeria due to the country's heavy dependence on revenues from the sector. Revenues from the Nigerian National Petroleum Corporation (NNPC) can represent more than five times the country's health expenditure, nearly seven times its foreign aid receipts, and more than fifteen times the value of the country's sovereign wealth fund. Because of the scale of NNPC revenues, the Nigerian government's largest spending decisions are associated with the oil sector rather than the low-carbon energy transition and associated public goods.
- Various national governments have had differing and apparently mutually exclusive objectives for their national oil companies (NOCs): maximizing fiscal revenues transferred to the country's treasury; achieving commercial effectiveness to extend the company's oil portfolio; delivering public goods and services; providing public employment, infrastructure or energy; or promoting the local private sector. The climate change agenda and the COVID-19 crisis force a reconciliation of these objectives: no NOC will be able to maximize fiscal transfers or commercial effectiveness without embracing the energy transition, which in turn represents the most critical public service to be delivered to citizens. Thus, NNPC's business model must embrace the energy transition.
- Other NOCs have taken meaningful steps to become players in the low-carbon energy transition domestically or internationally. Five NOCs, in particular, have stepped up research and investment in renewables; green hydrogen; and carbon capture, utilization, and storage (CCUS) technology, while targeting a reduction of their carbon footprint: Saudi Arabia's Saudi Aramco, Norway's Equinor, Brazil's Petrobras, Malaysia's Petronas, and Algeria's Sonatrach. While COVID-19 has hastened Nigeria's oil decline, it also creates an opportunity to advance the energy transition, leveraging NNPC as a key player of its realization, similarly to Algeria, Brazil, Malaysia, Norway, and Saudi Arabia.
- The five NOCs approach the energy transition differently and with different ambitions, and their climate governance framework is not always clear or elaborated. Even so, they have made the energy transition core to their strategies. They address the transition risk and seize the transition opportunities in a meaningful way, supporting their national governments' commitments under the Paris Agreement.



- The five NOCs have also undergone reforms of various aspects of their corporate governance. Even if not always sufficient, these reforms position them to be players of the energy transition.
- The Nigerian government has started diversifying out from oil, and there are some signs that NNPC is embracing governance reforms and could help the government in achieving its ambition to participate in the energy transition. However, much more is needed to ensure that NNPC uses the energy transition as a business and development opportunity. This is an extraordinary task that only a well governed NNPC can take up.

Critical reform efforts should focus on:

- Hiring expertise to develop an energy transition plan for Nigeria and run an institutional analysis of the role to be played by each key public or private institution in the energy transition including NNPC.
- Reforming NNPC to ensure it can play this role, by:
 - making NNPC independent from political interference at all operational and management levels, reducing opportunities for corruption,
 - enshrining transparency and internal as well as external oversight in NNPC's governance framework,
 - legally clarifying its funding mechanism and revenue retention model,
 - institutionalizing principles of climate change governance,
 - if profound reform is not feasible for lack of political champions inside the government or within NNPC, a better avenue would be to privatize NNPC or at least some of its subsidiaries.
- Setting up a separate division of NNPC or, in case of NNPC privatization, an independent entity with clear objectives related to the energy transition that are measured by transparent and auditable metrics. This division or entity would be in charge of developing a timeline to eliminate routine flaring and minimize non routine venting and flaring for existing fields; developing criteria to award new fields in accordance with a stranded asset risk analysis; and establishing carbon emission standards.
- Identifying funding sources for this new division or entity in advance and in ways that incentivize desired results.

The current crisis is a moment for reform on which Nigeria and NNPC should embark. While it is an incredible policy and political challenge, it is not unsurmountable. Other NOCs are showing the way, and policy guidance is already out there to guide countries and companies.

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