



## Oil Crash Threatens Security: Nigeria's Risks Exacerbated by COVID-19 Pandemic

**Oil market volatility caused by the global spread of COVID-19 is expected to push Nigeria into its worst recession in 30 years. As the country suffers from its overreliance on crude exports, a recent surge in tensions in the oil-rich Niger Delta region and its waters in the Gulf of Guinea risks further damaging an already fragile economy. The crisis ahead could be much worse than predicted.**

Endowed with abundant petroleum reserves, the Niger Delta region is home to Nigeria's onshore extraction of crude oil and gas which, along with offshore production in the waters off its coast, account for 90% of the country's total exports. The region has long suffered endemic unrest rooted in local communities' discontent over decades of environmental degradation from extraction and government redistribution of oil revenues to the benefit of northern regions.

As Nigeria's government struggles to cope with the repercussions of the COVID-19 pandemic, there is a risk of deepening regional insecurity in the Niger Delta region and, by extension, the main export of Africa's largest economy. In the short term, Nigeria faces a rocky ride as oil price volatility is affecting an economy still very vulnerable to fluctuations in global commodity prices. In this climate of rising uncertainty, addressing chronic insecurity in the Niger Delta region will prove a fundamental challenge for the government in determining the country's long-term economic trajectory.

### Oil-Driven Economy Hit Hard by COVID-19 Despite OPEC Intervention

With the COVID-19 pandemic wreaking havoc on global markets, since mid-March international oil prices have

remained highly volatile, dropping to a 20-year record low price of USD 18 per barrel. The plunge followed a steep reduction in global demand and a price war between major oil producers, notably Russia and Saudi Arabia. At around USD 25-30 per barrel, Nigeria has one of the highest oil production costs in the world, while some countries such as Saudi Arabia can afford to produce at prices as low as USD 5 per barrel.

In late March, Nigerian Finance Minister Zainab Ahmed said the government was working to adjust its USD 35 billion budget for 2020, which had been passed in December 2019 and based on a USD 57 per barrel oil price, to a revised benchmark of USD 30 per barrel. Announcements in the following weeks suggested that the benchmark could be lowered even further. Projected oil production was also downsized to 1.7 million barrels per day (bpd) from 2.2 million bpd, in line with the global production cut strategy adopted by the oil cartel OPEC. (See Figure 2)

On 12 April 2020, OPEC announced a deal with other key producers to cut global supply by nearly 10% in an effort to stabilize the oil market. Timipre Sylva, Nigeria's Minister of State for Petroleum Resources, welcomed the deal as a "historic intervention" that should help the country battle the effects of record-low crude oil prices.

Yet, as the oil market remains volatile, analysts question how much Nigeria will effectively benefit from OPEC's deal. A recent prediction by the International Monetary Fund (IMF) indicates Nigeria heading towards its worst economic slowdown in 30 years with a 3.4% drop in GDP in 2020. (See Figure 3) With crude exports accounting for about two-thirds of government revenues, Africa's largest oil producer is once again faced with the risks inherent to its dependency on oil. A similar scenario unfolded in 2016, when the country sank into a recession due to a long-term decline in oil prices from 2014 coupled with a sudden, dramatic fall in crude output. The latter had been caused by a resurgence of armed militancy in the Niger Delta region, home to the country's onshore extraction activities.

## Rise in Security Challenges Coincides with COVID-19

Overshadowed by the Boko Haram insurgency in the northeast, the Niger Delta crisis has received little attention by the federal government over the past several years. Nonetheless, the country's southern region has fundamental risks for the country's economy as militant groups have proved capable of paralyzing oil production, raising the cost per barrel, and scaring off investors.

Called "the world's piracy hotspot" by the International Maritime Bureau, the Gulf of Guinea off the coast of the Niger Delta has accounted for 21 piracy attacks in the first quarter of 2020, mostly in Nigerian waters, and over 90% of global kidnappings in 2019. Among these piracy incursions in the Gulf of Guinea was the kidnapping of 10 crew members from an oil tanker in late April. Piracy in the region is widely believed to be closely linked to unrest in the Niger Delta, where local armed groups find their operational base. On 4 May 2020, the Nigerian Senate called for the decentralization of the State Police Force to establish local units in the Niger Delta and other regions amid concerns of increased armed attacks and kidnappings carried out across the country.

The COVID-19 pandemic threatens to inflame a region beset by violence for the past two decades. Armed militancy in the region first emerged in the early 2000s with the rise of local warlords and groups seeking to profit from the lucrative oil business. Increased oil theft and illegal refining, coupled with attacks on oil installations and kidnappings of employees working for international oil companies (IOCs), prompted a series of military responses by the federal government. The escalation of violence resulted in a severe disruption to oil production, forcing IOCs to evacuate their personnel and to move part of their operations offshore.

At the height of a large-scale military crackdown in June 2009, the late Nigerian President Umaru Musa Yar'Adua offered surrendering militants an amnesty deal, including monthly cash transfers and training programs for their

reintegration into society. In the short term, the scheme proved effective in curbing regional violence. As oil output recovered, however, it did not take long for hostilities to resurface in a region affected by poverty, youth unemployment, and environmental degradation.

In late 2015, the newly elected Nigerian President Muhammadu Buhari cut the amnesty program's budget by 70% as the government struggled to cope with falling crude prices. Militant attacks resumed in a matter of weeks, pushing an already economically strained country into a 15 month-long recession. Over 1,600 incidents of vandalism against onshore oil installations were reported between January and June 2016, and crude oil production fell to an all-time low 1.1 million bpd in July.

The current pandemic accompanies a deteriorating security environment. Data published in February 2020 by the Foundation for Partnership Initiatives in the Niger Delta (PIND), a Chevron-funded Nigerian NGO, show a worsening security trend. The PIND report warns of a significant rise in tensions in the Niger Delta in 2019, with deaths from violent incidents having reportedly doubled compared to 2018. (See Figure 4) According to the report, incidents in 2019 were mostly linked to criminality, including piracy and kidnappings, as well as to political violence surrounding the country's 2019 general elections that saw Buhari win his second mandate.

## Potential Risks in Nigeria's Oil- and Gas- Producing Region

Amid this growing regional instability, the global COVID-19 pandemic poses at least three risks that could heighten insecurity and adversely impact Nigeria's economy.

- **Fiscal pressure on government revenues threatens cuts to the amnesty program that has previously helped to curb regional violence.** Economists predict that the sharp decline in oil prices will cost Nigeria more than USD 9 billion and an 80% fall in oil revenues, leading to a drastic drop in government expenditures. This may once again force Buhari to reduce the amnesty program's funding, which led to a militant uprising and subsequent oil production fallout in 2016. Worrying signals surrounding the program already emerged in March 2020, as youths benefitting from the scheme protested in various parts of the region over delayed monthly payments in January and February.
- **Looming recession increases economic incentives for militancy.** The closure of federal states' boundaries imposed by the government in late March to slow down the spread of COVID-19 has driven staggering food price surges, putting further strain on the Niger Delta's impoverished population.

As the country heads toward recession, widespread unemployment and economic hardships could incentivize the youth in particular to join in militant activity. In some analysts' view, conflict in the region has increasingly been perceived as a remunerable business in light of the monetary allowances granted to combatants. Furthermore, oil theft and illegal refining remain a predominant source of financing for the region's armed activity, which already witnessed a soaring increase in 2019 as warned by the Nigerian National Petroleum Corporation.

- **Disruptions to oil supply chains are likely to benefit pirates, with oil shipments and offshore crude production increasingly at risk.** The shock in global demand for oil and excess in supply are forcing Nigeria to stock unsold crude production in offshore tankers used as storage facilities. Maritime security experts believe these represent "ideal and relatively simple targets for pirates," who will also benefit from

the government's reduced military funding to maritime operations. Evidence from recent attacks has shown pirates' ability to get ahead of maritime defense strategies, sustained by illegal oil refining in the Niger Delta and by ransom payments for the release of seafarers up to USD 1 million. As oil companies face growing risks from piracy attacks on oil shipments and offshore platforms, experts predict further threats to security in Nigeria's waters throughout 2020 and 2021.

### Further Reading

Odoemene, A. (2014). The Niger Delta Amnesty Programme: What Manner of Peace Deal? In LaMonica, C., & Omotola, J.S. (Eds.), *Horror in Paradise. Frameworks for Understanding the Crises of the Niger Delta Region of Nigeria* (pp. 271-285). Durham NC: Carolina Academic Press

Figure 1: Map of Nigeria

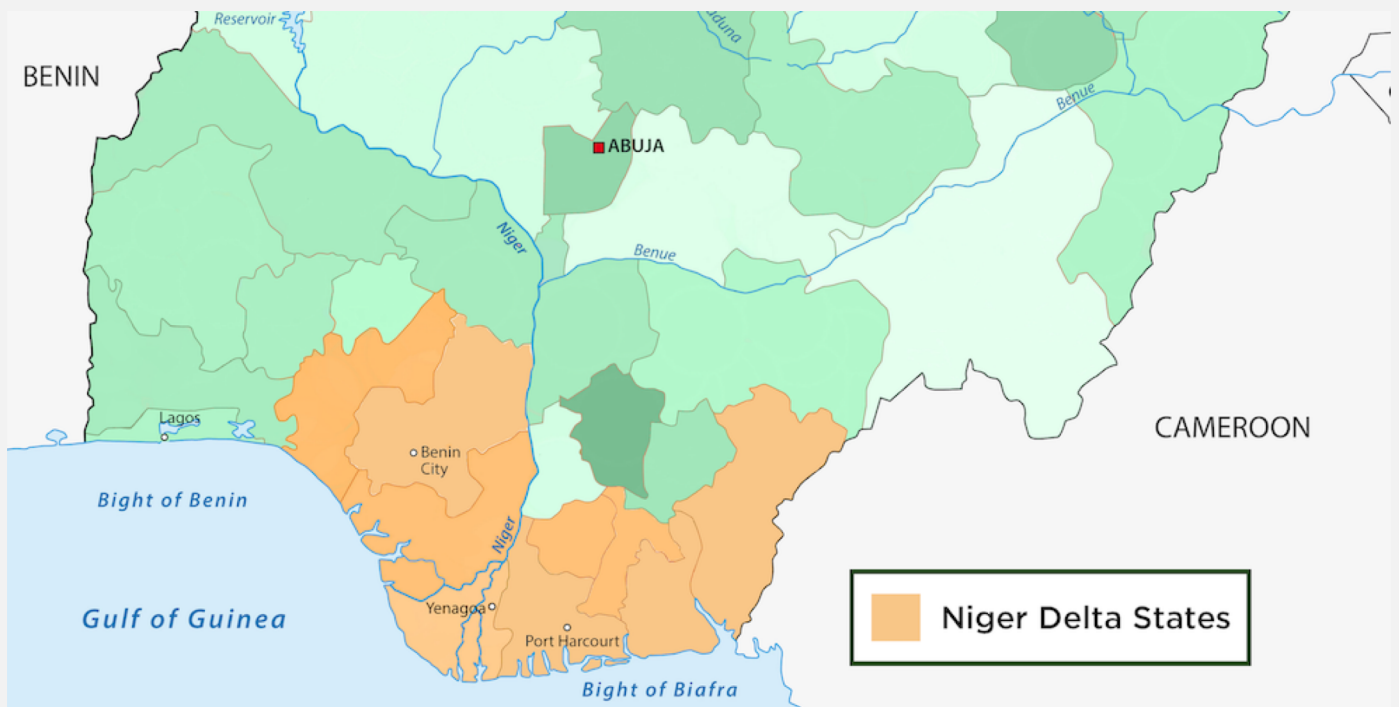


Figure 2: WTI CRUDE

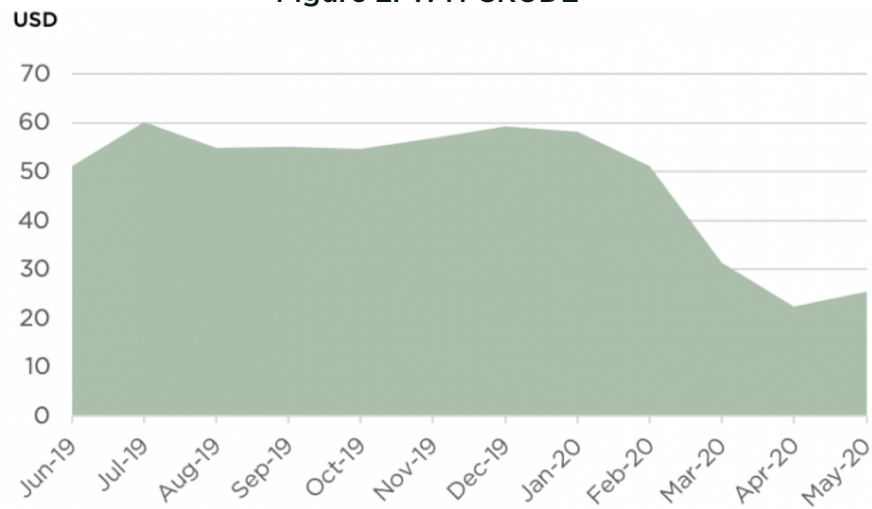


Figure 3: Nigeria's GDP (billion USD)

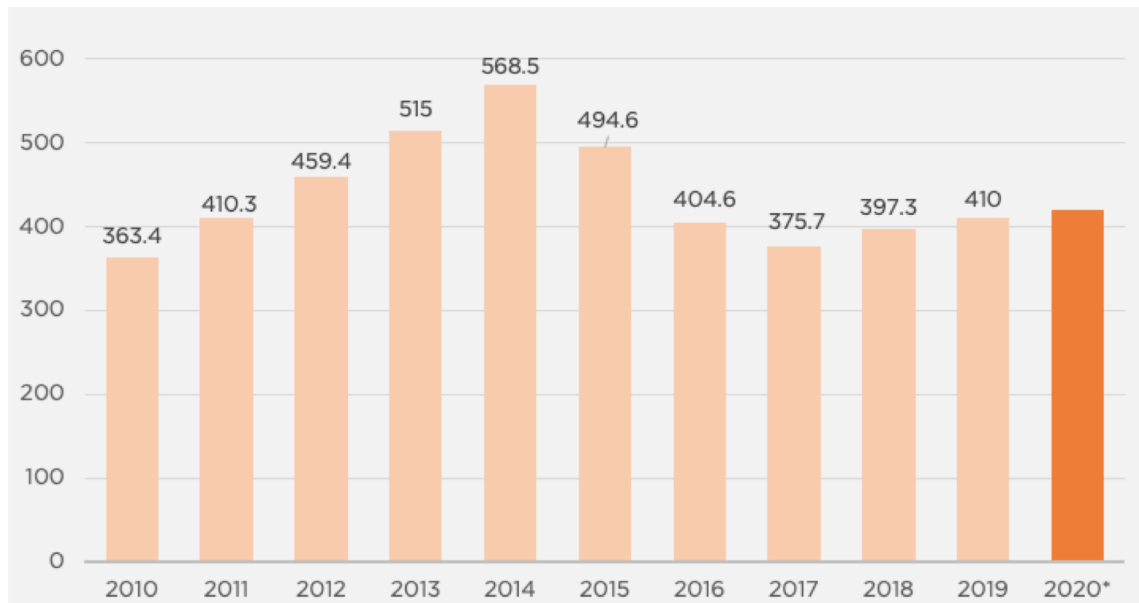
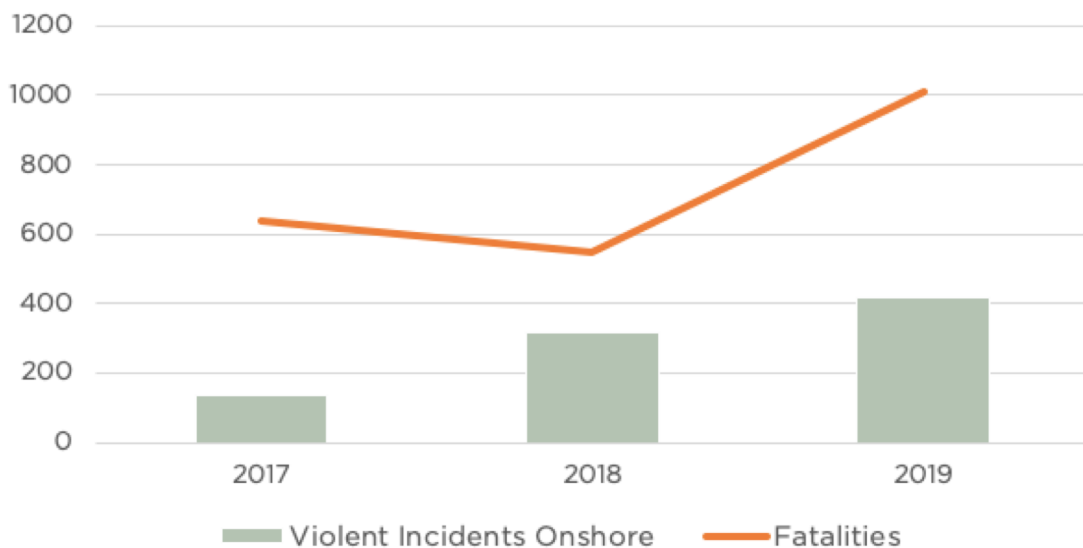


Figure 4: Number of Violent Incidents and Fatalities in the Niger Delta



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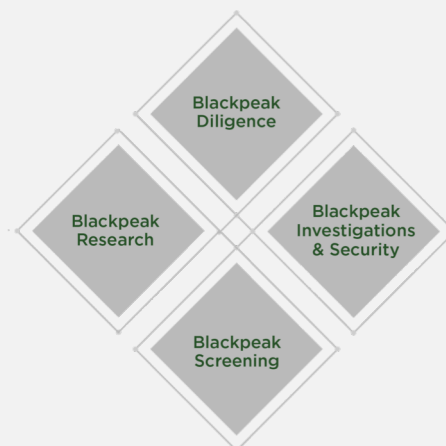
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