

PARIS CLIMATE AGREEMENT AND FOREIGN DIRECT INVESTMENTS IN THE NIGERIA'S OIL AND GAS SECTOR: WHAT DOES THE FUTURE HOLD FOR NIGERIA?

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Abstract

The objective of this paper is to highlight the future implication of the Paris Climate agreement on the Nigeria's oil and gas sector. It was found that, the transition to clean energy will affect FDI inflow to the Nigerian oil and gas industry, as foreign investors now prefer to keep on producing existing oil wells instead of funding to discover new oil reserves. In the same vein, the increased call for the control of carbon emission will increase the production cost of oil and gas. Moreover, the upsurge in infrastructure development particularly to facilitate the transition to the clean energy regime might be seen as a further threat to the country's oil and gas sector. Government should provide an avenue for local investors to thrive in the sector, by making the Nigerian Local Content law flexible, ensuring that the National Assembly pass the Petroleum Industry Bill, and providing alternative sources of finance to indigenous investors and NNPC to enable them carryout oil exploration activities fully. Furthermore, assistance which might be in form of Subsidy should be given to oil companies in relation to carbon emission control. Finally, the government should not neglect infrastructure development in the oil and gas sector.

Keywords: Paris Climate Agreement, UNFCCC and Nigeria's Oil and Gas Sector.

1. Introduction

The Paris Agreement is an agreement within the United Nations Framework Convention on Climate Change (UNFCCC) dealing with fossil fuel emissions mitigation, adaptation and finance beginning in year 2020. The accord was geared toward the United Nation's call for increase in the utilization of clean energy, and this is seen by most as a means of accelerating the pace of the global move from fossil fuel to renewable and clean energy.

On the contrary, Nigeria's economy largely depends on crude oil export and, the exploration activities largely depend on foreign interventions (by large oil companies), with foreign direct investment accounting for a large percentage of the total sector investments. And this has made the country an ideal destination for foreign direct investment in Africa. This is not farfetched looking the at the UNCTAD World Investment Report (2007) which shows that FDI inflow to West Africa was dominated by inflow to Nigeria which received 70% of the sub-regional total inflow and 11% of Africa's total inflow, out of which Nigeria's oil sector alone receives 90%.

Recent publications of the World Finance in the Voice of Market (2015) also posits that Nigeria continue to record the largest growth in FDI above all African countries. This corroborate with that of NBS report in 2013 indicating the total FDI of \$21.3bn representing 28.3% growth of more than the previous year. The Paris accord is perceived as an attempt to wipe out fossil fuel and as such will be considered a threat to the Nigeria's main source of revenue.

There is a plethora of studies on FDI, renewable energy and non-renewable energy. On a global scale, International studies focused much on the impact of FDI on both renewable (clean) energy and non-renewable energy, for example, Gaber and Venkata (2002) - FDI and Oil, Gas and Refinery, while authors like Krüger, 2011; Lee (2013); Doytch and Narayand (2016); Hagert and Marton (n.d); - looked at attracting Foreign Direct Investment and Renewable Energy.

Nonetheless, earlier studies in Nigeria like Odozi (1995); Anyanwu (1998) focused on assessing the determinants and potentials of foreign direct investment in Nigeria. Jarome and Ogunkola (2004); Ayanwale and Bamire (2001) later looked at the magnitude of direction and prospects of FDI, while others like Salami, Fatimah, Gazi, Makua and David (2012) investigates impact of FDI on economic growth in Nigeria. There is little evidence as to studies examining the Paris climate agreement and its relationship with the FDI to the oil and gas sector. Therefore, this study intends to fill the gap in literature.

Moreover, as stated earlier, the Oil and Gas sector has been the major contributor to the GDP and overall economic growth and development of Nigeria, studies on factors that may likely impede its future operations will therefore be of high relevance. The research questions are; what effect will increased FDI in renewable energy have on Nigeria's oil and gas sector? What effect will the increased cost of reducing carbon emissions have on the Nigeria's oil and gas sector? What effects will the increased infrastructure development cost in renewable energy, have on

Nigeria's oil and gas Sector? Other sections of the paper include; literature review, research methodology, Discussion, and Conclusion and recommendation.

2. Literature Review

Foreign Direct Investment

Foreign Direct Investment (FDI) is described as “an investment involving a long term relationship and reflecting a lasting interest and control by a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise or affiliate enterprise or foreign affiliate)” (World Economic Report 2007, p.245). FDI gives an investor the ability to exert a considerable level of influence on the control of the enterprise resident in the other country. Grant (2010) put it that such investments include both the initial and all subsequent transactions between the two companies and between them and among foreign affiliates respectively, whether incorporated or not.

UNCTAD (2012, p.245) suggest that “Flows of FDI comprise capital provided (either directly or through other related enterprises) by a foreign direct investor to an enterprise, or capital received from an investing enterprise by a foreign direct investor. FDI has three components: equity capital, reinvested earnings and intra- company loans”.

In a contrary view, Morisset (2000) views FDI as a kind of investment involving the introduction of foreign funds to a company operating in a domain other than that of the investor. They (Investors) are granted control if ownership level equals 10% or above of ordinary shares. Where shares owned is less than 10%, such investment will not be considered as FDI but rather termed portfolio investment. The foreign investments in the Nigerian Oil and Gas sector do forms more than 10% of the total ordinary shares and as such, they can be termed FDIs.

Factors Influencing FDI

The OLI framework developed by Dunning in 1977 can be used to explain why firms go abroad. The framework suggests that firms invest abroad for three reasons as follows; Ownership (O), Location (L), and Internalization (I).

Ownership advantage gives a firm the ability to compete with others in the markets, regardless of the disadvantages of being foreign. It came into being from the firm's ability to coordinate complementary activities such as manufacturing and distribution. Location advantages make the selected foreign country a more attractive place, while Internalization advantages arise from identifying imperfections in foreign markets.

Dunning later in 1993 categorize the motives for FDI into four: - “Resource seeking (to access raw materials, labor force, and physical infrastructure resources). Example of this are companies extracting oil (in Nigeria), gold (in Ghana) and diamond (in Botswana) belonging to this category. Market seeking (horizontal strategy to access the host-country’s domestic markets) which aims to access new markets that are attractive as a result of their size and/or growth. Efficiency seeking (vertical strategy which aims to take advantage of lower labor costs, especially in developing countries).” Most of the FDI coming to Africa goes to the energy sector, particularly, the oil and gas industry.

Foreign Direct Investment and the Nigeria’s Oil and Gas Sector

Udoh (2014) stressed that the significance of the oil and gas sector to the Nigeria’s economy is so enormous in that it accounts for almost 90% of Nigeria’s total export. In the same vein, Omotoso (2010) also opines that it is interesting to note that Nigeria is being rated as the Africa’s second largest producer of crude oil after Libya, eightieth largest exporter in the whole world and the tenth largest reserves. During independence, the country’s economy was predominantly agriculture, but however with the discovery of oil some years after independence, there was a change of direction to the oil sector. In fact in the 70s, Nigeria was surprisingly in economic honeymoon with oil money, thus, affording the accomplishment of the popular Jerome Udoji’s award in retrospect.

In the 21st century, global Foreign Direct Investment (FDI) is increasing at a very high speed and this is particularly to Nigeria, where, such increase was largely related with the high demand for Africa’s natural resources, mainly oil, as a result of united states’ failure to continue the crude oil trade with the middle east during the Israeli – Arab war (Ashiedu, 2002). In 2007, UNCTAD report suggests that FDI flow to Africa has increased from \$9.68 million in 2000 to \$13 trillion in 2006.

The UNCTAD (1999 and 2006) wrote that between 1970 and 1990, Nigeria accounted for 30% of Foreign Direct Investment inflow to the African continent, which was fundamentally due to its oil attractiveness. Whereas talking of West Africa, Nigeria is said to dominate the FDI inflow, accounting for 70% of the sub-regional total. From this, the oil and gas sector only received 90% of the total FDI inflow. The rise in FDI worldwide in the later years is further stressed by Barrel and Pain (1997) who posits that from 1975 to 1995, the total of FDI was said to rise from 4.5% to 9.7% of world Gross Domestic Product (GDP).

Nevertheless, ever since the worldwide financial crisis of 2008, FDI drastically fall on a global scale. To support this, UNCTAD (2010a) wrote that global FDI inflows

decrease by 37% from 2008 to 2009. Developed countries were quite not as hit by the global financial crisis as the developing countries were and as such, saw a decline of 24% as opposed to 44% for developing countries in 2009. In Africa, FDI fell from \$72 billion in 2008 to \$59 billion in 2009, recording 19% decline (UNCTAD 2010b). However, the decline in FDI in Africa leaves out South Africa and North African countries. Despite the oil boom, Nigeria in 2007 accounted for only 16% of total FDI inflow to Africa. It's most important role in terms of attracting FDI began grinding due to increasing FDI to other oil rich countries such as Angola and Sudan (Ibi-Ajayi 2006).

3. Discussion

Effect of increased FDI in Renewable Energy on the Oil and Gas sector

Foreign investment in Africa's energy later began to take a twist, with many turning to invest in renewable energy. In Nigeria for instance, HQMC Korea Company Ltd, in 2013 plan to invest \$30 billion to build 10, 000 megawatts solar power plant. Global Africa Network (2017) also put a claim that, Northern Cape has attracted hundreds of millions of Rands in investment in renewable energy, most of which is being put into solar energy plants.

In the same vein, the Bloomberg news agency's report (2018) suggest that large global oil companies have begun joining Silicon Valley in supporting the clean energy project, an indication that those with the deepest pockets in the oil business are looking for ways of divesting their investment outside oil. This makes it more glaring as to why some of the big oil companies like ExxonMobil, Chevron, Royal Dutch Shell and BP of the US displayed their disagreement with president Trump's plan to abandon the Paris COP21 pact (CNNMoney, 2017)

The effect of these manifestations on the oil and gas sector began to show when a sharp decline was recorded in foreign investments into the oil and gas industry, as the NBS disclosed that capital imported into the sector dipped by \$12.74 million to \$8.09 million in the second quarter of 2016 (SweetCrude Report, 2016), representing a depreciation of 61.2 per cent from total inflow of \$20.83 million in the first quarter of 2016. Although, later in the first six months of 2017, between January and June, the FDI into the Nigeria's oil and Gas reached a record high for the first time of about \$291.47 million. Consequently, the future implementation of the Paris climate agreement coupled with the dwindling inflow of FDI might be foreseen as a threat to the Nigeria's Oil and Gas Sector.

Effect of Increased cost of mitigating carbon emissions on the Nigeria's oil and gas sector

The Paris Climate Agreement aims at limiting the increase in global average temperatures to “well below 2°C above pre-industrial levels” – the level above which according to scientists the world will witness the extreme level of global warming.

It also aims at “pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels, recognizing that this would significantly reduce the risks and impacts of climate change”.

In order to actually limit warming to that level, the aim is to “achieve a balance between anthropogenic emissions by sources and removals by sinks of greenhouse gases in the second half of this century” – that is, net carbon emissions to equal zero. This will see corporate social responsibility in relation to pollution control (carbon emissions) by oil and gas companies going high, as such, increasing the cost of production, thereby making clean energy a cheaper alternative.

Effect of Increased infrastructure development, in renewable energy on the Nigeria's Oil and Gas Sector

Part of the Paris deal was that developing nations will continue to receive help from developed countries (UN Framework, 1992) with the costs of going green and the costs of coping with the effects of climate change. Given that, assistance (in form of subsidy) from developed nations (on energy) to Nigeria will hence forth majorly come to renewable energy; attention will therefore be shifted from fossil fuel and focused more on clean energy.

The above was evidenced in recent commitment displayed by some major global stakeholders in the energy industry. The world top producer of oil, Saudi Arabia, declared their intentions of exceeding the initial annual target of 9.5 gigawatts of electricity from clean energy by 2023 (EnergyWorld, 2017). The report also suggests that countries like France, Germany, Netherlands, China, Norway and India among others had already set out strategies to disregard fossil fuel-powered automobiles. Similarly, Nigeria has initiated a Renewable Energy Programme through the Federal Ministry of Environment in fulfillment of the country's pledge to the agreement.

Moreover, to ensure successful implementation of the agreement, a global stock-take is set at year 2023 (and subsequently, after every five years), to assess progress made toward the goals of the agreement. A new transparency framework is therefore

introduced in order to see whether countries are actually carrying out their pledges. In line with the above requirements, the country will have to put in place, the necessary infrastructures like good roads network, telecommunications, security, policies etc. As Ashiedu (2002) posits, good infrastructure stimulates FDI inflows. Nigeria, had also, overtime, produced a number of policy documents to promote renewable energy. One of such was the amendment of the Energy Commission of Nigeria (ECN) Act to include promotion and expansion of renewable and alternative energy sources. By this, increased infrastructure development expenditures on clean energy will be foreseen to have negative effect on the Nigeria's oil and gas Sector.

4. Conclusion and Recommendation

It can be seen from the foregoing that, the transition to clean energy as proposed by the Paris climate agreement will further affect FDI inflow to the Nigerian oil and gas industry, as foreign investors now prefer to keep on producing their existing oil wells instead of funding to discover new oil reserves. This will affect the country's future production volume and export. In the same vein, the increased call for carbon emission control will further see increase in the production cost of oil and gas and this may likely make the production cost of renewable energy cheap. Finally, the upsurge in infrastructure development by both foreign investors and the Nigerian government particularly to facilitate the transition to the clean energy regime might also be seen as a further threat to the country's oil and gas sector.

The Nigerian government should therefore, provide an avenue for local investors to thrive in the sector. This can be done by making the Nigerian Local Content law flexible, ensuring that the National Assembly pass the Petroleum Industry Bill (PIB), and as well provide alternative sources of finance to indigenous investors and NNPC to enable them carryout oil exploration activities in full. Assistance which might be in form of Subsidy should be given to oil companies in relation to carbon emission control. Finally, the government should not neglect infrastructure development in the oil and gas sector.

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