

Nigeria

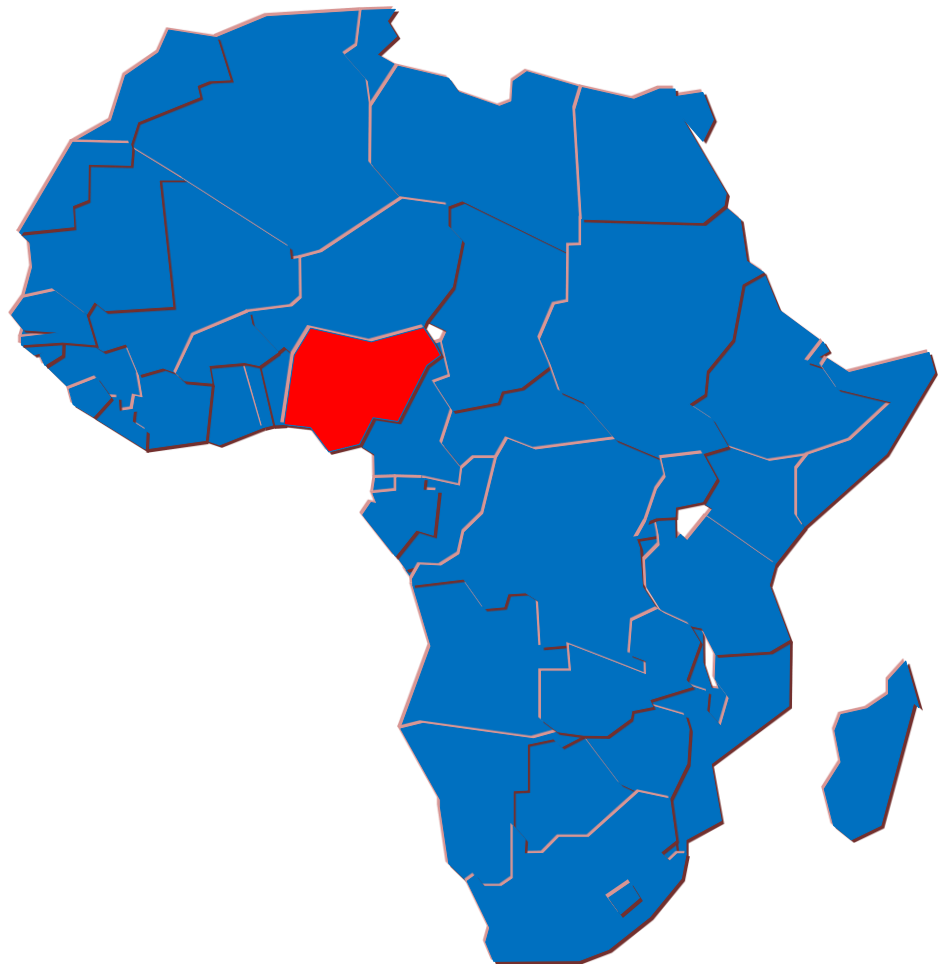
Justified Panic or Overkill? - Reaction to Decline in Nigerian Crude Oil Exports to the U.S.

May 2013

Summary

As far as the recent decline in Nigerian crude oil exports to the U.S. is concerned, coupled with the excitement surrounding changes to the U.S. energy landscape, the general wisdom appears to suggest hitting the panic button. But is it really time to start screaming?

Bargate Advisory has therefore decided to consider this development in a bit more depth, attempting to answer questions pertaining to the international movement of Nigeria's crude oil.



In this report

Summary	This page
Backdrop	1
What has happened to US crude oil imports from Nigeria?	2
What has happened to crude oil exports from Nigeria?	3
What is Bargate's View?	5
So, what next?	5

We find that there is not much cause for panic, as the current crude oil market outlook seems to have absorptive capacity for Nigerian crude oil exports. That is to say, if the US decides to self-serve, someone else will buy. However, we also find that such factors as a structural medium term decline in demand in Asia and the Pacific could change the landscape for Nigeria's crude oil exports.

Backdrop

As far as the news media are concerned, there is nothing wrong with a little bit of the sensational now and again. Why, if Bargate were in that business, we would probably hire Justin Bieber to open every bit of news we put forward. Perhaps this marketing strategy requires a bit more consideration.

In our circles, the coverage of the U.S. "shale gas boom", the dramatic downward change in U.S. net imports of crude oil and petroleum products, and the U.S. drive towards energy independence (or self-sufficiency, depending on who you talk to), has been sensational(ised). So has been the coverage of the impact of these developments on Nigeria's crude oil and petroleum products exports, particularly because the U.S. has been a major crude oil importer.

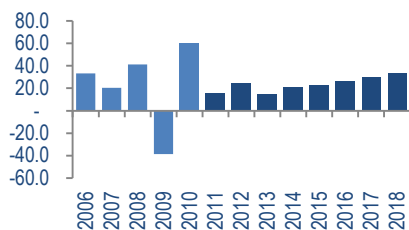
Nigeria at a glance

Population: 162.5 million

GDP (current prices, 2012 est.): US\$268.7bn

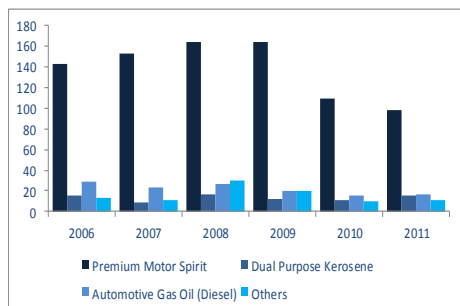
Annual GDP Growth

(Source: IMF; 2011 onwards estimated)



Total Oil Consumption (2011): 141,000 b/d

(Source: Nigerian National Petroleum Corporation, NNPC)



Did you know?

In 2007, Nigeria launched a satellite into space to provide communications and broadband capacity but less than two years later, it was shut down to avoid it crashing into other satellites and causing a mess. Apparently, they have tried again!!

<http://news.bbc.co.uk/1/hi/world/africa/7726951.stm> and <http://www.bbc.co.uk/news/science-environment-14563647>

Why are we doing this?

The general wisdom appears to suggest hitting the panic button, as far as Nigeria's future oil exports to the U.S. (and oil exports in general) are concerned. We decided therefore to consider this rather sensationalised development in a bit more depth.

The aim of this note is therefore to analyse the numbers behind the stories in order to determine the extent to which the recent developments form a trend worthy of the hype and attention they have received of late.

What's our plan of attack analysis?

Bargate has considered some of the numbers and done a quick-and-dirty analysis in the context of hype and reality. We find the reality to not be as frightening as the hype suggests it to be, and we are not at all surprised by this.

This brief note presents our findings as answers to fairly simple questions such as: if global oil demand has not shifted either way in seismic proportion and U.S. oil imports have declined significantly, where has this excess export capacity gone?

A bit of a disclaimer

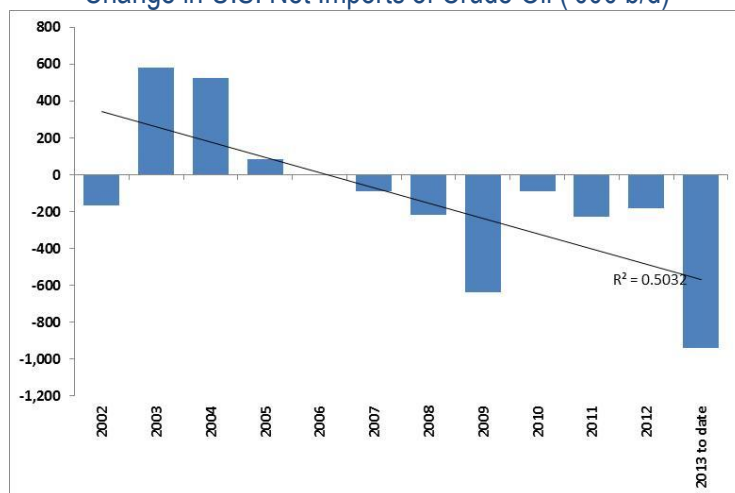
While we are confident that our analysis is based on internally consistent parameters, our views are based entirely on the data we have independently sourced and verified where necessary.

What has happened to U.S. crude oil imports from Nigeria?

Decline in total U.S. crude oil imports by 1.1 mb/d from 8.9 mb/d in 2002 to 7.7 mb/d in early 2013

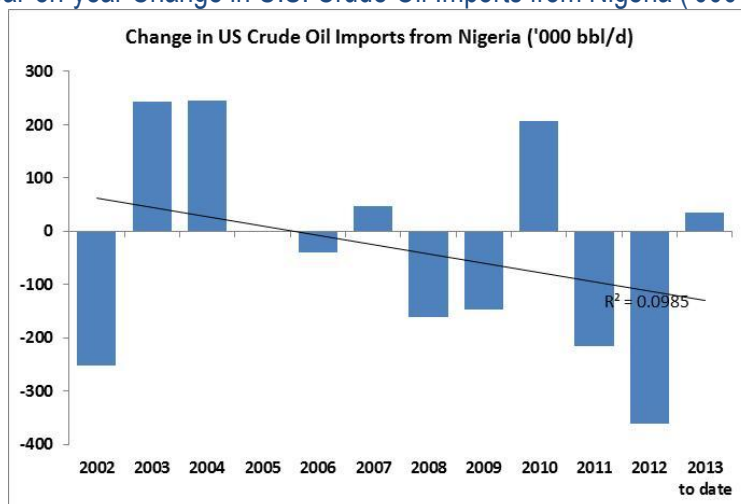
We may as well start from the glaring obvious. The simple answer to this question is that they have declined significantly. And this is what has occupied some of the headlines in rather sensational form (clearly, the theme for this report should have been "sensational").

Change in U.S. Net Imports of Crude Oil ('000 b/d)



Source: Adapted from EIA

Year-on-year Change in U.S. Crude Oil Imports from Nigeria ('000 b/d)



Source: Adapted from EIA, Bargate Advisory

Clear declining trend in U.S. total imports, insufficient data to determine trend with regard to U.S. crude imports from Nigeria.

Key factors: growth in U.S. crude oil production, shale gas, decline in U.S. oil demand.

The U.S. Energy Information Administration (EIA) website maintains very good historical annual data on U.S. crude oil import by source. There would appear to be a declining trend in U.S. crude oil imports from Nigeria, and a more clearly declining trend in U.S. crude oil imports in general.

There are a number of explanatory factors for this, such as the growth in U.S. crude oil production of about 42% from 5 mb/d in 2008 to about 7 mb/d in early 2013, the boom in shale gas production by over 300% from about 1.3 tcf in 2007 to 5.4 tcf in 2010, and of

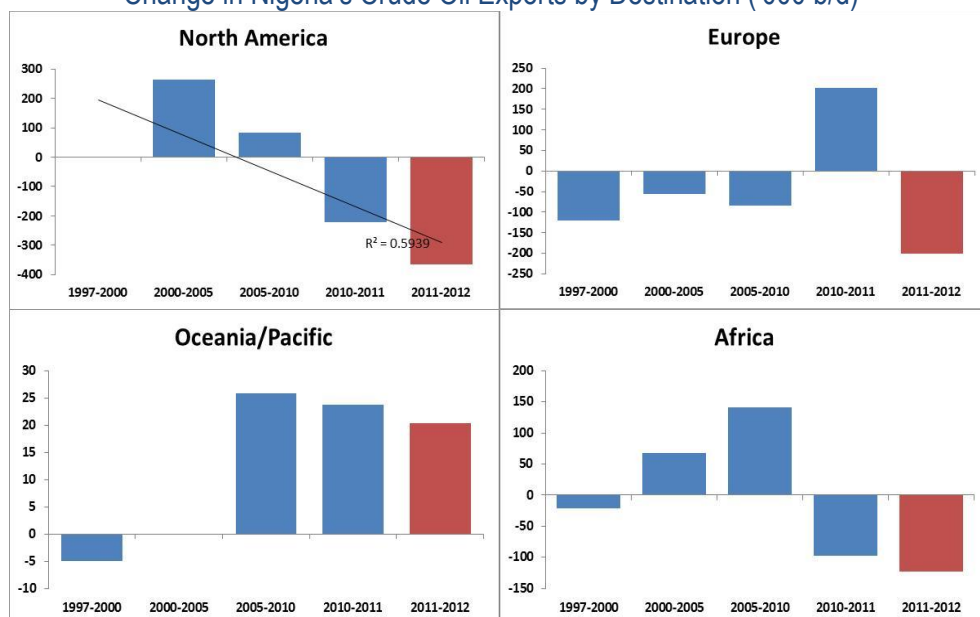
course the sluggish or non-recovery of petroleum consumption which has seen a 1 mb/d drop from the period of the financial crisis in 2008 (19.5 mb/d) to 2012 (18.5 mb/d).

What has happened to crude oil exports from Nigeria?

Hype or reality?

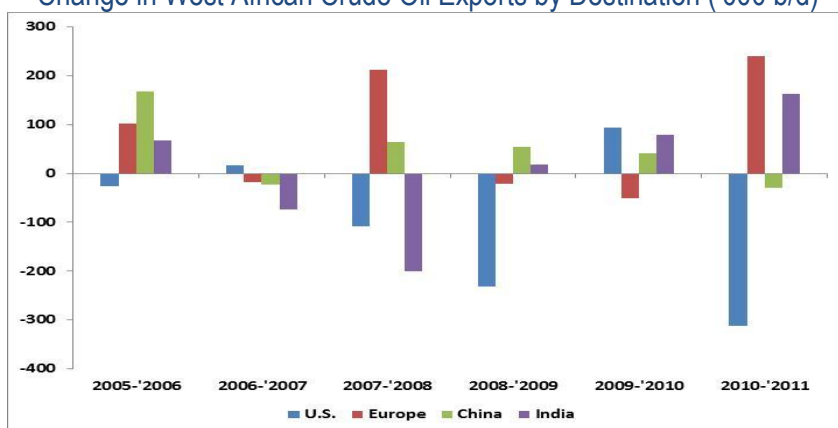
The simple answer is not a great deal. Whilst it is easy – and has been the case for some analysis and certainly the media – to discuss about the serious decline in U.S. crude oil imports from Nigeria and the plethora of implications this could have, the reality is not so glamorous.

Change in Nigeria's Crude Oil Exports by Destination ('000 b/d)



Source: Adapted from NNPC, Bargate Advisory (Red bars are estimates and subject to revision)

Change in West African Crude Oil Exports by Destination ('000 b/d)



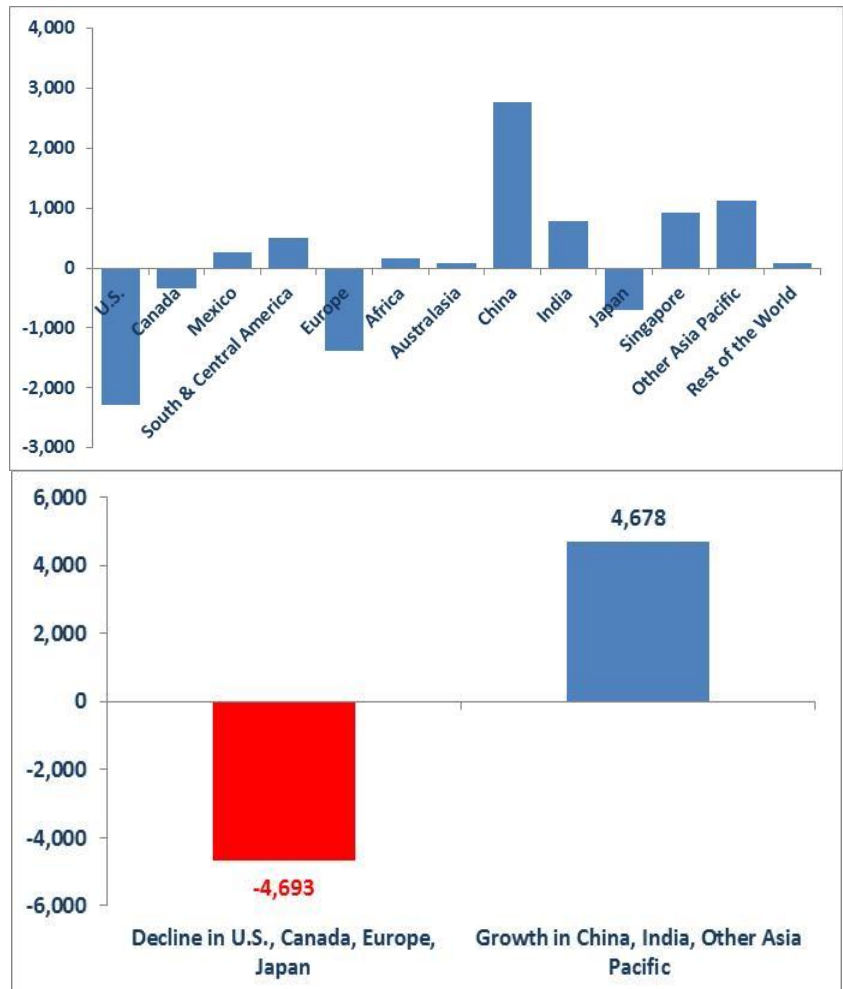
Source: Adapted from BP, NNPC, Bargate Advisory

Absorptive capacity of other markets?

The big decline in exports to the U.S. appears to be absorbed by exports to other markets. For example, about 70% of the 300 kb/d decline in exports to the U.S. for 2011 was absorbed by the 240 kb/d growth in exports to Europe, while there was significant export growth in the same year to India of about 160 kb/d. This is easily explained by the

direction of crude oil import growth over the last five years, as shown in the next set of charts.

Change in Crude Oil Inward Trade Movements by Region 2006 – 2011 ('000b/d)



Source: Adapted from BP, Bargate Advisory

Market balance maintenance? No significant change in crude oil exports from Nigeria, and decline in exports to North America is offset by growth in exports to Asia and the Pacific.

Nearly all of the decline in crude oil imports into the U.S., Canada, Europe and Japan from 2006 to 2011 has been absorbed by the increases in import volumes into China, India and other parts of Asia and the Pacific over the same period.

It is also interesting to note that total crude oil exports from Nigeria have not significantly changed in trend over the past decade. According to data from the Nigerian National Petroleum Corporation (NNPC), crude oil exports between 2002 and 2011 have net increased by about 430 kb/d.

What is Bargate's View?

Our view is that the short to medium term implications of the decline in crude oil imports from Nigeria are not negative. There is absorptive capacity in the global market for easy adaptation of export routes.

We do not hold the view that there is much cause for panic, as the current crude oil market outlook seems to have absorptive capacity for Nigerian crude oil exports. Bargate forecasts oil demand growth in Asia and the Pacific to grow by about 4 mb/d (from 2011 consumption up to 2020), and African oil demand growth to increase by about 800 kb/d over the same time frame. We anticipate declines in North America of about 600 kb/d over the period to 2020.

However, a structural medium term decline in demand in China, India and other Asia (in other words, if a few million people in China opted to sell off their cars and ride bicycles), or even a serious short term shock to these markets could paint a very different picture. In addition, it might be useful to bear U.S. exports in mind. An increase in U.S. crude oil production could lead to domestic capacity overhang and therefore create export justification. This would thus imply potential competition with other export crudes (such as Nigeria's) for growing import markets. We currently do not envisage this scenario unfolding anytime soon.

So, what next?

Well, not a lot really. The international market for crude oil is flexible enough for transactions to respond fairly quickly to changing market dynamics. So far, what Nigeria has lost in crude oil exports to the U.S., it appears to have gained in exports to China, India and other Asia and the Pacific.

Whether or not this development should then be factored into policy and strategic thinking on the part of the Government is another matter. It is certainly worth keeping a close eye on though.

Bargate is happy to provide a more detailed analysis (including long term forecasts) of the international market for Nigeria's crude oil exports on request.

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