

Niger Delta Crude Output Recovery on Track

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Dow Jones Newswires 10/12/2007

URL: http://www.rigzone.com/news/article.asp?a_id=51399

LONDON Oct. 12, 2007 (Dow Jones Newswire)

Crude oil production from Nigeria's troubled Niger Delta region looks set to continue its recovery in the months ahead, Nigeria's finance minister told Dow Jones Newswires Friday.

Shamsuddeen Usman said Royal Dutch Shell's (RDSA) move to lift a force majeure on its Forcados facility pointed to increased supply from Nigeria's crucial oil producing region, where oil production has been hit by persistent attacks from militia groups.

"Things are already getting better in the Niger Delta, if Shell is also telling us this - that things are getting better and that they are beginning to get back in to the areas they left in the Delta - then we can believe it," said Usman. "The local communities are engaged in the process, and the future prognosis is good."

Currently, around 450,000 barrels a day of Nigeria's crude oil production is offline as a result of the violence, but at one stage, 900,000 barrels a day of production was shut in.

The Forcados platform operated at a capacity of 380,000 barrels a day prior to the militant attacks but traders said production from the field has picked up in the last four months.

Continued violence at the heart of the country's oil producing region this year is thought to have dented Nigeria's oil dependent economy and bolstered global crude prices.

Usman's National Assembly 2008 Budget proposal assumes a budget oil price of \$54 a barrel and increased oil production, signaling at least the intent of more expansionary fiscal policy.

But the Minister said he has decided to remain cautious on what the country can expect from its oil revenues.

"We're being more conservative: its the worse case scenario (model)," he said. "The assumption is that it (production) will remain flat, or may go down a little."

In the past, the ministry planned its budget based on \$35 a barrel and in 2006, \$40 a barrel. Then, the excess crude fund was continuously used to make up for shortfalls. The new assumption is \$53.80 a barrel.

"We have upped it slightly to make allowance for potential shortfalls of production," Usman said. "In the past, the effect of the Niger Delta has been underestimated, and we have had to fall back on using the excess crude account. So this time have decided to be more realistic."

Nigeria's oil dependent economy still faces considerable challenges. Its fiscal policy is being squeezed by a 15% public sector wage hike agreed in May amid threats of widespread strike action. The agreement will divert \$1.35 billion away from the country's capital expenditure and \$609 million in new spending for 2007. Windfall oil prices create a comfortable surplus, but Nigeria is still struggling to make its oil pay off in the long term.

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