POUR DEAL: A Nigerian oil trader transfers gasoline into bottles at a road-side market in the commercial capital of Lagos, 2008. **REUTERS/AKINTUNDE AKINLEYE**

A $20 billion "leak"

Sweetheart deals, unpaid fuel subsidies and opaque barter trades may have drained cash from Africa's biggest oil producer.

BY TIM COCKS AND JOE BROCK

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In late 2013, Nigeria's then central bank governor Lamido Sanusi wrote to President Goodluck Jonathan claiming that the state oil company had failed to remit tens of billions of oil revenues it owed the state.

After the letter was leaked to Reuters and a local news site, Jonathan publicly dismissed the claim and replaced Sanusi, saying the banker had mismanaged the central bank's budget. A Senate committee later found Sanusi's account lacked substance.

Sanusi has since become Emir of Kano, the country's second highest Islamic authority, and has smoothed over relations with the president. He declined to discuss his earlier assertions. Before he was sacked, though, the central banker submitted to Nigeria's parliament more than 300 pages of documentation in support of his claim. Reuters has reviewed that dossier, which offers one of the most comprehensive studies of waste, mismanagement and what Sanusi called "leakages" of cash in Nigeria's oil industry. Detailed here, the dossier includes oil contracts, confidential government letters, private presidential correspondence and legal opinions.

Sanusi's letter and documents do not state whether he thinks the money was stolen or lost through mismanagement. Nor did he make allegations of illegal acts against any specific individuals or entities. Both corruption and bad governance are perennial problems in Africa's most populous nation, and central issues in elections due on Feb. 14.

Nigeria's oil industry accounts for around 95 percent of the country's foreign exchange earnings. If Nigeria continued to leak cash at the rate described in his letter to the president, Sanusi said at the time, the consequences for the economy would be disastrous. Specifically, the failure of state-owned Nigerian National Petroleum Corporation "to remit foreign exchange to the Federation Account in a period of rising oil prices has made our management of exchange rates and price stability ... extremely difficult," he wrote. "The central bank of Nigeria is always blamed for high rates of interest," but "given these leakages, the alternative is a devalued currency ... and financial instability."

That is exactly what has happened. As oil prices have plummeted to around $55 a barrel, half their level at the beginning of 2014, Sanusi's successor Godwin Emefiele has devalued the naira, Nigeria's currency, by 8 percent, and raised interest rates for the first time in more than two years.

NO FURTHER COMMENT: Lamido Sanusi was ousted as Nigeria's central bank governor and made Emir of Kano last year. Since then, the leader of the northern Emirate has fallen silent about his investigation into oil money. **REUTERS/STEFAN WERMUTH, JOE PENNEY**

POWER WOMEN: Supporters of President Goodluck Jonathan, above, at a rally last year. He has said he will hand to Nigeria's auditor general a "forensic audit" of the oil industry, commissioned by Finance Minister Ngozi Okonjo-Iweala, below right. Oil Minister Diezani Alison-Madueke, below left, has said the missing sum paid for subsidies. **REUTERS/AFOLABI SOTUNDE, JOSHUA ROBERTS, PASCAL LAUENER**

Nigerian foreign exchange reserves are down around 20 percent on a year ago, while the balance in the country's oil savings account has fallen from $9 billion in December 2012 to $2.5 billion at the start of this year, even though oil prices were buoyant over much of that period. Finance Minister Ngozi Okonjo-Iweala told reporters at a press conference in November that a significant portion of that money was distributed to the powerful governors of Nigeria's 36 states instead of being saved for a rainy day.

Nigerians are rarely shocked by stories of billions going unaccounted for, or ending up with politically powerful individuals. Africa's largest oil producer has for years consistently ranked towards the bottom of Transparency International's Corruption Perceptions Index.

Sanusi handed his documents to a parliamentary inquiry set up last February to investigate the assertion in his letter that billions of dollars in oil revenue had not reached the central bank. He told the inquiry that state oil group NNPC had made $67 billion worth of oil sales in the previous 19 months. Of that, he said, between $10.8 billion and $20 billion was unaccounted for.

A spokesman for the president declined to comment on the specific contents of Sanusi's dossier. He referred to a statement made at the time the banker was pushed out. It said the government "remains committed to ensuring integrity and accountability and discipline in every sector of the economy ... And indeed we look forward to a situation whereby Mr. Sanusi will continue to assist the legislature in their investigations."

Those investigations include a "forensic audit" of the oil industry set up by Okonjo-Iweala. The audit was given to Jonathan on Feb. 2 and he said he would hand it on to Nigeria's auditor general. NNPC said on Feb. 5 it had received a copy of the audit, before it was made public. The firm said the audit cleared it of wrongdoing, although it found NNPC owed the government $1.48 billion for a separate shortfall.

A spokesman for NNPC rejected Sanusi's allegations and referred Reuters to last August's Senate inquiry. The inquiry expressed satisfaction that most of the money not remitted was withheld for legitimate reasons. But it urged the NNPC to remit $700 million that the committee said it could not account for.

Diezani Alison-Madueke, the oil minister who oversees NNPC, did not respond to a request for comment. She told the inquiry at the time that the correct sum for money not remitted was $10.8 billion, which was to pay for subsidies.

The NNPC has consistently said it did nothing wrong. The oil company said last year that Sanusi's allegations came from his "misunderstanding" of how the oil industry works. The central bank is "a banking outfit ... how will they understand petroleum engineering issues?" then managing director Andrew Yakubu asked journalists. "They are not auditors."

Sanusi's claims were seen by some

Nigerians as part of the historic tensions between the country's mostly Christian south and poorer, mostly Muslim north. Jonathan and oil minister Alison-Madueke are Christians from the oil-producing Niger Delta in the south. Sanusi is a Muslim from the country's north, as is Muhammadu Buhari, a former military ruler of Nigeria who is the main presidential candidate running against Jonathan. The two regions have historically taken it in turns to hold the presidency. Since 2009, though, Jonathan has broken with this tradition.

Sanusi has said any notion there were religious or ethnic politics behind his allegations is absurd. He has declined to be interviewed since becoming the Emir of Kano.

But last April, two months after he was sacked but before he took on his new role, Sanusi told Reuters he worried that the sheer quantities of cash going missing were "unsustainable."

"You are taking what doesn't belong to you and transferring it to private hands," he told Reuters. "The state is captive to vested interests."

FAIR SHARES: Theft of crude oil is a problem in Nigeria, top. The poor need imported kerosene, below, for cooking; official subsidies often don't reach them. Last month, NNPC offered the fuel at reduced prices. **REUTERS/AKINTUNDE AKINLEYE, AFOLABI SOTUNDE**

NO-BID CONTRACTS

Sanusi's documents identify three key mechanisms through which Nigeria has allegedly allowed middlemen to channel oil funds away from the central bank. Among the recipients, Sanusi alleges, are government officials and high-flying society figures.

The three mechanisms are: contracts awarded non-competitively to two companies that did not supply services but subcontracted the work; a kerosene subsidy that doesn't help the people it is meant to; and a series of complex, opaque "swap deals" that might be short-changing the state.

Sanusi's concerns around the first of these mechanisms centre on the 2011 sale by Royal Dutch Shell of its interests in five oil fields. The blocks were majority-owned by NNPC. The government, keen to end the domination of the oil industry by foreign oil majors, had been encouraging Shell and others to sell to local firms.

Shell sold its interest in the fields to companies in Poland and Britain. But the new owners did not get the same rights Shell had. To promote local control, the NNPC gave the right to operate the fields to its own subsidiary, the Nigerian Petroleum Development Company (NPDC).

Without soliciting bids, the NPDC signed "strategic partnership agreements" worth around $6.6 billion with two other local firms to manage them.

One firm, Seven Energy, signed for three fields; another, Atlantic Energy, for two.

Seven Energy was co-founded in 2004 by Kola Aluko, an oil trader and Christian southerner. Aluko also co-owned Atlantic with another southerner, former oil trader Jide Omokore. Atlantic was incorporated the day before it signed the deals.

Geneva-based Aluko is a high-profile member of Nigeria's elite. He owns a fleet of supercars, including a Ferrari 458 GT2 that he races with Swiss team Kessel Racing. He also owns a $50 million yacht, according to Forbes magazine, and divides his time between a $40 million home in Los Angeles, an $8.6 million duplex on Fifth Avenue in New York, and homes in Abuja and Geneva. A colleague describes him as a "work hard, play harder kind of guy. He's extravagant. That's just his style."

Aluko, whose stake in Seven is now minimal, did not respond to emailed questions.

Omokore has also become rich from oil and gas. Forbes has estimated annual revenue at another of his companies, Energy Resources Group, at $400 million. His jet-setting lifestyle is a regular feature in the local press. Omokore could not be reached for comment.

Reuters has reviewed the contracts the firms signed with NPDC. They give Seven Energy 10 percent of profits in the three oil blocks it operates, while Atlantic gets 30 percent of profits in its two blocks. The contracts also show that, unlike Shell, neither firm pays royalties, profit tax or duties to the state.

Both companies quickly sub-contracted production work to other operators, according to Sanusi's submission to parliament and several market sources. The companies did not disclose terms of these contracts.

Atlantic does not publish accounts, but Seven's 2013 annual report shows its deal with NPDC helped its revenue more than triple to $345 million.

In May 2013, Nigeria's parliament threatened to investigate the NPDC contracts because they were not issued through competitive tender. But the NNPC argued no tender was needed because the contracts involved no sale of equity in the oil fields; the probe did not go ahead.

Sanusi did not accuse Seven and Atlantic of any illegalities, but he did question why the NPDC chose those companies. His report said the deals' only purpose seemed to be "acquiring assets belonging to the federation (state) and transferring the income to private hands."

Asked about this, NNPC referred to the Senate report, which found that no-bid partnership agreements are not new. It also said that "it may be good policy to encourage indigenous players by giving them greater participation," but called for such deals "to be conducted in a transparent and competitive manner."

Seven did not comment. It says on its website its agreement with NPDC predated the Jonathan administration and included an allowance for taxes. The company says it has invested more than $500 million, more than doubled production from its three blocks, and paid $48.8 million in taxes in 2013. Atlantic did not comment.

$345 million

Revenue at Seven Energy in 2013, after it won oil production deal from NPDC

Source: company accounts

KEROSENE SUBSIDIES

The second mechanism Sanusi's report identifies as problematic is a decades-old state subsidy provided to retailers of kerosene, the fuel most Nigerians use for cooking.

Nigeria lacks the refining capacity to make kerosene, so imports it instead. The government then sells the kerosene to retailers at a cheaper price than the import price. This subsidy is meant to make kerosene affordable for the poor. In reality, though, retailers have long hiked prices so consumers pay much more than official levels.

In June 2009, Jonathan's predecessor, Umaru Yar'Adua, ordered a halt to the scheme on the grounds that it was not working. But the subsidies carried on regardless. The NNPC told parliament last February that it still deducts billions of dollars a year from its earnings to cover it.

In his report, Sanusi called the kerosene subsidy a "racket" that lines the pockets of private kerosene retailers and NNPC staff. The report estimated the cost of the subsidy at $100 million a month. It said kerosene retailers – there are hundreds of them around the country – routinely charged customers much higher prices than the government pays to import the fuel.

Sanusi's report included an analysis of kerosene prices across Nigeria's 36 states over two years. It found that the government buys kerosene at 150 naira per litre from importers and then sells it to retailers at just 40 naira per litre. Sanusi's analysis found consumers pay an average of 170-200 naira per litre, and sometimes as much as 270 naira.

"The margin of 300 percent to 500 percent over purchase price is economic rent, which never got to the man on the street," Sanusi wrote.

NNPC said in a statement last year that it can't force retailers to sell kerosene at the subsidised price.

SWAP DEALS

The third mechanism Sanusi identified involves other types of refined petroleum products, such as gasoline. Like kerosene, these are also imported. Nigeria is Africa's biggest oil producer but it depends on imports for 80 percent of its fuel needs because its refining capacity is tiny.

To pay for the imported products, Nigeria barters its crude oil. Sanusi's dossier focuses on these barter exchanges, which are known as "swap deals." The idea is that importers who bring in refined fuel worth a given amount receive an "equivalent value" in crude oil.

SPILLAGE: An oil-producing village near Nigeria's oil hub city of Port Harcourt in 2013.
REUTERS/AKINTUNDE AKINLEYE

How that equivalent value is determined is unclear. Sanusi said he was uncertain how much, if anything, is lost in these deals. But he expressed concern at the sheer value of oil that changes hands and the lack of oversight. His report estimated that between 2010 and 2011, traders involved in swap deals effectively bartered 200,000 barrels of crude a day – worth nearly $20 million at average crude prices over the period - for a loosely determined equivalent value in refined products. It is impossible to tell, he said, if all the refined products were delivered, let alone if the terms were fair.

"It was clear to us that these transactions ... were not properly structured, monitored and audited," he wrote.

Sanusi wrote in his report that mismanagement and "leakages" of cash in the industry cost Nigeria billions of dollars a year.

Since the price of oil has fallen by around half since the start of 2014, such losses are even more significant. As it approaches elections, Nigeria faces plummeting oil revenues and a lack of buffers to shield the economy. Construction projects are on hold and the government is struggling to pay its sizeable workforce.

Multiple scandals in the oil sector since Jonathan took power have boosted the popularity of his rival, former military leader Muhammadu Buhari. Remembered by some for deposing a civilian government in a 1983 coup and trampling on civil liberties, the sandal-wearing general often promises to "free Nigeria from corruption."

Jonathan, too, says he will "clean up" Nigeria. By using technology and strengthening institutions, "I will solve the problem of corruption in this country," he told a crowd in Ibadan in January.

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