

INSIGHTS

Nigeria's upstream petroleum sector: looking back at 2020 and looking ahead in 2021

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We review what happened in Nigeria's upstream petroleum sector during the previous year – a year that saw a new marginal field bid round, an oil price crash and the onset of a terrible global pandemic. We also consider what we can expect in 2021 and if this will be the year the Petroleum Industry Bill finally overhauls the sector.

What happened in legal matters?

Upon his re-election in 2019, President Buhari set out an ambitious plan to pass the Petroleum Industry Bill (PIB) by the end of 2020. He did not achieve that. However, progress was made: the PIB passed its second reading in both the Senate and the House of Representatives in Nigeria in Q4 2020 and is now under committee review.

The PIB looks closer than ever to becoming law. Key proposed changes in the draft presented to the National Assembly include:

- **New governing bodies:** The PIB establishes two new regulatory bodies: (1) The Nigerian Upstream Regulatory Commission, responsible for the technical and commercial regulation of upstream petroleum operations; and (2) The Nigerian Midstream and Downstream Petroleum Regulatory Authority, performing the same role for midstream and downstream petroleum operations.
- **New (and reduced) Ministerial role:** The Minister of Petroleum retains general supervision over petroleum operations but his existing powers to grant and revoke licences require supporting recommendation from the Commission.
- **New NNPC:** The existing NNPC is replaced with a newly incorporated limited liability company (NNPC Limited) that (for now) remains Government owned. NNPC Limited will operate on a commercial basis without Government funding and is subject to requirements to publish annual reports and audited accounts.

- **New tax regime:** The key change. Broadly, the PIB looks to shift fiscal take from profit taxation towards production and price based royalties. The current petroleum profit tax will be replaced with a new hydrocarbon tax and the application of companies income tax (which previously did not apply to oil production). The hydrocarbon tax would apply to crude oil, condensates and natural gas liquids but not associated / non associated gas.

Licence	Location	Hydrocarbon tax rate
New licences granted after PIB in force	Onshore (including marginal fields)	22.5%
	Shallow water (including marginal fields)	20%
	Deep offshore	10%
Licences converted under PIB	Onshore	42.5%
	Shallow water	37.5%
	Deep offshore	5%

- **Revised royalty rates:** production and price-based royalties apply:

Crude oil	Production level	Royalty
Onshore	<5,000 bpd	5%
	5,000 – 10,000 bpd	7.5%
	>10,000 bpd	18%
Shallow water	<5,000 bpd	5%
	5,000 – 10,000 bpd	7.5%
	>10,000 bpd	16%

The existing rates of 10% for deep offshore and 7.5% for frontier basins are unchanged.

- ○ *Crude oil by price*: 0% for an oil price of below US\$ 50 per barrel, 5% at an oil price of US\$ 100 per barrel and 10% for above US\$ 150, with linear interpolation between these markers. These rates are for 2020 and are to be increased by 2% each year. No royalty is payable in frontier acreage.
- *Natural gas*: 7.5% for onshore acreage and 5% for deep offshore, shallow water and frontier basins.

- **Grandfathering or voluntary conversion of existing licences:**

Last year also saw proposed changes to Nigerian content requirements. The Nigerian Content Development and Enforcement Bill (Bill) proposed to repeal and replace the Nigerian Oil and Gas Industry Content Development Act 2010. Important changes in the draft Bill we saw included the end of charging of the content development levy, with the Board to instead receive funding from the Government (however the power and solid mineral industries will face content levies). However, this Bill has not yet become law.

What happened in politics / regulatory matters?

Amid a global pandemic and low oil price environment, 2020 was a challenging start to President Buhari's second term. The Nigerian economy risks falling into its second recession in four years.

Nigeria's Department of Petroleum Resources launched a new marginal field bid round in June, with 57 marginal fields made available and new guidelines released to cover the bid process. More than 600 companies reportedly applied with 161 companies being shortlisted as bidders in the ongoing process.

Nigerian Minister of State for Petroleum Resources Timipre Sylva designated 2020 as the "year of gas". The year began with the final investment decision on Nigeria LNG's Train 7 project which promises to increase LNG production capacity by 35%. This was swiftly followed by the launch of the Nigeria Gas Transportation Network Code and the Nigerian Gas Flare Commercialization Programme. The last of three national plans focused on gas development and monetisation, the National Gas Expansion Programme, was rolled out in December.

What deal activity happened?

Petrobras concluded the sale of its 50% in Petrobras Oil & Gas BV (which held stakes in the Egina and Agbami fields) to Africa Oil at the start of the year. Many of the majors have continuing sale processes for their stakes in Nigerian assets. Shell completed the sale of its 30%

interest in OML 17 to TNOG Oil & Gas Ltd for US\$ 533 million at the start of 2021. Total E&P Nigeria Ltd and Nigerian Agip Oil Co Ltd have also assigned their interests in the lease, giving TNOG Oil & Gas Ltd a total interest of 45%.

Beyond M&A, a number of high-profile cases related to Nigerian assets and deals continue to progress through the courts. Nigeria continues to challenge a now approximately US\$ 10 billion (including interest) arbitration award related to a 2010 gas project agreement between the Nigeria Government and Process and Industrial Developments.

What is expected in 2021?

- **Legal:** The PIB still looms large over Nigeria's petroleum sector. Timipre Sylva, Nigeria's Minister of Petroleum, has reportedly predicted that the PIB will be passed by the first quarter of 2021. Key players in the industry appear to be aligned on the need to finally settle the PIB and make meaningful reforms of the sector this year. For now, the legislation still awaits committee review and consultation before being ready for Presidential assent and becoming law.
- **Regulatory:** The marginal field awards are expected to be made this year. Once winning bidders are selected, there will be award fees to pay and joint ventures and financing to agree, as well as farm out agreements with the wider OML holders. A new oilfield licensing round has also been rumoured for 2021 (following delays due to the COVID-19 pandemic). This is expected to be centred on deep-water acreage that remains significantly under-explored.
- **Deal activity:** Several majors continue to progress sizeable divestments of onshore and offshore acreage.
- **Projects:** The Dangote mega refinery, hailed to be key in ending Nigeria's fuel imports, is set to be operational this year. Progress on the AKK, OB3 and ELPS-2 gas pipeline projects is also hotly anticipated as the need to develop key gas infrastructure in Nigeria grows.