Nigerian Oil and Gas Industry Update

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Introduction

The first quarter of 2022 has been eventful for the global oil and gas industry. With oil prices reaching their highest in a while, it appears that the industry is now in recovery from the Covid-19 Pandemic ("Pandemic"). Contributing to the increased oil prices is the fact that many countries are now opening their boarders and dropping the Covid-19 protocols they had put in place[1]. This move has generally encouraged movement both domestically and internationally, increasing the demand for petroleum and related products.

Russia's war in Ukraine has also significantly impacted the price of crude oil, causing price to rise to an all-time high. As a result of the invasion, many of the western countries imposed a ban on Russian oil and gas. The ban, together with the attack on Saudi Aramco's Jeddah depot, caused a further spike in the price of crude to over $120 per barrel in the first quarter.

On a domestic level, Nigeria is witnessing assets divestments by International Oil Companies (IOCs), the inconclusive 2020 marginal fields bidding rounds and the operationalization of the Petroleum Industry Act (PIA).

With this eventful start, 2022 may signal the recovery for the Nigerian Oil and Gas Industry, bringing its performance to a level better than the pre-pandemic levels. This edition of the newsletter focuses on some noteworthy developments and the impact of these developments on the growth of the Nigerian Oil and Gas sector and the economy at large.

1. NURPC and the PIA Implementation Process

The Nigerian Upstream Petroleum Regulatory Commission (NUPRC) has invited input/comments from lessees, licensees, permit holders, host communities, and other stakeholders in the Nigerian upstream petroleum sector. The notice, which was posted on the NUPRC website (former DPR website), called for input from the relevant parties within twenty-one (21) days from the date of the publication.
The matters requiring input from the relevant stakeholders relate to several regulations covering Conversion and Renewal of OPL and OML Regulations, Petroleum Licensing Round Regulations, Upstream Petroleum Fees Regulations, Petroleum (Drilling and Production) Regulations, The Petroleum Royalty Regulations, The Gas Pricing Regulations, Definitions Regulations, Upstream Environmental Remediation Fund Regulations, Upstream Environmental Management Plan Regulations and The Host Community Development Fund Regulations. Please see the link to the regulations here.

Stakeholders are to review the proposed regulations and submit their input, as part of the process of consulting with the stakeholders prior to the finalization of the regulations, as stated in the PIA. The submissions are to be made on a comment sheet via email, also available on the website.

It is not yet clear what the impact of the proposed 18-month extension to the implementation of the PIA will be. Certainly, the PIA Implementation Committee has continued to work to ensure the operationalization of the PIA.

2. Russia's War in Ukraine and its Effect on Oil Prices

On 24 February 2022, the world woke up to the news of the Russian invasion of Ukraine. As a result, global oil prices skyrocketed, rising from about $76 per barrel at the beginning of January to over $100 per barrel at the end of March, leaving crude oil prices at the highest in a long time. The increase is also attributable to other factors, including higher demand for crude oil and gas, especially following the economic recovery from the pandemic.

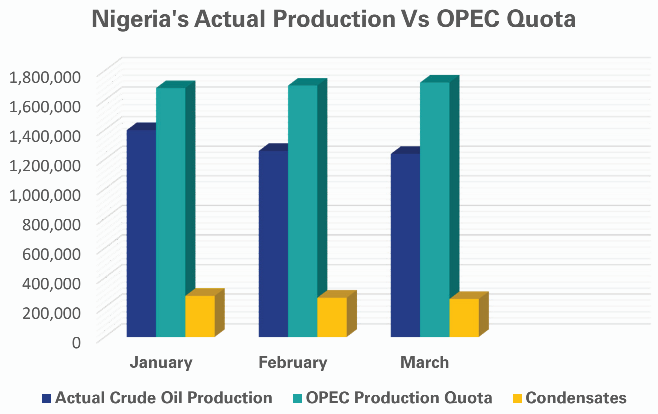
[1] China has continued to impose lockdowns in Covid-pervasive areas, such as Shanghai.

Russia, one of the largest producers of oil and gas, was severely sanctioned by several western countries because of the invasion. Some of these countries have also announced their intention to ban Russian oil and gas.

The western countries have decided to implement a coordinated approach of releasing oil from their strategic reserves to cushion the impact of rising oil prices on their citizens. For example, the US has implemented the release of 1m barrels per day for the next 6 months. However, it is doubtful whether the release from the strategic reserves will have a significant and long-term effect on crude oil price. It is also doubtful whether the other oil producers would be able to compensate for the lost Russian oil barrels arising from the ban. This will clearly worsen the supply situation. Given that Russia is one of the three biggest oil producers and the inability of most members of OPEC to meet their production quotas, the expectation is that oil price may rise to $150 per barrel.

3. Oil Revenue Plunges as Nigeria Misses OPEC Quota

It is no longer news that Nigeria is struggling to meet its OPEC production quota as shown below:



Source: **NURPC**

The inability of Nigeria to fulfill its allocated output has resulted in a significant decline plunge in the country's projected oil earnings, as the 2022 budget estimated a daily production of 1.88mbpd, a far cry from current reality.

Nigeria is unable to reap the benefits of the monthly increase of about 18,000 barrels per day in its quota because of a couple of issues affecting the country's production capacity. These issues include oil theft, oil pipelines vandalism incidents, delay in the full implementation of the PIA, aging infrastructure, and technical issues. Many operators are currently exploring alternative routes for evacuating their crude to manage the incidence of theft.

4. Divestment by IOCs

Shell and Exxon Mobil are currently divesting their onshore and shallow water assets in Nigeria. Since the companies are keeping their offshore assets, this shows that it is safer to operate these assets compared to onshore/shallow water assets. The current divestment program, which started last year, has gained significant traction in the first quarter of 2022 and may be concluded by the end of this year.

Although the divestment is an opportunity for domestic oil companies to acquire and strengthen production output, some stakeholders have received the news with mixed feelings, especially given the fact that these companies were actively involved in ensuring the enactment of the PIA. The Petroleum and Natural Gas Senior Staff Association of Nigeria (PENGASSAN) has expressed fear over the increasing divestment by the IOCs, urging the Federal Government to provide more incentives to encourage the IOCs to remain in Nigeria.

5. Update on the 2020 Marginal Field Bidding Round

The NUPRC has indicated that the Federal Government has realised one hundred and seventy-four billion Naira (₦174 billion) by way of signature bonus from the 2020 marginal field bidding round.

However, this bidding round is far from being concluded as the Commission had, in a public notice, indicated that some of the winners of the assets (31 companies) could not pay the signature bonus fee, prompting the withdrawal of the award letters. The Commission intends to call on the reserve bidders for this purpose.

With the increasing decline in production and the significant variance with the OPEC production quota, it is important for the marginal field bidding round to be concluded as soon as possible, to enable successful bidders bring their fields to production and contribute to meeting the country's production quota.

Conclusion

The Oil and Gas Industry is off to an interesting start with the increase in oil prices. However, Nigeria needs to fix its infrastructure deficit to enable the country maximise the increase in both prices and production quotas. The time to resolve these issues is now, as many countries embrace the net-zero campaign and move to fund projects that reduce the carbon emission footprints.

How we can help

At KPMG, our purpose is to inspire confidence and empower change. We have an Oil and Gas Team, which comprises professionals with diverse experience and knowledge in accounting, tax, mergers and acquisitions, advisory and regulatory practices. You can, therefore, count on us as a valuable partner with respect to meeting your needs in the industry. Please contact the following for additional information:

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