



# Nigeria's oil and gas outlook and Nigerian content

## **Sector profile pack for the IQPC Webinar**

This presentation has been designed to provide an overview of the potential opportunities and the impact of new fiscal terms that may come to play

*Presented by: Ayo Luqman Salami*

August 2018





# contents

01

Introduction

Page 3

04

Nigerian content

Page 17

02

Overview of the Nigerian oil and gas industry

Page 4

05

Conclusion

Page 21

03

Market outlook

Page 10

06

KPMG in Nigeria

Page 23

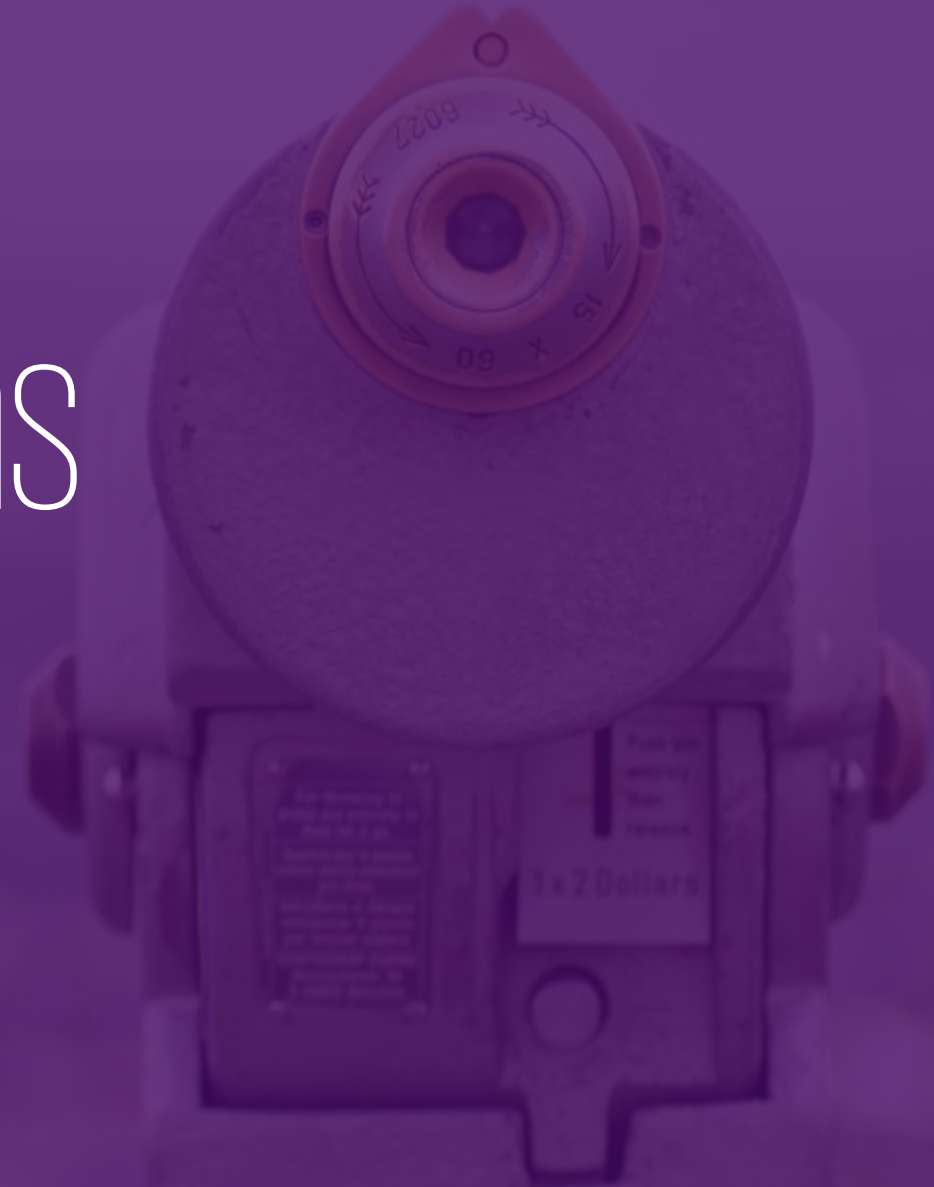


# Introduction

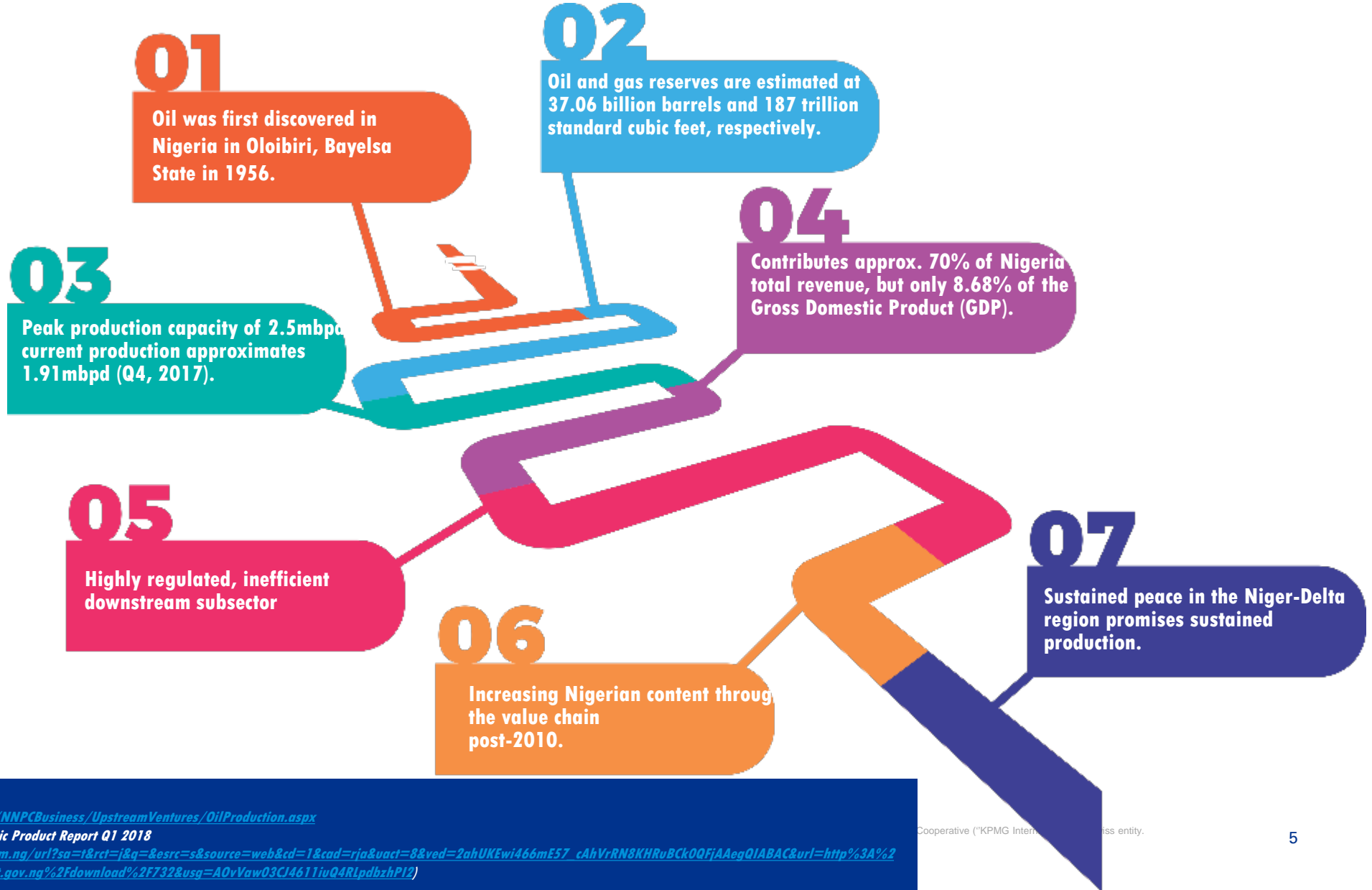


# Overview of the Nigerian oil and gas industry

- **Background & relevant statistics**
- **Major sectors**
- **Operating arrangements**
- **Tax legislation and applicable taxes/levies**
- **Tax incentives**



# Background & relevant statistics



Source:  
<http://nnpcgroup.com/NNPCBusiness/UpstreamVentures/OilProduction.aspx>  
Nigerian Gross Domestic Product Report Q1 2018  
([http://www.google.com.ng/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKewi466mE57\\_cAhVrRN8KHRuBCk0QFjAAegQIABAC&url=http%3A%2F%2Fwww.nigerianstat.gov.ng%2Fdownload%2F732&usq=AOvVaw03CJ4611iuQ4RIpdbhzhP12](http://www.google.com.ng/url?sa=t&rct=j&q=&esrc=s&source=web&cd=1&cad=rja&uact=8&ved=2ahUKewi466mE57_cAhVrRN8KHRuBCk0QFjAAegQIABAC&url=http%3A%2F%2Fwww.nigerianstat.gov.ng%2Fdownload%2F732&usq=AOvVaw03CJ4611iuQ4RIpdbhzhP12))

Cooperative ("KPMG Intern...")

# Overview of the Nigerian oil and gas industry

## Major sectors

### Upstream



Exploration and production activities

**Taxation governed by Petroleum Profits Tax Act**

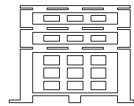
### Midstream



Storage, transportation, and processing of natural gas

**Taxation governed by Companies Income Tax Act**

### Downstream



Refining, marketing and retail distribution of petroleum products

**Taxation governed by Companies Income Tax Act**

## Operating arrangements

**Joint Venture (JV)**

**Production Sharing Contract (PSC)**

**Risk Service Contract (RSC)**

**Sole Risk**

# Overview of the Nigerian oil and gas industry

## Tax legislation & key applicable taxes/levies

### Petroleum Act, Cap P10 LFN 2004 (PA)

Regulates the conduct of “petroleum operations” in Nigeria. It vests ownership and control of Nigeria’s oil resources in the Federal Government (FG) through the agency of the Ministry of Petroleum Resources (MPR) and the Nigeria National Petroleum Corporation (NNPC).

### Petroleum Profits Tax (PPT) Act, Cap P13 LFN 2004

Governs the taxation of the profits of companies engaged in “petroleum operations” in Nigeria. For JV operations, PPT is assessed at either 65.75% (for the first 5 years of operation) or 85% thereafter. The PPT rate is 50% for PSC operations irrespective of the years of operation.

### Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSCA) Cap. D3, LFN, 2004

Gives effect to the fiscal incentives granted to oil and gas companies having PSC arrangements with the NNPC, and other companies operating in the deep offshore and inland basin areas of Nigeria. Deep offshore is defined as areas from water depth of 200 meters and above.

PPT rate for this category is 50%.

### Companies Income Tax Act (CITA)

The law imposes tax on the income of all companies other than those engaged in “petroleum operations”. Companies Income Tax (CIT) is chargeable at the rate of 30% of taxable profits.

### Value Added Tax (VAT) (Amendment) Act 2007 (VATA)

Governs the administration of VAT in Nigeria.

VAT is chargeable at 5% on qualifying goods and services.

### Withholding Tax (WHT) Regulations

Govern the imposition of tax at source on fees and contract sums payable to chargeable companies operating in the Nigerian oil and gas industry. WHT is chargeable at 5%, 7.5% or 10% on qualifying goods and services (depending on the nature of the contract and the beneficiary of the payment).

### Tertiary Education Trust (TET) Fund (Establishment, Etc.) Act 2011

Requires every company incorporated in Nigeria to pay 2% of its assessable profit as TET. This payment is tax-deductible for PPT purpose.

### Nigerian Oil and Gas Industry Content Development Act (NOGICDA) 2010

Designed to increase the level of participation of Nigerians and Nigerian companies in the country’s oil and gas industry. Requires, amongst others, that the sum of 1% of all contracts awarded to any operator, contractor, subcontractor or any other entity involved in the upstream sector of the Nigerian oil and gas industry shall be deducted at source and paid into the Fund upon award of contracts. In practice, however, the levy is paid upon invoicing, not on contract award.

### Niger Delta Development Commission (NDDC) Act

The NDDC was created in response to the demands of the people in the Niger Delta, with the sole mandate of formulating guidelines and policies for the development of that region. Oil producing companies (including gas processing companies) operating onshore and offshore in the Niger-Delta area are to contribute 3% of their annual budget (operating and capital expenses) to the NDDC Fund. The levy is tax-deductible for PPT purpose.

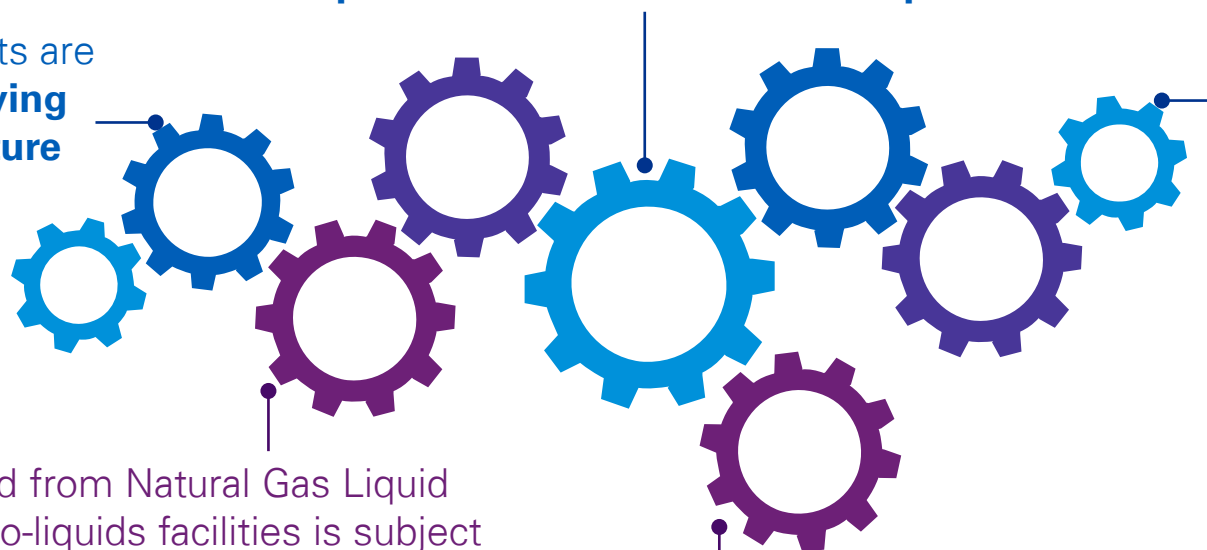
# Overview of the Nigerian oil and gas industry

## Tax incentives - Upstream sector

**Capital investment** on facilities and equipment required to deliver associated gas in usable form at utilisation or designated custody transfer points is **treated** as part of the **capital investment for oil development**

**All** capital investments relating to **gas-to-liquid facilities** shall be treated as recoverable against crude oil income

Pre-production costs are treated as **qualifying capital expenditure**



Gas transferred from Natural Gas Liquid facilities to gas-to-liquids facilities is subject to **0% PPT** and **0% royalty**

Gas income is liable to CIT at **30%**

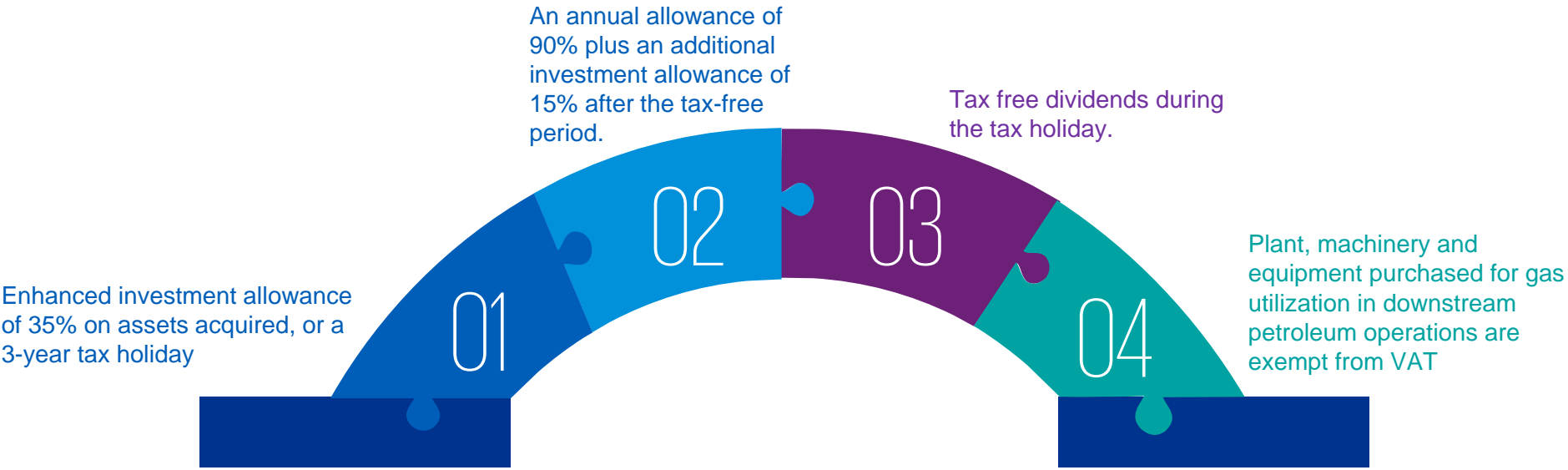
*These incentives apply to both associated and non-associated gas*



# Overview of the Nigerian oil and gas industry

## Tax incentives - Midstream/Downstream sector

### Gas utilization companies in downstream operations:





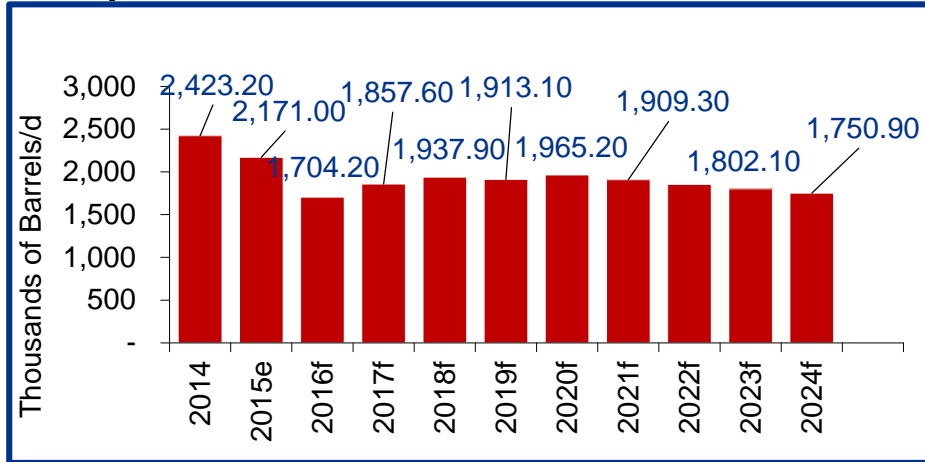
# Market outlook

- Industry outlook - where are we headed?
  - what will shape the Nigerian oil and gas industry in the next decade?

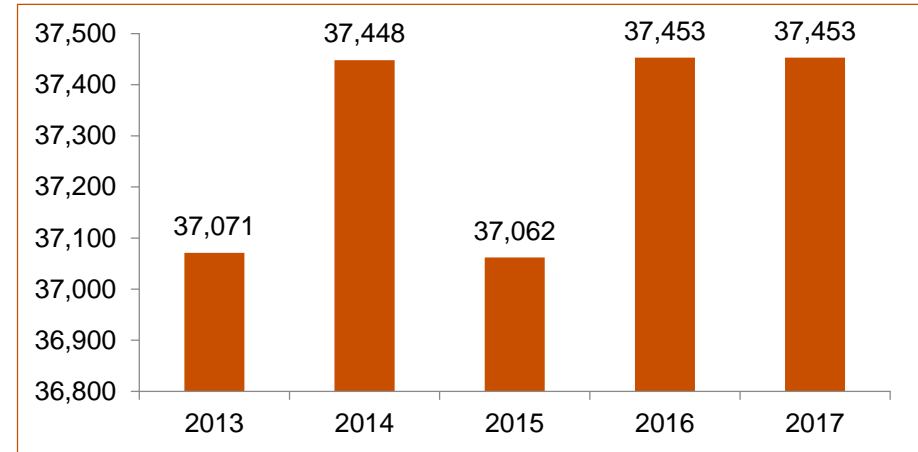
# Market outlook

## Industry outlook - where are we headed?

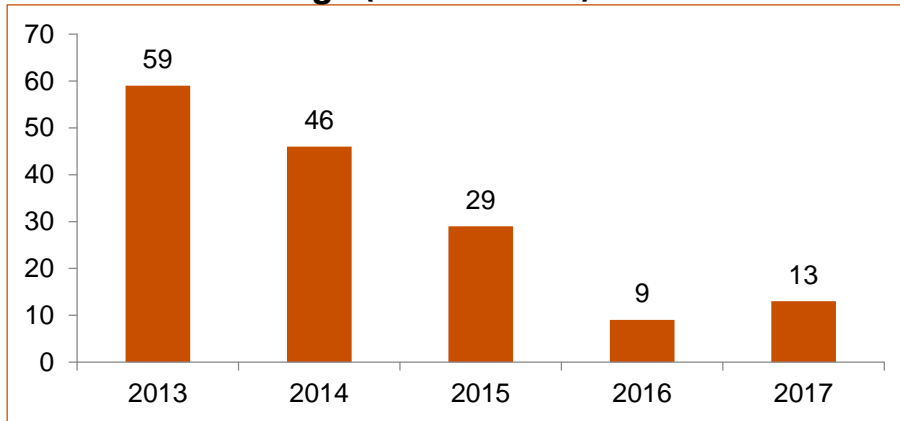
### Oil production forecast (2014-2024f)



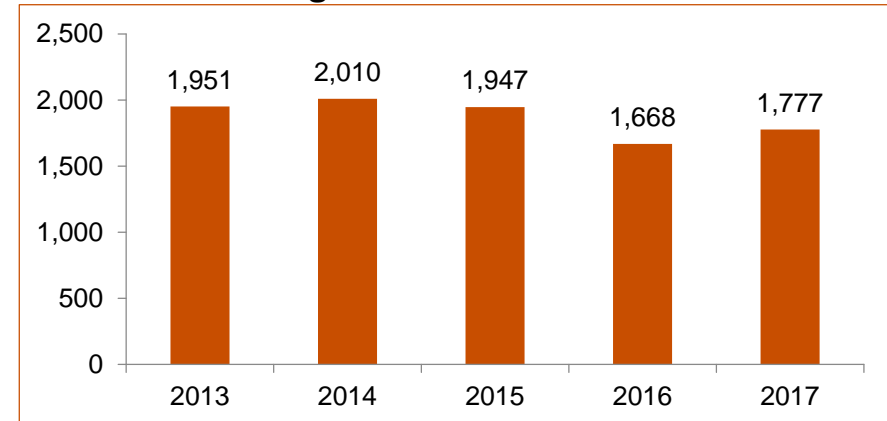
### Proven crude oil reserves (2013 - 2017)



### Active rigs (2013 - 2017)



### Producing wells (2013-2017)

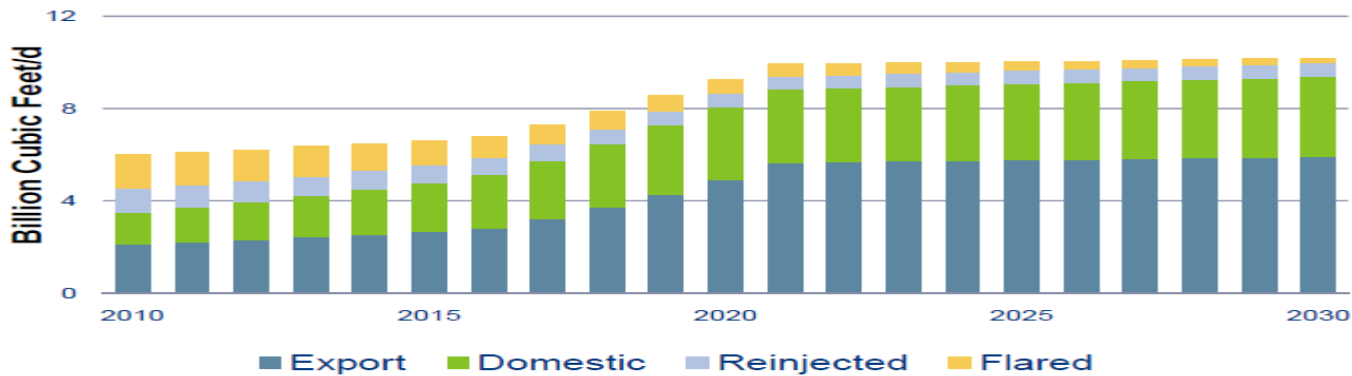
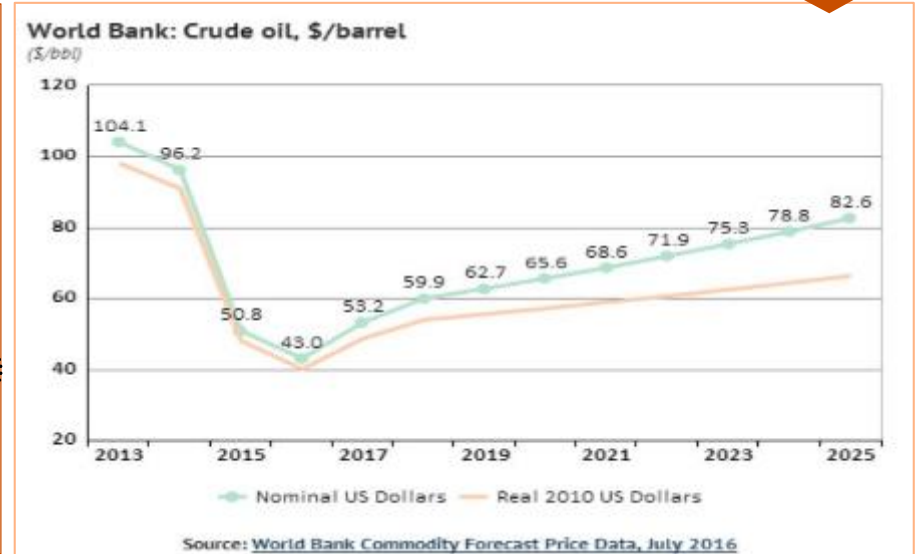
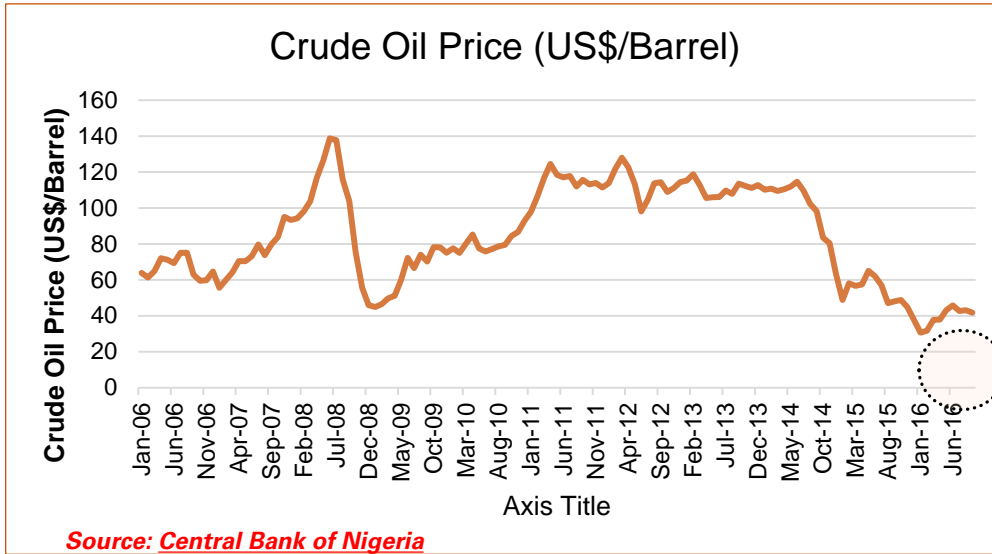


Source: OPEC Annual Statistical Bulletin 2018

# Market outlook (cont'd)

## Industry outlook - where are we headed?

### Trend in crude oil price and projection up to 2025



Source: WoodMackenzie/ NLNG Yearly Bulletin



© 2018 KPMG Advisory Services, a partnership registered in Nigeria and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. Printed in Nigeria.

# Market outlook (cont'd)

## Industry outlook - what will shape the Nigerian oil and gas sector in the next decade?

### Oil Price, Local Production & Efficiency

- Volatility of price to affect government revenue and ability to deliver on social contract with its people.
- Ability to sustain the relative peace in the Niger Delta will enhance or disrupt production level.
- Increasing emphasis on reduction of cost of production per barrel.
- Gas flare stoppage.

### Regulation

- Possible enactment of the Petroleum Industry Governance Bill, PIFB and Host Community Bill.
- Concerted efforts at implementing the Gas Master Plan.

### Mergers and Acquisition

- Divestment of onshore activities by oil majors to indigenous players in the oil and gas sector.
- Increased collaboration between major International Traders and local downstream players to promote increased competition.

### Emergence of LPG

- Increasing demand for LPG/ domestic gas market expansion due to removal of subsidy payments on kerosene.
- Scarcity of foreign exchange and the emergence of soon-to-be-completed Dangote's Lekki refinery are likely to spur investment in local refining.

### Climate Change

- More sensitivity to climate changes and emission levels.
- IOC-championed environmental drives and initiatives, spurred by the implementation of global environmental strategies





# Nigerian Content

- **Background & necessity**
- **Objectives**
- **Success stories**
- **Challenges**

# Nigerian Content

## Background & necessity

### Background Nigerian

- The Nigerian Oil and Gas Industry Content Development Act (NOGICDA) was enacted in 2010
- Pre-2010, Nigerian Content was regulated by policy statements and directives issued by the Nigerian National Petroleum Corporation (NNPC), “Nigerianisation” provisions in the Petroleum Act of 1969, Petroleum (Drilling and Production) Regulations, Joint Operating Agreements and PSCs

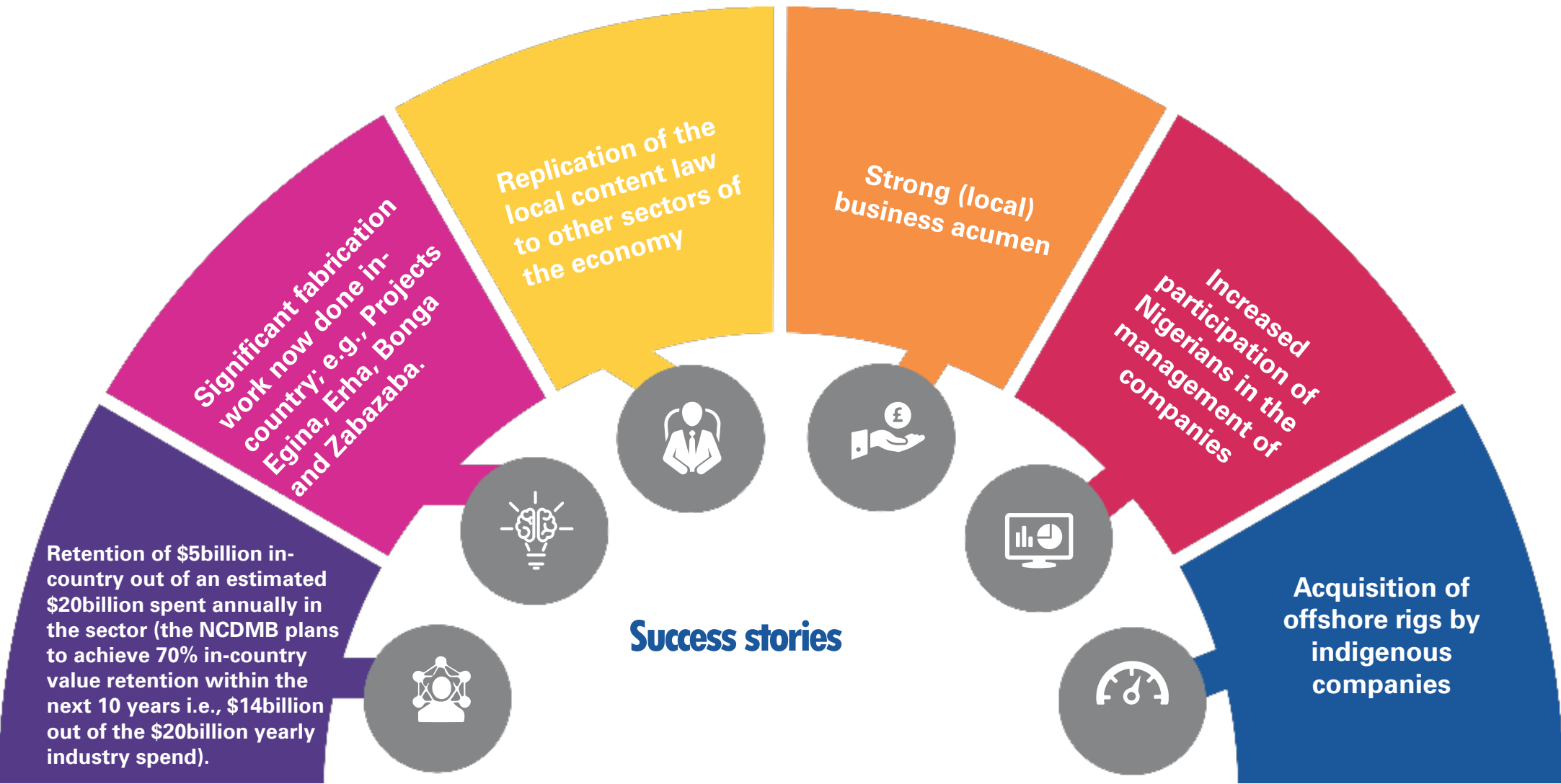
### Justification for Nigerian Content Nigerian

- Create an economic engine for growth: driving employment and wealth creation
- Optimise value from the nation’s oil and gas industry, and foster improved linkage between the industry and other sectors of the Nigerian economy
- Promote the development of indigenous capacity and improve the participation of Nigerian companies in the activities carried out in the industry

### Objectives of the Nigerian Content law

- Reduction of capital flight.
- Value creation/addition to the Nigerian economy
- Development of local capacity/ increased utilisation of Nigerian human and material resources and services
- Acceleration of transfer of skills and technologies
- Job creation for Nigerians

# Nigerian Content





# Nigerian Content

---

## Challenges

01

**Insufficient local skill**

02

**Poor state of infrastructure**

03

**Resistance to technology and IP transfer**

04

**High cost of funding**



# Conclusion

# Conclusion

- ❖ Significant opportunities exist in the gas value chain – upstream, mid-stream and downstream – with incentives already codified into law.
- ❖ Executive Order on Transparency & Efficiency in the Business Environment
  - Nigeria now up 24 places to 145<sup>th</sup> in the World Bank Ease of Doing Business Index in 2017
- ❖ Political stability is driving growth; with relative stability in the Niger-Delta region
- ❖ Success stories of thriving foreign and local businesses, with the later building capacity
- ❖ Returns outweigh the risks for businesses with the right market entry strategies
- ❖ ***Nigeria beckons!***



# KPMG in Nigeria

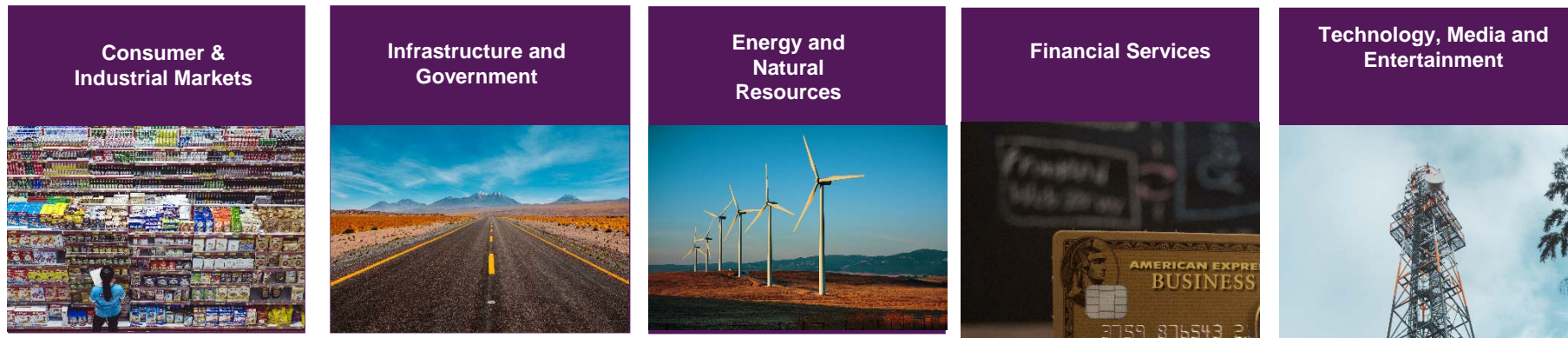


**KPMG**



**KPMG Advisory Services and KPMG Professional Services are the KPMG member firms in Nigeria. The partners and people have been operating in Nigeria since 1978, providing multidisciplinary professional services to both local and international organisations within the Nigerian business community. Our focus is to turn knowledge into value for the benefits of our clients, our people and the capital markets. At KPMG, we are committed to working with our clients to cut through the complexities of the business world– finding solutions and adding value.**

## Our Industry Orientation



## Our Competencies/Experience

Advisory		Audit	Tax	
<ul style="list-style-type: none"> <li>❑ Transaction Services</li> <li>❑ Corporate Finance</li> <li>❑ Restructuring</li> <li>❑ Financial Risk Management</li> <li>❑ Management Consulting</li> </ul>	<ul style="list-style-type: none"> <li>❑ Internal Audit, Risk &amp; Compliance Services</li> <li>❑ Accounting Advisory Services</li> <li>❑ Forensic</li> <li>❑ IT Advisory</li> <li>❑ Deal Advisory</li> </ul>	<ul style="list-style-type: none"> <li>❑ Statutory Audit Reporting</li> <li>❑ IFRS Conversion and IFRS Accounting related assistance</li> <li>❑ Other audit related services and Agreed upon Procedures</li> </ul>	<ul style="list-style-type: none"> <li>❑ Corporate Income Tax</li> <li>❑ Petroleum Profits Tax</li> <li>❑ Personal Income Tax</li> <li>❑ Indirect Taxes</li> <li>❑ Transfer Pricing</li> <li>❑ Tax Deal Advisory / Mergers &amp; Acquisitions</li> </ul>	<ul style="list-style-type: none"> <li>❑ Compensation &amp; Benefits</li> <li>❑ Regulatory Services</li> <li>❑ Immigration</li> <li>❑ Payroll</li> </ul>



Thank you for  
listening....





**Ayo Luqman Salami**  
**Partner**  
**Tax, Regulatory & People Services**  
**Energy and Natural Resources**  
**KPMG in Nigeria**  
T: +234 803 402 1015  
E: [asalami@kmpg.com](mailto:asalami@kmpg.com)

[kpmg.com/socialmedia](https://kpmg.com/socialmedia)



[kpmg.com/app](https://kpmg.com/app)



© 2018 KPMG Advisory Services, a partnership registered in Nigeria and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.