

The National Petroleum Policy (NPP)

Newsletter



Introduction

The Federal Executive Council of Nigeria, on 19 July 2017, approved the National Petroleum Policy (NPP or the Policy) which articulates a vision for Nigeria to become a Nation “where hydrocarbons are used as a fuel for national economic growth and not simply as a source of income.” The Policy recognizes that Nigeria “... must... develop a petroleum industry where the value added in oil stream is realized, combined with a move towards a gas based industrial economy” and that “...the future for oil producers lies in ...developing a value added sector of refining and petrochemicals” given the volatility in oil and gas prices.

Basis for the NPP

The policy articulates the key basis for its issuance as follows:

1. The previous policy was not designed for development. It encouraged a rent-seeking approach, leaving the country as the only member of the Organisation of Petroleum Exporting Countries (OPEC) without an effective oil refining capacity.
2. An intention to move the industry from dominant state ownership of resources which has constrained private sector investments.
3. An attempt to adapt to the dynamics of an ever-changing world epitomized by the drop in oil prices.
4. A new vision of value adding activities including refining, petrochemical industries and gas based industrialization.

Objectives of the NPP

The primary objectives of the Policy include:

1. Create a market driven oil and gas industry,
2. Maximise production and processing of hydrocarbons,
3. Move away from oil as a source of income to oil as a fuel for economic growth,
4. Create value through processing of oil into significant end products for industries,
5. Follow the hydrocarbon molecule from extraction to destination markets,
6. Incentivise investments in a cost-efficient storage, transportation and distribution system for petroleum products in Nigeria,
7. Promote competition in the industry,
8. Minimize the environmental footprint of oil exploration in Nigeria, and
9. Manage the balance between depleting oil resources vs renewable energy.

Key policies

To achieve the above stated objectives, the Policy is broken down into various implementable items as follows:

1. Governance

The policy seeks to establish the following governance framework:

(i) Legal and regulatory framework

The Government will promote a new legislation – the Petroleum Industry Reform Bill (PIRB) to overhaul and modernize the Nigerian petroleum sector by addressing a broad range of issues including sector governance, institutional framework, fiscal regime, corporate structure of state owned enterprises, transparency, accountability and environmental issues.

(ii) Institutional framework

A strong single independent regulatory commission, that will be responsible for technical and economic regulation of the whole petroleum sector, will be established. This will serve to reduce the current number of disparate and sometimes overlapping regulatory agencies as well as separate commercial from regulatory activities.

The regulatory commission, though independent, will still obtain policy direction from the Ministry of Petroleum Resources (MPR) which will be restructured to provide for a Policy Directorate, Strategic Planning and Policy Research Center, Detailed Project Desks and an Investment Promotion Office (operated in conjunction with the Nigeria Investment Promotion Council).

The regulatory commission will also be responsible for safety, technical standards, metering and measurement, cost monitoring and control and consumer protection.



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(iii) *Commercial framework*

The industry will be restructured to ensure full legal separation of petroleum infrastructure ownership and operations and trading, and separate companies will carry out the different activities. A regulated tariff regime will be introduced for monopoly infrastructure areas, in a manner that will provide investors the opportunity to recover cost with a reasonable return on investment.

(iv) *Fiscal framework*

The key aim is to separate oil from gas such that gas projects will be developed based on their economics and not dependent on or consolidated against oil income.

To achieve this, Government will develop a framework on Fiscal Rules of General Application (FRGA). The key objectives of the FRGA are to attract investment, facilitate the determination of petroleum products based on market rules, and ensure cost efficiency and sustainability in the long run.

(v) *Sector financing*

The objective will be to encourage all types of project financing with minimal

direct Nigerian Government involvement. The policy also encourages a shift from Joint Venture (JV) arrangements to Incorporated JVs (IJVs) and Production Sharing Contracts (PSCs). However, the implementation must ensure that it does not negatively impact Government's take.

It also articulates an exit from all cash call arrangements by end of 2017.

(vi) *Sovereign wealth fund (SWF)*

There shall be a cap on the proportion of petroleum revenue that can be spent on current expenditures while the balance is invested in capital projects and the SWF for future generations.

(vii) *Niger Delta*

Government intends to develop a Niger Delta wide model, which will seek to involve local communities in infrastructure, social and petroleum developments in the area.

2. *Industry structure*

The Policy anticipates a clean break from the past with clear separation of the roles of Government and operators, increased transparency, cost efficiency, reduced regulatory burden and additional value in oil as

a motor for industrial development. In order to achieve this, the Policy articulates the following:

(i) *Corporatisation*

Current state-owned enterprises will be corporatized. A new national oil company, which will operate under commercial law, will be established and treated on the same basis as private sector companies.

(ii) *Private sector companies*

The policy recognises the importance of private sector players, such as international oil and gas companies (IOCs), international independents, national independents, oil and gas service companies, independent power plants (IPPs) and project developers. The Government will work with them to meet the common vision of dynamic, successful and profitable Nigerian petroleum industry.

3. *Market structure*

The policy aims to create a market-driven industry structured to meet the stated vision. This will be achieved by ensuring private sector-led investments across the value chain and a move from oil as a source of income to fuel for economic growth. The effective implementation of the Policy will also improve the whole supply

value chain, transform the country from a crude oil export-dependent economy to a gas-based industrial economy; thereby enabling Nigeria to become a manufacturing nation.

There is also an intention to follow the hydrocarbon from extraction to destination, to realize more value from downstream export market. This will be accomplished by ensuring that the Government retains ownership of its share of crude oil and gas up to the refining stage and improve international product marketing.

4. Others

The policy also seeks to:

- overhaul the procurement process,
- ensure optimal exploitation of petroleum assets,
- maximize production and addition to reserves,
- diversify petroleum supply sources away from the Niger Delta,
- minimize environmental footprint,
- ensure the award of marginal fields to indigenous players,
- develop oil product midstream facilities,
- divest non-performing Government owned refineries whilst encouraging private refineries,

- move towards unregulated products markets as much as possible through removal of subsidies, and
- focus on human capital development as a means of increasing local content, amongst others.

Comments

The NPP demonstrates the Government's resolve to transform the oil sector, as it covers a broad range of issues which have been of concern to all stakeholders. The focus of the Policy document, particularly on developing the gas sector, refining and petrochemicals industry, is highly commendable. The Policy also envisions a strong refining sector, which will transition the refineries from selling only capacity to selling both capacity and products.

However, to achieve these objectives, it is important that the developed road map and action plan for the implementation of the Policy are properly monitored. There must also be a periodic evaluation of the short to long term targets/strategies proposed in the Policy. This will ensure that all potential issues are proactively identified and addressed.

Ultimately, the usefulness of the NPP lies in the willingness and ability of Government to faithfully and consistently implement the Policy once it is gazetted. Otherwise, it will become a Policy document in words only.

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