Introduction

The Nigerian economy has experienced a slow return to normalcy in recent months. A recent economic update published by the World Bank projected that the Country’s economy is expected to grow by 1.8% in 2021 and further predicted that, by the end of 2021, the Country’s Gross Domestic Product (GDP) would likely approach its 2010 level; thus reversing a full decade of economic growth. On its part, the International Monetary Fund (IMF), predicts that the economy will grow by 2.5%. Despite these predictions, the Nigerian GDP only grew by 0.51% in the first quarter of 2021, indicating a slow and tortuous path to economic recovery.

Furthermore, given the outbreak of a new COVID-19 variant (the Delta Variant), there are concerns as to when the global and local economic climate will return to normalcy. This development further creates uncertainty about the general outlook for the oil and gas sector and the Country’s economy. While it is expected that there would be an increase in oil exports as well as domestic demand for crude oil products, Nigeria’s recovery is expected to underperform those of other oil producing countries.

This edition of our newsletter focuses on some noteworthy developments and how these developments will impact the growth of the Nigerian oil and gas sector and the economy at large.

1. An Overview of the PIB and its impact on the Nigerian Upstream Sector

After several decades, the National Assembly has finally passed the Petroleum Industry Bill (PIB) 2021. The key objective of the bill is to provide legal, governance, regulatory and fiscal framework for the Nigerian petroleum industry, the development of host communities and related matters. The legislation aims for NNPC to become a commercially oriented and profit driven national petroleum company independent of the government and audited annually.

Furthermore, the bill establishes two new regulators, the Upstream Regulatory Commission and the Midstream / Downstream Regulatory Authority. The Bill provides that the Minister of Petroleum Resources will be responsible for awarding leases and granting approval on assignment of interest on the recommendation of the Commission. It further establishes funds such as the frontier exploration fund (30% of NNPC Limited’s profit oil and gas), the Midstream and Downstream Gas Infrastructure Fund (0.5% of wholesale price of petroleum products and natural gas sold in Nigeria), the Decommissioning / Abandonment Fund and the Host Community Fund (3% of operating expenditure incurred in prior year).

It is hoped that the PIB will be signed by the President in the third quarter of 2021 despite the various calls on him not to assent to the bill. The enactment of the PIB should enable Nigeria to attract the desired investments to grow its oil and gas reserves and possibly achieve the seemingly elusive target of 40 billion barrels.

For details of the key provisions of the Bill and its implications to operators and stakeholders in the industry, please refer to our recent publication: Petroleum Industry Bill, 2021- A Game Changer?

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1 Nigeria Economic Update: Resilience through Reforms
2 International Monetary Fund World Economic Outlook: Managing Divergent Recoveries
2. Update on Nigeria’s Marginal Oilfields Bidding Round

The 2020 marginal oilfield bidding round has finally been concluded. This is the first successful bid since 2003 when 24 assets were put on offer\(^1\). The exercise was carried out in two phases: expression of interest and pre-qualification phase and the technical and financial phase.

The first phase ensured that applicants’ basic documentation such as shareholders’ details, directors, management team, procedures and systems, financial capability and corporate accountability, legal and association status etc., were screened, whereas the second phase evaluated the commercial proposals to understand the optimal nature of the field development plan, announcement of the winners as well as negotiations of the farmout agreement.

At the beginning of the marginal oilfield bidding process, 591 entities submitted expression of interest forms, with only 540 entities getting pre-qualified. A total of 482 bids were submitted by 405 applicants with 161 successful companies being shortlisted to advance to the final stage of the bidding process. Of the 161 companies shortlisted as potential awardees, 50% met all conditions of eligibility for awards as of June 2021 and were awarded the 57 blocks put on sale.

It is estimated that the development of the marginal fields will yield a production volume of 100 million barrels. The first batch of production of crude oil from some of the awarded marginal oilfields is expected in January 2022\(^4\), though this target date appears very ambitious. This estimated production, coupled with the rebound in global oil prices, is projected to add about US$7 Billion (₦3 Trillion) in revenue to Nigeria’s economy\(^6\). We hope that this would only increase in the coming years.

The conclusion of the marginal oilfield bidding process is a welcome relief given how long it has taken to conclude it and the opaqueness surrounding the award process. Notwithstanding, there is still some way to go before discussions on development can start. The winners will need to incorporate the special purpose vehicles required to bring the fields to production and finalize the over-riding royalty agreements with the original lessors. Hopefully, production from these fields will start within the next 12-18 months.

3. An Overview of the Organisation of Petroleum Exporting Countries’ Oil Cuts vis-à-vis Nigeria’s Production and Saudi Arabia’s Agreement with OPEC

The Organisation of Petroleum Exporting Countries (OPEC) began to make huge oil production cuts in early 2020. This was due to concerns that an economic slowdown would create an excess in the amount of crude oil supply and the fact that the demand for crude oil further reduced, owing to the COVID-19 pandemic. This decision led to oil production cuts by OPEC of 72, 7.13 and 7.05 million barrels per day (bpd) as of January, February and March 2021\(^2\).

In April 2021, OPEC released a production quota that eased the target production cuts by 1.14 Million barrels per day from May through July 2021\(^11\). The production cuts were reduced to 6.55, 6.20 and 5.76 million bpd in May, June and July. This decision was in response to the gradual recovery across the world and the noticeable increase of crude oil prices.

At the recent meeting of OPEC and its allies that held virtually on 18 July 2021, OPEC proposed a further reduction of the production cuts by 0.4 million bpd on a monthly basis starting August 2021\(^13\). The decision to continue to reduce agreed production cuts is a signal that the economy is recovering from the impact of the Covid-19 pandemic and the demand for crude oil and its products is increasing. We can only hope that this trend remains the same considering the new Covid-19 variant and its impact on countries around the world.

On a separate note, amid OPEC production cuts of almost 10 million barrels per day in 2020 and a gradual relaxation of production cuts to about 5.8 million bpd\(^10\), the United Arab Emirates (UAE) and Saudi Arabia were in a disagreement over production volumes, sparked by the UAE’s rejection of the Saudi-led deal to raise production beyond the limit set for early 2022\(^11\). While Saudi Arabia and the UAE both endorsed raising the production output, the UAE opposed extending the existing deal from April 2022 until December 2022, unless it was granted a higher production quota\(^12\).

This disagreement, which caused a fluctuation in global oil prices, was finally resolved when the UAE came to a consensus with Saudi Arabia, the de facto leader of the OPEC in July 2021. The parties reached a provisional compromise which was subject to an approval at a yet unscheduled meeting of the cartel and the OPEC\(^*)\(^13\).

\(^1\) https://www.dpr.gov.ng/nigeria-concludes-marginal-field-bid-round-18-years-after/
\(^3\) https://guardian.ng/news/fg-hopeful-of-n3tr-from-marginal-oil-fields-development/
\(^4\) https://www.investopedia.com/terms/o/opec.asp
\(^6\) https://punchng.com/opec-agreement-nigeria-to-raise-oil-production/
\(^7\) https://www.reuters.com/world/middle-east/saudi-arabia-uae-reach-compromise-oil-output-deal-opec-source-2021-07-14/
\(^10\) https://www.wsj.com/articles/opec-reaches-compromise-with-u-a-e-over-oil-production-standoff-11626264218
\(^12\) https://www.wsj.com/articles/opec-reaches-compromise-with-uae-over-oil-production-standoff-11626264218
\(^13\) https://www.wsj.com/articles/opec-reaches-compromise-with-uae-over-oil-production-standoff-11626264218
\(^*\) OPEC= Organisation of Petroleum Exporting Countries

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4. Recent Department of Petroleum Resources (DPR) Guidelines: Procedure for Obtaining Minister’s Consent

In March 2021, the DPR released the updated guidelines for obtaining the Minister’s consent to the assignment of interest in oil and gas assets. The guidelines were issued to establish the procedure for obtaining the consent of the Minister of Petroleum Resources to the assignment of any right, power, or interest in an Oil Prospecting License (OPL), Oil Mining Lease (OML), Marginal Field (MF) or Oil and Gas Pipelines License (OGPL).

The guidelines explain what constitutes an assignment and lists the procedures for an assignment. The guideline also lists the steps for application for consent as well as general provisions for assignment by divestment and other forms of assignment. Of particular interest are the conditions for the Minister’s consent, which includes satisfaction of the Minister that the proposed assignee is of good reputation, is acceptable to the Federal Government and that there is likely to be sufficient technical knowledge, experience and financial resources available to the proposed assignee to work the license, lease or marginal field.

You can access a copy of the guideline via this [Link](https://www.dpr.gov.ng/wp-content/uploads/2021/04/DPR-Guidelines-on-Asset-Divestment-2021.pdf). Given the enactment of the PIB 2021, these guidelines may need to be updated once the President Assents to the bill.

5. Outlook of Oil and Gas Industry and Oil Prices

In the first quarter of the year, major International Oil Companies (IOCs) saw a significant increase in oil prices, after a string of losses. This pointed to a much-improved outlook in the demand for oil compared to 2020 when oil prices crashed due to the COVID-19 pandemic. As of May 2021, the international benchmark for Brent Crude went up by 1.32% at a price of US$68.40 and further climbed up to $76.10 in early July 2021. Currently, crude oil price ranges between US$72 to US$74. This increase in oil prices in the international market resulted in increased importation costs for petroleum products and put a strain on the ability of the Nigerian National Petroleum Corporation to continue to pay subsidies.

In comparison to the international oil market, Nigeria’s oil and gas industry growth declined by 19.8% in the fourth quarter of 2020. In the latest edition of its Monthly Oil Market Report, the OPEC stated that Nigeria’s oil sector fell by 13.9% in April 2021. The report showed that Nigeria’s non-oil export, on the other hand, grew by 1.7% due to an expansion in the telecommunications and information services sectors.

Looking forward, the Minister of Finance has announced that the government is assuming a crude oil benchmark price of US$57 per barrel for the 2022 budget from a crude oil benchmark of US$40 in the 2021 budget. However, one question that needs to be answered is what happens to oil prices when Iran starts to pump oil, more shale producers enter the market and the Delta Variant continues to rage?

Conclusion

Despite the challenges that have plagued the oil and gas sector, the country is well on its way to recovery. The PIB 2021 and the recently concluded marginal field bid rounds spark hope for the enhancement of economic growth and an increase in Nigeria’s GDP as well as creation of employment opportunities. Furthermore, the ease in production cuts by OPEC+ and the potential increase in Nigeria’s production quota bode well for the Nigerian government’s revenue.

Notwithstanding, Nigeria still needs to focus on diversifying away from fossil fuels in the light of the global drive for clean energy. However, this must be a gradual and steady process. The aggressive focus on ending gas flare, through the National Gas Flare Commercialization Program and the various gas utilization initiatives, will go a long way in reducing Green House Gas emissions while also contributing to meeting our Nationally Determined Contribution target to the United Nations Framework Convention on Climate Change by 2030.

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15. [Link](https://www.energymixreport.com/oil-majors-see-higher-revenue-earnings-in-q1/)
18. [Link](https://www.energymixreport.com/oil-price-nears-70-raises-nigerian-govts-fear-of-federation-account-depletion/)
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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