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

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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

01
Oil was first discovered in Nigeria in Oloibiri, Bayelsa State in 1956.

02
Oil and gas reserves are estimated at 37.06 billion barrels and 187 trillion standard cubic feet, respectively.

03
Peak production capacity of 2.5mbpd; current production approximates 1.91mbpd (Q4, 2017).

04
Contributes approx. 70% of Nigeria total revenue, but only 8.68% of the Gross Domestic Product (GDP).

05
Highly regulated, inefficient downstream subsector

06
Increasing Nigerian content through the value chain post-2010.

07
Sustained peace in the Niger-Delta region promises sustained production.

Source:
Nigerian Gross Domestic Product Report Q1 2018
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

<table>
<thead>
<tr>
<th>Law / Regulation</th>
<th>Description</th>
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<tbody>
<tr>
<td><strong>Petroleum Act, Cap P10 LFN 2004 (PA)</strong></td>
<td>Regulates the conduct of &quot;petroleum operations&quot; 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).</td>
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<tr>
<td><strong>Petroleum Profits Tax (PPT) Act, Cap P13 LFN 2004</strong></td>
<td>Governs the taxation of the profits of companies engaged in &quot;petroleum operations&quot; 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.</td>
</tr>
<tr>
<td><strong>Deep Offshore and Inland Basin Production Sharing Contract Act (DOIBPSCA) Cap. D3, LFN, 2004</strong></td>
<td>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%.</td>
</tr>
<tr>
<td><strong>Companies Income Tax Act (CITA)</strong></td>
<td>The law imposes tax on the income of all companies other than those engaged in &quot;petroleum operations&quot;. Companies Income Tax (CIT) is chargeable at the rate of 30% of taxable profits.</td>
</tr>
<tr>
<td><strong>Value Added Tax (VAT) (Amendment) Act 2007 (VATA)</strong></td>
<td>Governs the administration of VAT in Nigeria. VAT is chargeable at 5% on qualifying goods and services.</td>
</tr>
<tr>
<td><strong>Withholding Tax (WHT) Regulations</strong></td>
<td>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).</td>
</tr>
<tr>
<td><strong>Tertiary Education Trust (TET) Fund (Establishment, Etc.) Act 2011</strong></td>
<td>Requires every company incorporated in Nigeria to pay 2% of its assessable profit as TET. This payment is tax-deductible for PPT purpose.</td>
</tr>
<tr>
<td><strong>Nigerian Oil and Gas Industry Content Development Act (NOGICDA) 2010</strong></td>
<td>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.</td>
</tr>
<tr>
<td><strong>Niger Delta Development Commission (NDDC) Act</strong></td>
<td>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.</td>
</tr>
</tbody>
</table>
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.

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%.

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

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

Overview of the Nigerian oil and gas industry
Tax incentives - Upstream sector
Overview of the Nigerian oil and gas industry
Tax incentives - Midstream/Downstream sector

Gas utilization companies in downstream operations:

1. Enhanced investment allowance of 35% on assets acquired, or a 3-year tax holiday
2. An annual allowance of 90% plus an additional investment allowance of 15% after the tax-free period.
3. Tax free dividends during the tax holiday.
4. Plant, machinery and equipment purchased for gas utilization in downstream petroleum operations are exempt from VAT.
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)**

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<tr>
<td>2013</td>
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<td>37,071</td>
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<tr>
<td>2014</td>
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<td>37,448</td>
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<td>2015</td>
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<tr>
<td>2016</td>
<td>9</td>
<td>37,453</td>
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<tr>
<td>2017</td>
<td>13</td>
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**Producing wells (2013-2017)**

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<td>2013</td>
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<td>1,777</td>
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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: Central Bank of 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
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
Retention of $5 billion in-country out of an estimated $20 billion spent annually in the sector (the NCDMB plans to achieve 70% in-country value retention within the next 10 years i.e., $14 billion out of the $20 billion yearly industry spend).

Success stories:
- Replication of the local content law to other sectors of the economy
- Strong (local) business acumen
- Increased participation of Nigerians in the management of companies
- Acquisition of offshore rigs by indigenous companies
- Significant fabrication work now done in-country, e.g., Projects Egina, Erha, Bonigga, and Zabazaba.
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 145th 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!*
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