Introduction

2020 has been unprecedented in the scale and magnitude of economic turbulence both globally and locally. While the start of the year brought high expectations for the oil and gas sector in Nigeria, the COVID-19 pandemic has had a domino effect on the developments in this sector and has created a need to scale down initial projections. This was clearly demonstrated in the recently released 2021 Proposed Budget, which was aptly themed a “Budget of Economic Recovery and Resilience” and is expected to accelerate the pace of Nigeria’s economic recovery against the backdrop of the global economic crisis and domestic impact of the COVID-19 pandemic.

In this edition of the Nigerian Oil and Gas Industry Update, we have highlighted the significant developments in this sector within the period and how they are shaping the industry as well as the continued impact of the COVID-19 pandemic on the relevant stakeholders in the oil and gas sector.

1. Nigeria’s Marginal Oilfields Bidding Round

On 1 June 2020, the Department of Petroleum Resources (DPR or “the Agency”) announced the commencement of the marginal fields bid round for 2020. This bid round is the first in nearly 20 years¹ and has on offer, 57 fields located on land, swamp and shallow offshore terrains. The bid was opened to indigenous companies and investors interested in participating in petroleum exploration and production business in Nigeria. According to the DPR guidelines on the 2020 oil bid round exercise, interested bidders were expected to pay a total of $115,000 and ₦5 million in statutory and other application-related fees.

In managing the bid exercise, the DPR developed a transparent process flow for this process. According to the Agency’s published guideline on the award process i.e. the Guidelines for the Award and Operations of Marginal Fields in Nigeria, the bid round involves nine (9) key steps. They are: (1) Formal announcement for commencement of the exercise (2) Launch of marginal fields bid portals / issuance of specific requirements (3) Expression of Interest (EoI) registration (4) Prequalification of interested companies (5) Announcement of pre-qualified companies (6) Data prying, leasing and purchase of reports (7) Submission of technical and commercial bids by prequalified companies (8) Evaluation of technical and commercial bids (9) Announcement of winning bids².

As of the time of publishing this newsletter, stages 1 to 6 appear to have been completed. Industry watchers are currently awaiting the DPR’s announcement on the winners.

2 Updates on the Revised Petroleum Industry Bill

The need for regulatory and legislative reforms in the oil and gas industry has been obvious for as long as industry watchers can recall and the Petroleum Industry Bill (PIB) has been the main item of discussion. There is now, yet again, a revised version of the PIB which is currently being debated at the National Assembly.

The new PIB was spearheaded by the Executive and, according to the Minister of State for Petroleum, among the issues being contemplated in the revised PIB is the reduction of taxes and royalties for new and existing operations. The proposed reduction is to ensure that investors can continue with existing operations, earn favorable returns as well as encourage new investment with competitive terms to achieve economic growth.

It is the Government’s expectation that the Bill would be passed into law before the end of the year. However, it would be understood if this expectation is met with cautious optimism, given the experience with the legislative process on previous versions of this Bill.

Notwithstanding the above, the reintroduction of the revised Bill should be seen as some progress in the quest for much needed reforms in the industry, given the long wait by investors for such a Bill that would bring about sweeping reforms in the sector. This is given that the effects of the delay in passing the PIB cannot be overemphasized, as most investors had shelved investment plans in anticipation of these reforms. It is, therefore, hoped that the legislative process would be expedited to ensure that the positive effects of the fiscal changes are materialized as soon as possible in order to bring about positive changes to Nigeria’s fiscal and economic landscape.
3. Impact of COVID-19 on Nigeria’s Upstream Oil and Gas Sector in Q2 and Q3 of 2020

The COVID-19 pandemic marked the cause of the third price collapse of the oil and gas industry in 12 years. It is particularly the worst shock amongst the three causes as there has been an unparalleled decline in the demand for oil as well as its derivatives. Globally, the returns from the industry have steadily plummeted over the years with the emergence of shale oil and the increasing social pressures on energy preferences. We have summarized some of the impacts of the COVID-19 pandemic on the sector during this period below:

a. The impact on global and local production

Nigeria has had to cut its oil production benchmark volume twice in its 2020 budget revisions during the year, in line with agreements by the Organization of Petroleum Exporting Countries (OPEC) and its allies (OPEC+) to cut crude oil output as part of its efforts to tackle the global oil crisis brought on by the pandemic.

In line with this, Nigeria agreed to cut its production to 1.412 million barrels per day (mb/d), 1.495mb/d and 1.579mb/d for the respective periods of May-June 2020, July-December 2020 and January 2021-April 2022. However, these figures do not cover the production of condensate, which is exempt from the OPEC cuts. In May 2020, the Country was only able to reduce its production volume to 1.613mb/d from a reference production volume of 1.829mb/d, thereby only meeting about 52% of its compliance target.

The above agreement also influenced the proposed 2021 Budget daily oil production estimate of 1.86 mb/d (inclusive of condensates of 300,000 to 400,000 b/d), which is a realistic production volume given the compliance levels that have so far been witnessed with the actual daily oil production of 1.80mb/d as at June 2020.

Based on available information, the compliance level by OPEC+ countries has been above 100% since September 2020. This is particularly important to maintain crude oil price around $40 per barrel given that most European countries have now imposed various forms of lockdowns and curfew to fight the renewed surge in Covid-19 cases.

b. Decreasing global and local demand for crude oil

In the past, the United States (US) was a major purchaser of Nigerian crude oil. It contributed about 40% to 50% of Nigeria’s exports. However, over the years, the demand for crude oil from the US has gradually declined, mainly attributable to the boom of Shale oil in the US and more recently the current COVID-19 Pandemic. During the first half of the year, it was recorded that the US had slashed its imports to 9.37 million barrels which was about 11.67 million barrels lower than the country’s purchase in the first 5 months in 2019. Also, the impact of the reduction in the first quarter of 2020 compared to the last quarter of 2019 was about 63.03%, affecting the global demand for Nigeria’s crude oil.

Another significant factor that has led to the decrease in demand for crude oil both locally and globally is the lockdown necessitated by the pandemic. The lockdown was enforced by many countries in the world to mitigate the spread of the COVID-19 virus, resulting in the closure of airports. This crippled the airline industry and resulted in the drastic reduction in the demand for jet oil both locally and internationally.

The International Energy Agency (IEA) had stated that the reduced demand for crude oil may further depress oil prices and force oil producers to effect another round of cut in production output.

c. Impact on oilfield services demand

Oilfield servicing companies have been among the worst hit as a result of the COVID-19 pandemic. Given that oil exploration companies have been forced to reduce exploration and significantly cut back on production activities due to the collapse of crude oil demand and prices, there has also been a reduction in the need for oilfield services. This has led to the deferral or outright cancellation of drilling contracts, leading to significant losses for many drilling companies and leaving no major new projects on the horizon in the oil and gas sector with the exception of the Nigeria Liquefied Natural Gas Train 7 project.

This decline is also evidenced by the country’s rig count, an important business indicator for the services industry, witnessing a rapid decline from a high of 23 rigs in February 2020 to a low of 6 rigs in July, which reflects the reality of the oil servicing subsector.

However, with continued easing of lockdown restrictions, resumption of international flight operations in many parts of the world and a relatively steady crude oil price, it would seem that the demand for oilfield services is on the rise, as demonstrated by the rise of the rig count to 10 rigs in September 2020.

4. Declining Foreign Direct Investments (FDI) in Nigeria’s Oil and Gas Industry

Foreign direct investment in the Nigerian oil and gas industry has been experiencing a steady decline, particularly in 2020. The total capital inflow received in Q2 is $6.55 million (compared to $10.09 million received in Q1 2020). This amounts to 0.51% of the total foreign investments into the Nigerian economy received in the second quarter with the highest being from capital importation by shares with 35.88%.
The investment inflow for Q2 is the lowest the industry has received since 2015. 2019 ended with a total capital inflow of $216.23 million, which was a 61% increase compared to $133.51 million recorded in 2018 while 2017 and 2016 figures stood at $331.36 million and $720.15 million, respectively.

It is worrisome that, despite the obvious opportunities in the oil and gas sector and the fact that the Nigerian economy is dependent on this sector, there seems to be hesitation by foreign investors to direct their investments into this sector. While the decline in 2020 could easily be attributed to the global economic challenges due to the COVID-19 crisis, industry stakeholders have continued to blame the lack of competitive regulatory and fiscal reforms as the reason for declining foreign investments. It is, therefore, believed that the passage of the Petroleum Industry Bill, currently with the National Assembly, would herald a turning point for the outlook of foreign investment in the industry.

5 DPR Strategic Policy Plan for Nigeria’s Oil Sector Survival Post-COVID-19

The DPR recently unveiled its strategic plan and policy for the survival and success of the industry in the post COVID-19 pandemic period. The Agency noted the importance of strategic repositioning and business optimization in ensuring that the industry comes out of the current market crisis.

The policy focuses on four (4) key areas, which include:

i. cost control and management with the realignment of cost of production per barrel as well as corporate, business and financial stewardship;

ii. portfolio rationalization and asset optimization using project screening and maturation; and contract renegotiation;

iii. strategic repositioning and business optimization; and

iv. strategic partnership; contracting models; service provider open access; and shared risks and returns.

The DPR has also begun to create models required for post COVID-19 Pandemic survival which involves prioritizing gas, improving policy and regulations, the business environment and drive for investment in the industry. The Nigerian oil and gas industry is seen as the ‘wheels’ of Nigeria’s economy. Consequently, we hope that this plan would give the industry the boost it requires to overcome the issues it experienced during the Pandemic.

6 Recent Guidelines Issued by the DPR in Respect of Oil and Gas Industry Operations

The DPR recently issued several regulations and guidelines to provide uniform standards and general guidance for operations in the oil and gas industry. We have summarized these guidelines below:

a. Guidelines and procedure for lifting equipment and operations

On 1 August 2020, the DPR issued revised guidelines for lifting equipment and lifting operations. The purpose of this Regulation is to establish uniform requirements for lifting in the sector.

The guidelines include a definition for different kinds of lifting equipment, procedures for lifting operations including safety procedures as well as the required certification and training for operators of lifting equipment. A copy of the revised guidelines can be downloaded from the DPR’s website via this LINK.

b. Procedure guide for the design and construction of oil and gas surface production facilities

This procedure guide for the design and construction of oil and gas surface production facilities applies to various Government policies such as Local Content, Technology Transfer, Zero-Flare Compliance, etc.

The guideline lays out the general requirements for project execution as well as environmental protection and safety considerations in carrying out oil and gas surface production projects. For instance, the guide provides that the local content for project execution shall be at least 30% of the total financial commitment of the project. A copy of the procedure guide can be downloaded from the DPR’s website via this LINK.

c. Guide and procedures for travel to offshore swamp locations and obtainment of offshore safety permit.

These guidelines describe the requirements for travelling to offshore/swamp facilities, oil and gas platforms, rigs, work barges and marine vessels owned or operated by operators and/or contractors in the Nigerian oil and gas industry.

The guidelines provide explanation for the offshore travel operations requirements as stated in the Mineral Oils (Safety) Regulations and Section 60(a) of the Petroleum (Drilling and Production) Regulations 1969, as amended. They define the different types of offshore
safety permits and corresponding training requirements as well as the process for obtaining these permits and requesting an offshore/swamp visit. A copy of the procedure guide can be downloaded from the DPR’s website via this [LINK](#).

d. Guidelines for the implementation of risk-based inspection in the Nigerian oil and gas industry

The guideline, which is an updated version of the Guidelines Concerning Implementation and Use of Risk-Based Inspections in the Nigerian Petroleum Industry, 2006, sets out the “procedures for the implementation of the directives of the Director of Petroleum Resources with respect to Risk-Based Inspection (RBI) on Fixed (Pressure) Equipment in the Nigerian Oil and Gas Industry pursuant to Regulation 15 of the Mineral Oils (Safety) Regulations, 1963 (MOSR).” The MOSR provides that such equipment must be tested and inspected in a manner that is to the Director’s satisfaction.

The guidelines also stipulate the procedures required prior to obtaining an RBI approval from the DPR as well as requirements following such approval on both existing and new facilities. They ensure that inspection programmes are correctly conducted, based on sound engineering and scientific judgement with the aim of enhancing safety. A copy of the guidelines can be downloaded from the DPR’s website via this [LINK](#).

e. Guidelines for compliance with the technical safety control requirements for facility development projects

The DPR also revised the guidelines for compliance with the technical safety control requirements for facility development projects and modifications. This guideline was issued pursuant to the Mineral Oils (Safety) Regulations, 1997 and all other related provisions of the DPR “Procedure Guide for the Construction and Maintenance of Fixed Offshore Platforms/ Oil & Gas Facilities” and is applicable to all major phases in the life cycle of facilities development/ modification projects.

The guideline spells out the statutory procedures that must be followed by operators in achieving full compliance with the Technical Safety Control requirements and applies to all petroleum handling facilities in the Nigerian Petroleum Industry. A copy of the guidelines can be downloaded from the DPR’s website via this [LINK](#).

Conclusion

There have been various issues in the industry that have had adverse impact on the operators in the industry. These issues have now been magnified by the economic crisis resulting from the COVID-19 pandemic. It is hoped that the fortunes of the industry will improve especially with the on-going marginal field bidding process and the expected passage of the PIB in due course. In order to move the industry forward, it is important for all the stakeholders to come together and develop coherent policies and measures that will help the industry to rise above all its current challenges.
How we can help

At KPMG, our purpose is to inspire confidence and empower change. We have an Oil and Gas Team made up of 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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