

Nigeria: Petroleum Industry Bill

The ABC of PIB

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The Petroleum Industry Bill (PIB) is an attempt by the Nigerian government to reform the oil and gas industry in order to improve sector efficiency and transparency, increase revenue share and provide incentives to encourage the indigenous oil industry. This document provides a high level summary of the key provisions of the PIB and is intended as a quick reference for industry stakeholders, decision makers, and policy analysts during the ongoing debates.

ISSUE STATEMENT | The key objectives of the Petroleum Industry Bill are to Achieve transparency, Boost revenue and Capture local content in the oil and gas sector of Nigeria.

ACHIEVING TRANSPARENCY

One of the key challenges facing Nigeria's petroleum industry is the lack of transparency in a sector that is now rife with corruption. The PIB attempts to institute transparency in the management and operations of the Nigerian oil and gas industry by:

- ⦿ **Less Government Participation:** Bringing transparency to the policy, regulatory and commercial areas of the sector by minimizing the Government's role and influence.
- ⦿ **New Regulatory Institutions:** Deregulating the industry and creating institutions to conduct the policy regulation, national assets management and commercial operations with clearly defined roles, functions and processes.
- ⦿ **Incorporation of NNPC:** Restructuring NNPC into a National Oil Company will facilitate good governance practices, reduce bureaucratic bottlenecks as well as ensure the processes are auditable and with minimal political influence. It also enables shareholders to participate in the financial success of the oil industry.

- ⦿ **Transparent Award Process:** Establishing that oil and gas licence awards are to be open and competitive with a defined award process and criteria.
- ⦿ **Freedom of Information:** Stating that all licenses, leases and contracts will no longer be confidential while also including that payments to the government be public information.
- ⦿ **Annual Audits:** Proposing the annual audit of the National Oil Company and all the agencies created and disclosed in accordance with high quality international standards by independent auditors. In addition, financial reports of the National Oil Company and these agencies are to be published on their website.

BOOSTING REVENUE

Tax reforms will increase government revenue in the form royalties and taxes while also establishing a more stringent fiscal regime.

New Fiscal Regime: PIB fiscal provisions proposes that all companies and entities engaged in upstream, midstream and downstream crude oil, gas and petroleum products operation will be subject to company income tax, rents,

royalties and the introduction of the Nigerian hydrocarbon tax (NHT) which further maximizes the government's revenue share.

- ⦿ **Revenue Collection:** It establishes flexible fiscal provisions guaranteeing optimal returns for the government through the simplification of revenue collection.
- ⦿ **Increased Investments:** With a new fiscal regime, the Bill also implements a progressive fiscal framework that encourages further investment in the petroleum industry.
- ⦿ **Development of the Gas Market:** It stands to enhance the development of natural gas production by encouraging natural gas producers and downstream users (power sector, industries using cement, fertiliser, etc.). This development of Nigeria's domestic gas market would help kindle the multiplier effect of gas in the economy.
- ⦿ **Domestic Gas Utilisation:** The PIB provides for the imposition of a domestic gas obligation on gas producers that means that they would be obligated to supply a portion of the gas produced strictly for domestic gas utilization.

CAPTURING LOCAL CONTENT

The reform of the petroleum sector is expected to result in the participation of Nigerians and their services at all levels and functions in the industry. Also, sustained growth in the Nigerian economy can only be achieved if more local participants are encouraged into the sector.

- ⦿ **Access to Oil and Gas Acreage:** The Bill encourages indigenous oil producers by granting them preference in their access to oil and gas acreage.
- ⦿ **Supporting Indigenous Upstream Oil Companies:** The proposed legislation promotes local oil producers with incentives like a no quota restriction for production below 10,000 bpd, lower royalty rates, and exemption from NHT under certain conditions as well as non- participation of the Federal Government.
- ⦿ **Reserved Assets for Indigenous Companies:** The PIB provides various incentives for indigenous oil companies, including the requirement that 50% of

the blocks in any bid round should be reserved and awarded to indigenous oil companies.

- ⦿ **Indigenous Human Capital:** The PIB will considerably regulate the expatriate quota regime in all labour issues. This will open more doors for Nigerians to join the industry workforce.

FOSTERING AN ENABLING ENVIRONMENT

The purpose of the PIB, amongst others, is to create an enabling environment for a robust oil and gas sector, a thriving social community and an environmentally responsible industry.

- ⦿ **Infrastructure Development:** The National Petroleum Inspectorate will ensure the efficient, safe and sustainable infrastructural development in the petroleum industry. It will have the responsibility of organising and regulating technical activities and to ensure the maintenance of standards and specifications.
- ⦿ **Protecting the Environment:** The environmental regulation in the Bill introduces an integrated health, safety and environmental quality component that require licensees to submit Environmental Management Plans (EMP) to the Inspectorate. Notably, the PIB prohibits the flaring or venting of natural gas after passage in any petroleum production operation, block or field, onshore or offshore, or gas facility with exceptions granted only by the Minister.
- ⦿ **Community Equity Participation:** The Bill addresses community equity participation (for existing and future operations) by entitling local communities to 10% interest in the net profits of petroleum licensees through the Petroleum Host Communities Fund. Monies from the Fund will be utilised for the development of the economic and social infrastructure of the host communities.
- ⦿ **Private Sector Growth:** The PIB in deregulating the downstream sector encourages private sector participations in the refining of petroleum products and investment in the entire value chain of the downstream.

CONCLUSION

The PIB strives to enhance transparency, ensure an open framework for the management of the sector as well as create an enabling environment and sustainable development for the Nigerian oil and gas industry in line with international best practices.

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