OLANIWUN AJAYI

# 2021
# OIL AND GAS
## WRAP-UP REPORT

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# INTRODUCTION

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January 2022

2021 was a phenomenal year in the Nigerian oil and gas sector. The sector witnessed some significant developments, the most momentous being the enactment of the long-awaited Petroleum Industry Act (the **PIA**). The PIA heralded a new dawn for the sector, with industry players and stakeholders coming to terms quickly with the new legal framework which is intended to shape the future of the industry for decades to come.

Apart from the PIA enactment, worthy of note is the conclusion of the 2020 marginal field bid rounds which saw a significant number of Nigerian players entrenching their feet in the sector through the acquisition of marginal fields. Indeed, despite the negative impact of the COVID-19 pandemic on the sector in 2020, the sector witnessed a rebound in 2021, with defining events that will set the tone for the year 2022.

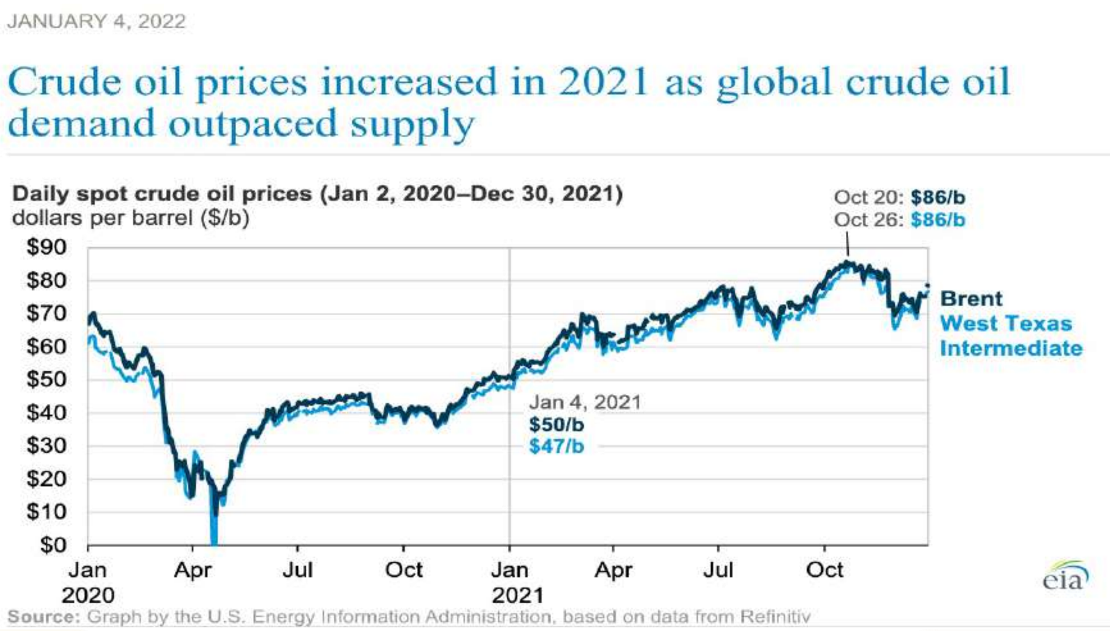
For us as a Firm, we continued to play our part in supporting our clients in navigating the terrain. We were opportune to have advised on several market-defining transactions across the entire value chain of the sector including the financing of the acquisition of certain upstream assets by one of the key indigenous players, the US$650 million financing of ANOH Gas Processing Company for the construction of the 300MMscf gas processing plant in Imo state, and a number of divestments in key downstream assets.

This Report, which is the fifth in our annual series of oil and gas review reports, traces the path of recovery in the sector from the steady increase in petroleum prices, to the enactment of the PIA, and to the divestments by the international oil majors of their interests in upstream assets in Nigeria to indigenous players. As the world opens up further in 2022, we expect the Nigerian oil and gas industry to consolidate on the gains achieved in 2021 which should result in increased interest and investments in the industry. As a Firm, we will continue to assist our clients as they chart new courses in 2022, and we remain true to our brand promise of delivery of excellent world-class services to our clients.

From the oil and gas team here at Olaniwun Ajayi LP, we appreciate your custom in 2021, and look forward to even more exciting times this year.

Thank you.

# TREND ANALYSIS OF CRUDE OIL PRICES IN 2021 AND PROJECTIONS ON RECOVERY FOR 2022 – 2025




2021 started on an uncertain note for the hydrocarbons sector, with some experts predicting only modest gains in oil prices. This assumption was premised on the decline in the worldwide demand for petroleum in 2020, largely due to the restrictions on travel and business operations in order to curtail the spread of the COVID-19 virus and the oil price war between Saudi Arabia and Russia. The IEA had predicted an uneven pathway to global petroleum demand recovery dependent on the rate of vaccination of persons worldwide and relaxation of stringent social distancing measures and international travel. Generally, experts adopted a modest approach in their pricing predictions with Mckinsey forecasting that global oil prices would rise to levels of about US$50/bbl to US$60/bbl in 2021 while the US EIA forecast oil price levels of about US$50/bbl.

However, there was a steady increase in crude oil prices for most of 2021, as seen in Fig. 1, with Brent rising from about US$50/bbl at the beginning of the year, to peak at US$86/bbl in October 2021 and then averaging at about US$74/bbl in December 2021. This was largely on account of the lessening of COVID-19 related restrictions, which led to a rebound in economic growth and consequently, increased global demand for petroleum which was unmatched on the supply side.

Looking ahead, the predictions for oil prices in 2022 are varied, with the US EIA predicting that crude oil prices will average US$71.32/bbl for WTI and US$74.95/bbl for Brent while private analysts such as Goldman Sachs and Barclays predict prices above these levels. What is however clear, is that the oil price trend in 2022 will be dependent on a number of factors including the measures that countries and businesses adopt to deal with the Omicron variant of COVID-19 and other variants that may develop in the course of the year. Further, OPEC's decision to maintain current production levels until the end of 2022, may also have a positive impact on crude oil prices, if crude oil demand continues to increase as witnessed in 2021. It is however useful to note the influence of the emergence of any other COVID-19 variant on global oil demand and the likely implications on oil prices.

What is however clear, is that the oil price trend in 2022 will be dependent on a number of factors…

While there are sentiments that increase in inventories would lead to a gradual decline in prices in 2022; on the other hand, there are also projections that production would largely lag behind demand, on account of factors such as reduced capacity of OPEC member states to boost production, amongst others. What is however clear, if the numbers of the first three weeks of 2022 is anything to go by, is that crude oil prices have increased even further from the closing figures of 2021, with prices increasing by about 13.96% since the beginning of 2022 (from about US$74/bbl on January 3 to about US$85/bbl as at January 26).

More specifically on the Nigerian oil and gas scene, the increase in oil prices witnessed in 2021 should be a positive, particularly for oil companies for whom increased prices generally translates to an increase in revenue. However, amidst the increase in the crude prices, there are still mixed signals as to whether the trend would continue in 2022. Relatedly, the World Bank has projected a 2.5 per cent economic growth for Nigeria in 2022, which is a slight upward review from the earlier projection in 2021, of 2.4 per cent growth – with the IMF projecting even higher growth, at 7%. However, for Nigeria, whatever gains that might have arisen from the increase in oil prices may have been largely dampened by the continued reduction in production levels, so much so, that Nigeria has been unable to meet its oil production quota of 1.4 million barrels per day allocated by OPEC (now 1.6 million barrels per day). This is attributable to factors such as declaration of force majeure on production facilities, bunkering as well as lack of investments by the IOCs, a good number of whom are currently divesting their (mostly) onshore assets.

It is however hoped that the sustained increase in global crude prices coupled with the optimism introduced by the passage of the PIA amongst others as well as the ongoing divestments, may pave the way for growth in the sector.

# ENERGY TRANSITIONING: OUTLOOK FOR NIGERIA'S OIL AND GAS SECTOR

The call for reduced emission of GHG and for global action to reduce climate change persisted in 2021 and took center stage at COP26. A number of significant outcomes resulted from COP26 including:

- a Global Methane Pledge with over 100 countries including Nigeria pledging to limit methane emissions by 30%, by 2030;
- commitments by car manufacturers, countries and financial institutions to the COP26 declaration on accelerating the transition to 100% zero emission cars and vans;
- commitments by about 34 countries and 5 international financial institutions to stop public support and funding of fossil fuel extraction globally in 2022;

For Nigeria, it must chart its own path – leveraging on its abundant natural gas as a 'transition fuel' and fostering an enabling environment that would attract investors and operators alike.

However, the proposed rapid energy transition may pose negative economic implications on developing, crude oil producing nations, particularly those that are significantly dependent on fossil fuels as the main source of their GDP and without sufficient resources and time to transition to alternative sources of energy or develop other sources of GDP. By this token, Nigeria, being a developing nation with revenue from fossil fuels as its mainstay may find the implementation of the resolutions and commitments at the COP26 challenging.

It has been argued that developing nations contribute a negligible quota to global GHG emissions and that given that fossil fuels played a significant role in the industrialization of developed economies, the proposed cut-back on the reliance of fossil fuels may negatively impact the ability of developing countries to harness their natural resources towards accelerating their own development. Sentiments in this regard have been expressed in relation to Nigeria's delay in harnessing the opportunities from its abundant oil and gas resources and that except drastic steps are taken, Nigeria might be left holding the short end of the stick.

Additionally, reduced foreign investments, coupled with renewed global focus on renewable energy options, means that Nigeria would need to go beyond its current efforts, if it is to attract much needed foreign investments to its oil and gas sector. This is moreso, given the current climate of divestments by the IOCs who have historically been responsible for production from a significant number of the more prolific oil blocks in Nigeria.

For Nigeria, it must chart its own path – leveraging on its abundant natural gas as a 'transition fuel' fostering an enabling environment that would attract investors and operators alike; and more importantly, leveraging on its oil and gas industry as a catalyst to diversify the economy .

# 2020 MARGINAL FIELD BID ROUNDS: 18 MONTHS AFTER

According to the **Commission**, "…the 2020 marginal field bid round programme would be closed, with **machinery to progress** the bid round exercise in line with the **Petroleum Industry Act 2021 (PIA)**"

One of the wins for 2021 was the conclusion of the 2020 Marginal Fields bid rounds by the DPR, which culminated in the award of 57 marginal fields to about 80 awardees in June 2021 with about $7 billion revenue projected to Nigeria's economy from the development of the marginal fields. This process also resulted in the increase in the participation of indigenous oil companies in the Nigerian upstream oil and gas operations.

Following the conclusion of the award process, awardees would now be faced with the task of attracting the capital and technical/operational support required for the development of the marginal fields within the 60-month development timeframe stipulated by the DPR. While the passage of the PIA is not a magic wand, it is projected that the fiscal incentives and related provisions in the PIA would provide some respite in this regard. Thus, 2022 would be a busy year for the awardees in many respects, even as they race to satisfy the statutory requirements that would ensure successful development of the marginal fields

A key fall-out of the marginal fields award process, however, is the allocation of marginal fields to multiple bidders, thus compelling such awardees to form joint ventures towards the development and operations of the marginal fields. The allocation of marginal fields to multiple bidders, no doubt required some of the affected awardees to re-evaluate their pre-bid arrangements, particularly for those who had formed consortia with other partners. Other challenges included negotiating joint venture and related arrangements with their co-awardees, towards establishing relevant joint ventures, as well as how to determine the reallocation of the participating interest in the marginal fields amongst the different consortium who had bid originally for the marginal fields. To address some of these concerns, the Nigerian Upstream Regulatory Commission (as successor of the DPR) set up a framework for distilling and addressing the concerns of awardees, with the aim of facilitating a close-out of the issues affecting multiple awardees per asset, chief of which is the formation of SPVs in line with their respective letters of award.

In all, the active development of the marginal fields will see to increased petroleum production thus bolstering Nigeria's ability to satisfy its OPEC periodic quota.

# THE PIA: SPRINGBOARD FOR NIGERIA'S PETROLEUM SECTOR

One of the historic developments of 2021 was the signing of the Petroleum Industry Bill into law as the PIA, by President Muhammadu Buhari. This epoch-making event was a watershed in the Nigerian Oil and Gas Industry given the PIA's legislative history of well over a decade, as well as the broad and sweeping the legal and regulatory framework introduced by the PIA.

## Changed Regulatory Framework

The PIA established two new regulators – the Commission and the Authority, to regulate technical, operational and commercial activities in the upstream sector on the one hand and the midstream and downstream sectors, respectively. While the Minister retains his largely supervisory and policy-making role, a significant portion of his regulatory powers have now been devolved to the two new regulators. The creation of distinct regulator for the midstream and downstream sector, coupled with the robust provisions on midstream gas, demonstrates renowned focus on the midstream and downstream sector. It also provides the much-needed structure and clarity to the regulatory framework of the gas sector, which should drive investments into the gas sector.

## Dual Licensing Regime

Perhaps to mitigate disruptions to ongoing upstream operations, holders of OPL and OML may elect to continue to retain their OMLs and OPLs without converting to the new classes of licences under the PIA – the PML) and the PPL. Where they choose to do so, they would be regulated by the PIA and other regulations applicable prior to the passage of the PIA. However, this would only apply until the expiration of the OMLs. Alternatively, they may elect to voluntarily convert to the PMLs and PPLs, in which case, the provisions of the PIA will be applicable. All conversions are required to be done on or before 16 February 2023.

One notable change particularly for operators and financiers in the upstream sector, is the change introduced to Ministerial consent regime for assignments or transfer of interests in PMLs or PPLs. It is anticipated that the timelines and clarity provided to the consent regime will make acquisition and financing transactions more seamless.

## Crude Supply Obligation

In addition to the domestic gas supply obligation, the PIA introduces a domestic crude oil supply obligation, aimed at ensuring that the crude oil requirements of local refineries are met. To address some of the challenges that bedeviled the gas supply obligations, chief of which was pricing for gas supply to the domestic market, the PIA prescribes mechanisms to incentivize supply of crude to the domestic market, one of which is that the supply of crude oil must be commercially negotiated between the lessee and the crude oil refining licensee, taking into consideration the prevailing international market price for similar grades of crude oil.

## Fiscal Framework

The PIA introduced the Petroleum Industry Fiscal Framework (**PIFF**) which is aimed at encouraging investments in the petroleum industry, enhancing government revenue and providing certainty and clarity on tax obligations.
The PIFF replaces the PPT with Hydrocarbon Tax which will only be applicable to petroleum operations involving crude oil, condensates and natural gas liquids produced from associated gas) and Companies Income Tax. The Hydrocarbon Tax will be applicable at 30% for PMLs and 15% for PPLs while the Companies Income Tax will be applicable at 20% for companies with turnover between NGN25 million to NGN100 million, and 30% for other companies.

Given that the uncertainties on the fiscal framework for the oil and gas sector including as it relates to natural gas has been a key concern for many industry stakeholders, it is hoped that the certainty introduced by the PIFF will incentivise investments in crude oil and natural gas projects. However, it remains to be seen whether the PIFF adequately balances the competing interests of operators in the industry on the one hand and of the government, on the other hand as it seeks to do.

## Establishment of Statutory Trusts & Funds

*Host Community Development Trust* - Holders of OMLs and OPLs (who opt against conversion) or PMLs/PPLs are required to set up Host Community Development Trust (the **Trust**) for the benefit of the host community where the field is located. The Trust is required to be established by 16 August 2022 for OMLs. The establishment of the Trust, which is to be utilized solely for the development of sustainable projects for the host communities, will hopefully go a long way towards addressing the grievances of host communities, paving way for smooth operations.

*Midstream and Downstream Gas Infrastructure Fund* ((**MDGIF**) – The MDGIF is to be funded, among others, by a levy of 0.5% of wholesale price of petroleum products and natural gas sold in Nigeria, with added cost implications for operators in the sector. The MDGIF is to be applied towards making equity investments of government-affiliated interests, in midstream and downstream gas infrastructure projects aimed at increased domestic consumption of natural gas and encouraging private investments in midstream and downstream gas infrastructure amongst others, thus encouraging private investments in midstream and downstream gas infrastructure.

*Decommissioning and Abandonment Fund* - Licensees and Lessees are required to set up a decommissioning and abandonment fund in an escrow account accessible by the Commission or the Authority. The PIA now has express provisions for decommissioning in addition to abandonment and disposal of oil and gas structures, in recognition of the importance of decommissioning especially with the increasing adverse impact of pollution onshore and offshore of the Nigerian environment as well as increasing global call for the protection of the ecosystem from the effects of oil and gas activities.

> **"The PIA is much more than a legal and regulatory framework....it is an economic law that has significant implications for the Nigerian economy"**

For more information on the PIA, please [click here] to see our PIA publication

# REPOSITIONING NIGERIA'S NATIONAL OIL COMPANY

## Incorporation of NNPC Limited

Another key introduction by the PIA in 2021, was the incorporation of the Nigerian National Petroleum Company Limited (**NNPC Limited**) as a limited liability company under the Companies and Allied Matters Act, with its shares fully held by the Government. While the strategy of the Government regarding the privatization of NNPC Limited is unclear, there is now scope for a partial or full privatization of NNPC Limited particularly in light of the provisions of the PIA on transfer of the shares of NNPC Limited – which if implemented, could potentially expand the sources of funding available to NNPC Limited. Despite full government ownership (albeit at the outset), NNPC Limited and its subsidiaries are to conduct their affairs as fully commercialized entities without recourse to government funding. This requires NNPC Limited to develop more innovative financing options for its operations, especially in the light of restriction posed by the World Bank Negative Pledge on the creation of security over its assets.

## Transition to an Energy Company

To position NNPC Limited for global competitiveness and in line with the global transitioning to "green energy", one of the objects of NNPC Limited is engaging in the business of renewables and other energy investments. This provides a platform for NNPC Limited (directly or through its affiliates) to diversify into renewables while also continuing with petroleum operations. It however remains to be seen the extent to which NNPC Limited would prioritize renewable energy investments given government's plan to increase crude oil and natural gas production levels.

## Transfer of NNPC's Assets, Interests and Liabilities

As part of the transitioning implementation actions for the newly incorporated NNPC Limited, the PIA allows for the cherry-picking of the assets, interests and liabilities to be transferred to NNPC Limited or its subsidiaries. This is however subject to a determination to be made by the Minister of Petroleum and the Minister of Finance, which should be concluded no later than by February 2023, failing which all the assets, interests and liabilities of NNPC will be deemed transferred to NNPC Limited. Assets, interests and liabilities not transferred would remain that of the Corporation until they are extinguished or transferred to the Government. In addition to constituting a key source of capitalizing NNPC Limited, the transfer of assets and liabilities to NNPC Limited also provides an opportunity for NNPC Limited to review its group corporate structure in a manner that enhances its efficiency. The transfer of assets framework also provides an opportunity for NNPC Limited to improve the quality of assets on its books, by divesting of some of its non-core assets as well as 'toxic liabilities'.

## Unincorporated Joint Ventures

The PIA also provides a framework for NNPC Limited and its unincorporated upstream joint venture partners to restructure their operations (at their election) to incorporated joint venture models (**IJVs**). To pave way for this restructuring, the IJVs would be exempt from compliance with the Fiscal Responsibility Act and the Public Procurement Act. A key advantage of the IJV model in the upstream sector is that the the sponsors can leverage the asset base of the IJV to raise non-recourse finance for the operations of the IJV. This can eliminate the need for cash calls and annual budget. The IJV model can also enhance the administration of the project as the daily operations of the IJV can be run through the management of the IJV which will be made up of nominees of the sponsors.

For more information on the PIA, please click here to see our PIA publication

# NATURAL GAS: FUELLING NIGERIA'S ENERGY TRANSITION DRIVE

**Nigeria has the largest gas reserves in Africa and the 9th largest in the world with over 200 Tcf of gas reserves**

It is no longer news that Nigeria's vast natural gas resources places it in an advantageous position to emerge as one of the largest global natural gas producers. There are however concerns that Nigeria might have left this a little too late, given current global trends – energy transitioning and resulting effects (reduced investments in fossil fuel projects, portfolio rationalization by oil and gas companies which has led to a fleet of divestments by IOCs, transitioning of oil and gas companies to energy companies, increasing investments in renewable energy sources in competition to fossil fuels and so on). In addition to the above, Nigeria's gas sector must also contend with significantly reduced appetite for investments in Nigeria's gas sector.

What has however been identified as a potential leeway for Nigeria, is to leverage on the general recognition of natural gas as a comparatively cleaner fossil fuel, which would align with the current global efforts to combat climate change by utilizing cleaner energy sources. Furthermore, the growing push by developing countries for a relaxation of the application of the global transitioning principles to developing countries, provides an impetus for countries like Nigeria to articulate a clear plan to leverage on natural gas as its 'transition fuel'.

Notably, in December 2021, the Council of Ministers of the African Petroleum Producers' Organization ended its 41st Ministerial Session with a resolve to continue the exploitation of its Member Countries' oil and gas resources, while also exploring the use of renewable energies.

> **"While the PIA had long been identified as a key driver to stimulating the gas sector, given the clarity it provides to the legal, regulatory and fiscal framework for the natural gas value chain, it has become increasingly clear that a legal framework alone cannot unlock the much-needed value in the natural gas sector."**

What is perhaps most critical, is for Nigeria to leverage on its natural gas potentials to achieve some of its broader strategic objectives:

- attracting investments required to develop its natural gas resources as well as robust midstream and downstream gas infrastructure;
- encouraging investments in technologies required to attain some measure of industrialization;
- managing the environmental concerns associated with natural gas projects; and
- harnessing the revenue and activities from the natural gas sector to stimulate the non-oil sectors of the economy.

**President Muhammadu Buhari** declared the year **2021 to 2030** as **the "Decade Of Gas"**

# NIGERIA'S UPSTREAM DIVESTMENTS JOURNEY

One of the leading themes in 2021 was the divestments by some of the IOCs, of their interests in onshore and offshore assets, to indigenous oil companies. Total, SPDC and NAOC completed the divestment of their undivided 45% interest in OML 17, an onshore field, to an affiliate company of Heirs Holdings Limited. Chevron's sale of its 40% interest in the shallow water OMLs 86 and 88 to Conoil Producing Limited also progressed. Further, SPDC and ExxonMobil commenced the process for the divestment of their interests in their shallow water and onshore oil and gas assets in Nigeria.

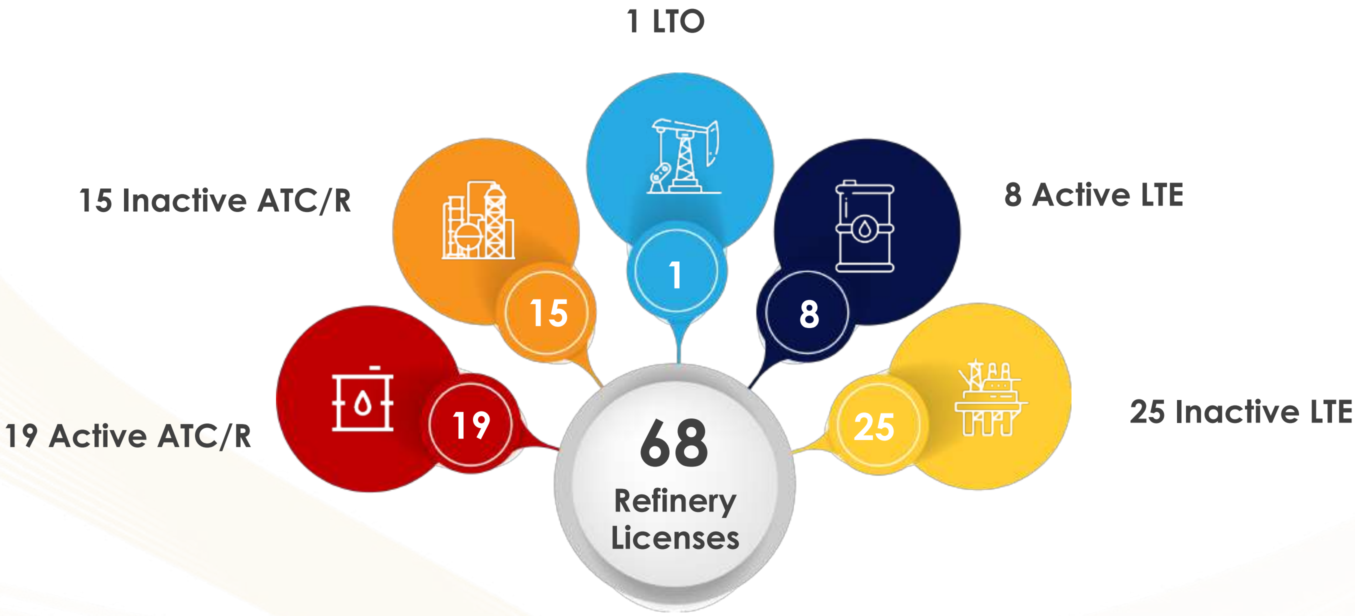
The divestments present significant opportunities for indigenous oil companies (including private equity firms and commodity traders), and for the first time in the history of Nigeria's oil and gas industry, indigenous oil companies are gaining on the IOCs, in terms of OMLs operated - 50 oil blocks operated by the indigenous oil companies and 53 for the IOCs.

The divestments have also raised crucial considerations for the indigenous oil companies, with the key focus areas being –financing, technology and experience required by the indigenous oil companies to fill the gap left by the IOCs. This is coupled with the current climate of absence of critical investments in Nigeria's upstream oil and gas sector. Other key considerations include: the management of legacy pollution and other environmental-related liabilities arising from the acquired assets; local and international litigation in connection with the assets; quality of the (mostly) brownfield assets; and management of the impacts of the global energy transitioning with increasing focus on cleaner energy sources.

On the upside, the indigenous oil companies would benefit from faster returns on their investments, which is typical for brownfield assets; improving crude oil prices; and potential upsides from commercializing any existing natural gas reserves.

Perhaps in a bid to address some of the issues raised above in a manner that aligns with Nigeria's national strategic interests, the NNPC announced its intent to issue a comprehensive divestment policy which will guide IOCs in the divestment process. Thus, in addition to some of the points raised above, the policy is expected to cover issues around abandonment and relinquishment costs, severance of operator staff, third party contract liabilities etc.

# NIGERIA'S REFINERY RENAISSANCE




Currently, the DPR has issued 68 refinery licences – 28 of which are active while 40 are inactive. The Nigerian government however remains committed to its drive to redefine the refinery sector in Nigeria and recently re-affirmed the goal for Nigeria to become a net exporter of petroleum products by 2023. A key driver for achieving this aspiration is the Dangote 650,000 bpd refinery which is billed for completion in the first quarter of 2022, and would upon completion, propel Nigeria to be a continental leader in refinery operations.

As a further indication of Government's commitment to revamping the Nigerian refinery sector, the NNPC has proposed a US$2.7 billion equity investment in the Dangote refinery. While NNPC's decision to invest in the Dangote refinery has been subject to criticisms from various quarters, it appears that this may be a strategic move by the NNPC premised upon several factors including economic considerations, energy security as well as better positioning NNPC as a strategic crude oil supplier to the Dangote refinery.

The Federal Executive Council also approved the sum of US$2.98 billion dollars for the rehabilitation of the State-owned refineries, with the revamping of the 210,000 bpd Port-Harcourt refinery due for completion by December 2024. Upon completion, its refining capacity would be ramped up to about 90% of its nameplate capacity. Concerns have however been raised that given the historical poor performance of the refineries, they are little more than 'cost-centres' and that the government should cease further investments in revamping the refineries. However, with the establishment of NNPC Limited as a fully commercialized entity that is positioned for global competitiveness, the expectation is that considerations such as profitability and efficiency would begin to play a greater role in decisions relating to the management of the refineries, in addition to strategic considerations such as energy security.

# 2021 FINANCE ACT – IMPLICATIONS ON OIL AND GAS COMPANIES

The Finance Act 2021 (the **Finance Act**) which took effect on 01 January 2022, seeks to support the implementation of the 2022 Federal Budget of Economic Growth and Sustainability and ensure alignment of tax laws with the FG macroeconomics policy reforms. The Finance Act amends various legislations such as the Companies Income Tax Act (**CITA**) and the Value Added Tax Act (**VAT Act**). We have distilled below, the more relevant provisions of the Finance Act that may have implications for companies in the petroleum sector:

*Tax Exemption on Profits*

By section 7(a) of the Finance Act, Companies engaged in petroleum operations (i.e., upstream, midstream and downstream) are no longer entitled to tax exemption in respect of profits on goods exported even where the proceeds are used for purchasing raw materials.

*Gas Utilization Incentives*

By the amendment to Section 39(1)(a) of CITA, gas companies would only be eligible to claim the gas utilisation incentives under that section only once. This applies equally to any company resulting from a reorganisation, restructuring, buyback or other similar schemes of a gas company which had already enjoyed the gas utilisation incentives. Thus, where a gas company that has previously benefited from the gas utilisation incentive undergoes a restructuring e.g., by transferring its operations to a new entity, the new entity will not be entitled to the gas utilisation incentives under Section 39 of CITA.

*Exemption for Small Companies*

Under Section 15 of the VAT Act, small companies with an annual turnover of less than 25 Million Naira were excluded from the VAT registration and compliance requirements. However, under the Finance Act, this exemption is no longer applicable to companies engaged in upstream petroleum operations, even if the upstream petroleum operations fall within the 25 Million Naira threshold under Section 15 of the VAT Act.

OUTLOOK 2022

# NIGERIA

## Divestments of Oil and Gas Assets

With the on-going divestments by IOCs in the Nigerian oil and gas sector, it is expected that 2022 will witness more divestments by IOCs as they continue to accelerate their portfolio rationalization.

## Nigeria to Emerge as African Leader in Refining

The Dangote 650,000 bpd refinery is scheduled to come on stream in the first quarter of 2022. Once the Dangote refinery becomes operational, Nigeria will transition to become the leader in the petroleum refinery business in Africa with the refinery supplying over 12% of Africa's demand.

## Transfer of Assets and Liabilities of NNPC

The transitioning of the assets and liabilities of NNPC will continue in 2022 based on a determination to be made by the Minister and the Minister of Finance (**MoF**). By the PIA, the Minister and the MoF are to determine the assets, interests and liabilities of NNPC to be transferred to NNPC Limited or its subsidiaries and those to be retained.

## Regulatory Landscape

The Commission and the the Authority, created under the PIA have become fully operational. Pursuant to the PIA, both regulators are expected to issue regulations to as provided in various provisions of the PIA to provide clarity to industry players as to the expectations of the PIA in certain respects. The issuance of these regulations will provide the much-required certainty and clarity and also aid the transparency in the sector which is one of the key objectives of the PIA.

## Unbundling of Oil and Gas Business

This year, it is expected that companies will begin to unbundle and segregate their businesses into separate entities in line with the PIA which requires any person intending involved in more than one stream of petroleum operations to register and use a separate company for each stream of operations.

## Application for Licences

As a direct consequence of the new licensing regime under the PIA, we expect to see industry players applying for the licences relevant to their businesses as expected under the PIA. Furthermore, the PIA requires OML holders who wish to convert to PMLs are expected to enter into conversion contracts with the government. Given the novelty of this, we do not expect to see existing licence holders entering into conversion contracts this year, as we expect that most licence holders will want to have a full grasp of the implication of such conversion before venturing into same.

## Aftermath of Award of Marginal Fields

It is expected that the recent award of 57 Marginal Oil fields to indigenous companies will increase local participation in the oil and gas sector and boost crude oil production. It is anticipated that the additional production will assist in boosting the nation's daily crude production and hopefully this will see Nigeria meeting its daily production quota as set by OPEC. Also, we expect to see a number of upstream financings as the marginal field awardees will require significant working capital for the successful development of the marginal field assets acquired.

## The Decade of Gas – Less Oil, More Gas

Following the declaration of the decade of gas, Nigeria's gas sub-sector has been garnering more attention, and rightfully so. The demand for gas products like LPG has skyrocketed over the past year, and this surge is expected to be maintained well into the year. Similarly, with significant projects like the US$5 billion floating LNG facility in the pipeline, gas utilization is expected to increase. A comprehensive implementation of the provisions of the PIA will be fully kick-started this year, as such, it is expected that the gas utilization incentives that are codified in the PIA will accelerate investment in gas in Nigeria.

# THE INTERNATIONAL SCENE

## Rise in Crude Oil Prices

U.S Bank JP Morgan predicts that crude oil prices will surge to US$125/bbl in 2022 and that global oil demand will reach 99.8 - 101.5 million barrels per day. Private analysts such as Goldman Sachs and Barclays also predict an increase in oil prices.

## Surge in Global Demand and Supply of Oil

OPEC maintains that the forecast for world oil demand growth in 2022 is at 4.2 mb/d, with total global consumption at 100.8 mb/d. Invariably, it is expected that the year 2022 will experience an increase in oil demand and supply as opposed to the previous year.

# GLOSSARY

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| **Authority** | Nigerian Midstream and Downstream Regulatory Authority |
| **ATC/R** | Approval to Construct/Relocation |
| **bbl** | Barrel of crude oil |
| **bpd** | Barrels per day |
| **CITA** | Companies Income Tax Act |
| **Commission** | Nigerian Upstream Regulatory Commission |
| **COP26** | 26th edition of the Conference of the Parties at the 2021 United Nations Climate Change Conference |
| **DPR** | Department of Petroleum Resources |
| **FDP** | Field Development Plan |
| **GHG** | Greenhouse gases |
| **IEA** | International Energy Agency |
| **IMF** | International Monetary Fund |
| **IJV** | Incorporated Joint Venture |
| **IOC** | International Oil Company |
| **LNG** | Liquefied Natural Gas |
| **LPG** | Liquefied Petroleum Gas |
| **LTE** | Licence to Establish |
| **LTO** | Licence to Operate |
| **Mb/d** | Millions of barrels per day |
| **MDGIF** | Midstream and Downstream Gas Infrastructure Fund |
| **Minister** | Minister of Petroleum Resources |
| **MMscf** | million standard cubic feet, a measure for volume of gas |
| **NAOC** | Nigerian Agip Oil Company |
| **NNPC** | Nigeria National Petroleum Company |
| **OML** | Oil Mining Lease |
| **OPEC** | Organization of Petroleum Exporting Countries |
| **OPL** | Oil Prospecting License |

# GLOSSARY

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|---|---|
| **PEL** | Petroleum Exploration License |
| **PIA** | Petroleum Industry Act |
| **PIFF** | Petroleum Industry Fiscal Framework |
| **PML** | Petroleum Mining Lease |
| **PPL** | Petroleum Prospecting License |
| **PPT** | Petroleum Profits Tax |
| **SPDC** | Shell Petroleum Development Company |
| **Tcf** | Trillion cubic feet |
| **US EIA** | United States Energy Information Administration |
| **VAT Act** | Value Added Tax Act |
| **WTI** | West Texas Intermediate |

# OUR TEAM

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Partner

**Folashade Oluyadi**
Partner

**Chukwuemeka Osuji**
Director

**Chidubem Okoye**
Senior Associate

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Senior Associate

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Associate

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