

TEMPLARS

The National Petroleum Policy, 2017



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Introduction

Nigeria is the 13th largest producer of crude oil contributing circa 3% of the world's production, and is also the 11th largest holder of proved oil reserves, holding at least 2% of total oil reserves. Ironically, it is the only country in this distinguished league without dependable oil refining capabilities and efficient midstream infrastructure to complement its prolific resources.

The country had hitherto relied solely on generating revenue from crude oil exports and had become energy insecure, exhibiting multiple dependencies on oil exports and product imports. The global and regional dynamics have now changed fundamentally. The peaks and troughs witnessed in oil prices; the unrelenting efforts in the production of shale oil in North America; the growth in production of US Louisiana Light Sweet Oils and its impact on the demand growth for Nigerian Bonny Light; the keen competition from neighbouring producing countries; the softening global demand for fossil fuels driven by advancements in renewable energy; the incessant uprisings in the Niger Delta, and absence of regulatory rigour have forced the Federal Government of Nigeria ("FGN") to go back to the drawing board to review its strategy for the oil sector and its policy direction.

The reality is that the world is awash in oil and the former petroleum policy was too weak to sail Nigeria to the desired harbour. It has now become glaring that the future of Nigeria's crude oil lies in value added refining and petrochemical industries. In full recognition of these realities and in order to **facilitate a total revamp of the oil sector, the Federal Executive Council approved the National Petroleum Policy on the 19th of July, 2017 (the "Policy").**

A recurrent theme in the Policy that weaves the policy objectives together is the recognition of the need to actively move away from oil as a source of income to oil as a fuel for economic growth. In order to achieve this overarching objective, the Policy proposes far reaching reforms across the oil value chain. New legislation will be enacted to replace the dated Petroleum Act of 1969. The governance structure will be clearly delineated with the National Petroleum Policy Directorate taking on a major role as the technical backbone for policy directions. Technical and economic regulation will be manned by the Nigerian Petroleum Regulatory Commission (the "**Commission**") whilst the continued optimization of FGN's interests in petroleum assets will be within the remit of a newly incorporated Nigerian National Oil Company ("**NOC**") and the Nigerian Petroleum Asset Management Corporation.

The Policy also recognizes the need to institutionalize viable commercial and fiscal frameworks for the oil sector. In line with this, the Policy outlines the pricing philosophy for tariff setting along the midstream-downstream chain. The market will witness a paradigm shift from the traditional joint venture and production sharing contract ("**PSC**") arrangements to the modified *PSC* ^{*} and the incorporated joint venture with additional cost control and monitoring provisions that ensure a cost-

price ratio not greater than 30%. Also, cost recoverability for associated gas and non-associated gas development against oil income will become fiscal relics. At the midstream level, competition regulation and open access rules will be adopted for essential midstream infrastructure. The downstream sector will also witness wholesale commercialization and liberalization.

The Policy seeks to embrace petroleum safety compliance, criminal prosecutions of company directors for gross negligence, the review of metering and fiscalisation mechanics, a reduction in environmental footprints and local content development as laudable initiatives.



Our Commentary

GOVERNANCE

i. Passage of new legislation

In an effort to overhaul the dated Petroleum Act of 1969, the Policy proposes the passing of a new legislation, the Petroleum Industry Reform Bill (“**PIRB**”). In its enacted form, the PIRB will enable the revamp of the Nigerian petroleum sector by addressing sector governance and the institutional framework, the fiscal regime, the corporate structure of state-owned enterprises, transparency and accountability, and environmental issues. This is a commendable initiative because the extant principal petroleum industry legislation became obsolete decades ago.

In its enacted form, the PIRB will institutionalize the separation and clarity of roles required in the petroleum industry by providing for the establishment of a policy institution, a regulatory institution and commercial institutions. The National Petroleum Policy Directorate will be the primary policy institution and will be responsible for assisting the Minister of Petroleum Resources (the “**Minister**”) in formulating, monitoring and ensuring the implementation of policies. The Commission will be the new single independent regulator whose authority will span across all sectors of the petroleum industry. The newly created NOC and the Nigerian Petroleum Asset Management Corporation will be the commercial institutions that will be responsible for managing FGN’s petroleum assets. The Policy also stipulates that the PIRB will provide for improved accountability, autonomy of the institutions, transparency and stakeholder engagement through the implementation of various standards and codes in compliance with international best practices. In sum, the Policy creates a clear strategy for long term sustainable development.

The successful implementation of the foregoing goals would be beneficial in reducing bureaucracy, asymmetry, regulatory overlap and widespread inefficiencies in petroleum sector governance. However, the Policy recognizes that strong capacity building and reorientation of the workforce are vital to the actualisation of these goals.

ii. Regulatory, Policy and Commercial Institutions

A strong single independent regulatory commission will be birthed under this new dispensation. It will be primarily responsible for all licensing activities across the entire oil and gas spectrum, investigations, mediation and elimination of market distortions. To eradicate the number of disparate and sometimes overlapping regulatory agencies, all regulatory and pseudo regulatory powers will reside in the Commission.

One of the immediate tasks of the Commission will be to formulate a network code which will provide non-discriminatory access for third parties to all infrastructure along the oil and gas supply chain. In regulating the supply segment, the Commission will be influenced by the need to calibrate the supply segment such that it becomes open to as many players as possible in order to foster competition. For the midstream sector, the Commission is expected to be guided by the crucial need to attract as much investment as possible into petroleum refining, gas processing, transportation and storage in order to complement exploration and production activities. However, given the network-bound and monopoly features of the midstream sector, the Commission must seek to strike a balance through utility regulation by adopting regulatory tools such as competition regulation, open access rules for all onshore and offshore pipelines, and tariff regulation on a rate of return basis for the essential midstream infrastructure. The Policy envisions that the Commission will also be a strong and robust safety regulator with the powers of inspection and investigation, and will work with law enforcement agencies as necessary for entry into premises without owner's permission, removal of evidence, questioning under caution and detention in accordance with the law. Safety regulations will be made to include criminalizing directors' gross negligence and criminal prosecutions for serious breach of health and safety or serious incidents that lead to loss of life.

The Policy stipulates that the Commission will have oversight over consumer protection, and will ensure that measures are put in place to guarantee consumer protection consistent with the Consumer Protection Act. This in our view will boost the confidence of consumers in the industry particularly in relation to the quality and standard of products. Also, consideration will be given by the FGN to representatives of civil societies and consumer associations to ensure that all relevant stakeholders are actively involved in industry and market development.

For sustainable efficiency, the Policy proposes that the Commission will operate under the limited supervision of the Minister with a view to ensuring the implementation of the policy by the Commission and also to monitor the Commission's performance. It is arguable though that the Minister's supervisory oversight (albeit limited) may serve as a two-edged sword as it may rob the Commission of the cloak of independence whilst ensuring efficient performance. The Commission will also be responsible for developing and maintaining technical standards for the industry.

The Policy recommends the creation of a National Petroleum Policy Directorate which will serve as the technical back office for the Minister. The technical back office will have specialist centers that will include a strategic planning and policy research centre ("**SPPR Centre**"), and an investment promotion office. The SPPR Centre will have a strong research component geared towards sharing knowledge on local and international developments. This will surely aid in ensuring that petroleum policies are maintained in line with international best practices. The investment promotion office will work in collaboration with the Nigeria Investment Promotion Council to provide useful and authoritative information to potential investors. The Policy also proposes the setting up of Dedicated Project Desks within the National Petroleum Policy Directorate. The main role of these dedicated desks will be to lobby and push projects or programmes relevant to the Policy by acting as an interface between project developers and government agencies. However, there is a likelihood that this initiative may engender corruption and favouritism.

iii. Commercial Framework For Access To Offshore And Onshore Networks

The Policy clearly articulates the philosophy that will underpin the rules for access to midstream infrastructure and the pricing principles. The Policy envisages a full legal separation of entities involved in petroleum infrastructure ownership, operations and trading across the industry value chain. The Policy does not prohibit vertical integration, however there must be a distinct legal entity for each licensed activity.

The Policy will also introduce open access to all pipelines and other essential midstream infrastructure irrespective of the location, and prescribes the formulation of a network code, which will provide conditions for non-discriminatory access by third parties. This will be a step closer in achieving the objective of maximizing the production and processing of hydrocarbons, thus moving Nigeria beyond crude oil exports into value added activities in the oil sector. Specifically, for the monopoly tainted midstream infrastructure, regulated tariffs will be introduced in a manner that will provide investors the opportunity to recover all the eligible costs in addition to an adequate and reasonable rate of return.

iv. Cost Control, Metering and Fiscalisation

The Policy recognizes that cost monitoring and cost control are crucial to the profitability of projects in the value chain and to overall sector economics, and thus sets out a number of measures which are expected to reduce costs in the Nigerian petroleum industry. The intention of the policy is to avoid unnecessary costs, and the duplication of redundant and underutilized assets. The adoption of robust cost estimation and contract thresholds, cost management structures, consolidation of contracts where necessary, and sharing of services and facilities as standard operating practices are admirable initiatives. Impressively, the Policy also recognizes and highlights the role of the FGN in ensuring a lower cost environment, including amongst others: resolving the Niger Delta militancy issues; reducing the general costs of doing business in Nigeria; and optimizing contracting cycles. We hope that the FGN will play its part as stipulated by the Policy, in order to achieve these objectives.

As part of the drive towards transparency, the Policy proposes to address shortcomings in metering, measurement and fiscalisation of hydrocarbons. However, the Policy does not clearly allocate the responsibility to the Commission.

v. Fiscal Framework

The Policy highlights that the current Associated Gas Framework Agreement (codified in section 11 and 12 of the Petroleum Profits Tax Act) allows associated gas and non-associated gas costs to be recovered from oil income. This has led to a number of distortions including discrimination against non-oil investors; incentivizing oil companies to build gas infrastructure for fiscal reasons and discouraging infrastructural development in the gas sphere. Thus, a new fiscal policy and framework is proposed for the Nigerian petroleum sector which will be shaped by the Fiscal Rules of General Application (the "FRGA"). The FRGA is the framework through which the interests of the state and that of the investors are codified. The fiscal policy and framework will be embedded in a separate National Petroleum Fiscal policy document to be issued by the FGN. The philosophy for the fiscal framework of the petroleum policy is to set fiscal rules that are rooted in clarity and transparency, and which require:

(i) that rules established by law and contracts are published; (ii) consistency of laws with the nation's jurisprudence; (iii) guaranteed revenue stream for the FGN during all production periods with larger share of revenues as profitability increases; and (iv) that the progressive fiscal system adopted should be based on royalties to assure early revenues, regular income tax and tax on rent (i.e. hydrocarbon tax). Ultimately, the industry will witness a separation of oil from gas for fiscal purposes. Gas will be developed based on its own economics and will not be dependent on or consolidated against oil taxation. Hopefully, this will be achieved through the right pricing of gas, lower royalties, resource tax and deterrence of tax pricing.

vi. Sector Financing

The Policy recognizes that petroleum projects need to be financed, and aims to encourage all types of project financing. However, it mentions that direct involvement of the FGN in project-financing in the future will be minimal. The Policy provides that the main sources of finance for projects will come from appropriations, owners' equity injection, commercial loans or financings from international financial institutions.

vii. PSC Plus Cost Structures and JVs

The Policy conducts a cost-benefit analysis of the traditional joint venture structure and production sharing contracts adopted in Nigeria and suggests that the FGN has probably maintained the joint venture structures because of the several shortcomings experienced over the years under the PSC arrangements. Under the new dispensation, FGN's interest in upstream assets will consist of incorporated joint ventures. The Policy proposes the continuity of PSCs currently under the 20 year production phases and PSCs at exploration phases. But at the end of the respective phases, the risk reward matrices will be evaluated and the optimal financing mechanism will also be considered. The result of the assessment will influence the renewal decision. The FGN may also consider conversion of some joint ventures to PSCs. However, such potential conversions must match the historical equity capital contributions to the resource and the risk/reward profile must be significantly beneficial to the FGN.

The Policy communicates a strong desire to exit all cash call arrangements under the Nigerian National Petroleum Corporation ("NNPC") joint venture arrangements by the end of 2017 and may then move the joint venture arrangements to the PSC⁺ or incorporated joint venture arrangements.

viii. Sovereign Wealth Fund

It is interesting to note that the FGN has finally realized that crude oil resources are finite and provisions have to be made for the generation yet unborn. In this regard, the Policy provides that the FGN will explore mechanisms by which petroleum revenue can be managed for the benefit of future generations.

ix. Niger Delta

Special recognition was granted to the Niger Delta region under the Policy. The Policy recognized that the region has suffered from petroleum developments and that the region must share in the benefits from resource exploitation. The negative impacts of the oil industry are a major concern in the Niger Delta, threatening not only the health of local communities, but also the sources of livelihood they depend on. As such, the FGN intends to develop a Niger Delta wide model with the intention of involving Niger Delta communities directly in infrastructure, social and petroleum developments in their local community area.

Some of the proposed initiatives for the equalization of the region include identifying small and marginal fields which could be developed in partnership with local communities; exploring mechanisms whereby local communities can be integrated into project developments; exploring models for community based trust funds; engaging local communities in projects in their local area; and providing small equity holdings for communities in oil operations in their areas.

INDUSTRY STRUCTURE

A clean break from the past

The Policy emphasizes that the previous ways of conducting petroleum business in Nigeria are unsustainable, and proposes a number of initiatives for developing the petroleum business in line with the Policy. These include a clear separation of the roles of FGN and operators, infusing industry operations with transparency and embracing cost efficiency, reducing regulatory burdens through smart regulations, and adopting practices that will enhance safe operations. The Policy envisages a sector with strong partnership between the public and private sectors, albeit with a clear separation of roles between the FGN and the private sector. In very clear terms, the Policy limits the role of the FGN to policy setting and implementation, legislation, and formulation of the fiscal rules of general application. The role of the private sector will be to engage in commercially viable, profitable and sustainable operations, creating markets, conducting safe, healthy and environmentally friendly operations, and serving their shareholders, as well as consumers, government and other stakeholders.

The Policy also proposes the corporatization of state-owned enterprises in the petroleum industry, and extensively sets out the advantages of corporatization. One of the corporations that will be immediately corporatized is the Nigerian National Petroleum Corporation. This will be implemented by the establishment of a new national oil company as a corporatized entity in accordance with standard international practices for corporations including operating under commercial law and a two-tier board structure. It will relinquish all its policy making and regulatory activities, and will be treated on an equal basis with private sector operators.



The Policy provides that the NOC will be structured into operationally independent self-accounting profit centre subsidiaries so that the value of separate activities can be realized and operational efficiencies can be achieved. The NNPC restructuring will mean, among other things, that policy making will become the sole preserve of the Ministry of Petroleum Resources; all regulatory activities will become the sole preserve of the Commission; and the NNPC will cease to exist and will be succeeded by the NOC.

The Policy also seeks to capitalize the NOC with a capital structure through the vesting of liquid and fixed assets that will enable asset based financing through debt or equity. The NOC will develop a dividend payment and earnings retention policy in order to ensure predictability of its returns to the FGN beyond payments of royalties and taxes. This is a welcome initiative as the policy is aimed at achieving an optimum capital structure by combining tax efficiency and financial flexibility, while minimizing financial and business risks.

The Policy also discusses the status of the autonomous profit centre subsidiaries created out of NNPC and what the future holds for such entities. In respect of the Nigerian Petroleum Development Company Limited ("**NPDC**"), the Policy recognizes that despite having a significant production capacity, the NPDC is not profitable, and proposes three immediate steps for the NPDC: (i) the conduct of a full audit of its losses, (ii) a full restructuring to ensure it runs like a commercial exploration & production company, and (iii) an improvement in its capacity and skills at all levels. The Policy stipulates that if there are no significant changes in the NPDC's operations after these reforms, such that it becomes profitable within a reasonable period of time, the NPDC will be divested or closed down.

With regards to the Nigerian Petroleum Investment Management Services ("**NAPIMS**"), the Policy criticizes NAPIMS' cost of managing government interest as being significantly higher than it ought to be. These costs, when applied across the JVs and PSCs makes some of the FGN's equity interests in the JV unprofitable. The Policy considers that NAPIMS is incapable of reforming itself because of its fractured internal organization. Thus, NAPIMS will be substantially restructured and may ultimately become independent, with full autonomy from the NOC.

MARKET STRUCTURE

Creating a market driven oil and gas industry

The Policy's main thrust is to enable Nigeria to become a market driven oil and gas industry, structured to meet the vision of a nation where hydrocarbons are used as a fuel for economic growth and not simply as a source of income. This means restructuring the government sector to one where efficiencies are introduced and engendering a level playing field between the private and public sectors. The Policy also recognises the need to ensure private investment across the upstream, midstream and downstream segments in the value chain. The entire supply chain has to be enabled. Efficient processing and refining (whether public or private) must also be given priority consideration. Enablers that will midwife the transition from a crude oil exporting country to a manufacturing and industrial nation must also be formulated.

The Policy stipulates that private sector operators in the upstream, midstream and downstream will operate on equal footing as government owned operators. This is a much welcomed initiative, as a

market-based economy with equal opportunity of access, combined with a fiscal regime of general application to all players, will help to move Nigeria's economy forward and attract private sector investment into the upstream, midstream and downstream sectors.

Under the Policy, oil will be refined within Nigeria and further used to create significant end products to create value for the nation as opposed to the agelong habit of exporting only for immediate cash benefits. The intention is to achieve a competitive supply of petroleum products, make Nigeria a refining hub, and introduce petrochemical industries to realize the full value from oil refining. One of the most critical objectives of the Policy is the need to attract investment into the downstream sector and the Policy intends to achieve this by creating the appropriate industry structure, legal, institutional, regulatory and fiscal environment; creating a business friendly environment and enabling an effective supply chain environment.

The Policy also suggests that the FGN has come to full recognition of the deficiencies across the whole supply chain, and intends to remedy this by improving physical infrastructure, including pipeline infrastructure, roads, telecommunications infrastructure, the business environment, and reducing bureaucratic inefficiencies. The FGN is also working towards the active creation of a manufacturing base and the dislodgment of unhealthy monopolies.

In order to achieve full maximization of value from the nation's petroleum assets, the FGN plans to follow hydrocarbons from extraction to destination by retaining ownership of its national petroleum entitlement up to refining, and gaining access to marketers and distribution channels within international downstream markets.

The Policy recognizes that the petroleum procurement process in Nigeria needs to be fundamentally overhauled, and promotes measures to bring efficiency, transparency and cost control into procurement and contractual processes in accordance with international standards. The Policy also recognizes that the existing assets have to be optimally exploited to achieve the goal of low cost oil. To achieve this, the Policy proposes to introduce professional and modern asset management methods in compliance with international best practices to ensure that the assets are optimally exploited to their maximum capacity. This is a commendable initiative particularly because of the urgent need to improve the competitiveness of Nigeria as an oil producing nation; our oil production cost is currently one of the highest in the world.

UPSTREAM – DEVELOPING RESOURCES

Maximising production of hydrocarbons within Nigeria

The short and medium term objective for the upstream is to maximize production. The Policy demonstrates through a graph that unless there are additions to reserves and those reserves are brought into production, there will be absolute declines in Nigerian production from around 2020. The Policy uncovers two main tools for maximizing retention of existing production. The first is to take steps to reduce the disruptions to production arising from insecurity in the Niger Delta, and the second is to increase accountability for production. Increased accountability for production will be achieved through improved regulatory monitoring in addition to increased transparency in operations and other improvements as may be necessary.

The unending security of supply risks constantly fuelled by Niger Delta militancy has forced the FGN to reconsider its national and energy security strategy. The goal of the FGN is to deliberately promote exploration to find additional petroleum resources (beyond the currently known occurrences) in other geologically prospective terrains including the inland and offshore basins. As a sweetener, commercial terms upon which titles to inland basins are held will also be revisited in favour of the title holders.

To forestall absolute declines in production from around 2020, the FGN realises the need for addition to the national reserves. Through the Policy, the FGN intends to identify and put in place measures to enhance the attractiveness of Nigeria as a suitable investment destination for exploration only, production only, or exploration & production companies.

In line with international best practices, oil and gas licenses will no longer be awarded under opaque procedures with allocations of blocks or production. All petroleum blocks, licenses, leases, licence renewals and licence extensions will be awarded following a transparent competitive process. The process will also allow local community participation through local community vehicles. The Policy further provides that licence renewals or extensions will now be based on the success or the degree of progress of licence holders in meeting their exploration or production targets. Under this approach, licence holders who do not meet licence conditions, including oil production, gas flare down, and gas supply obligations, will risk losing their licence. The Policy seeks to ensure that there is timely and competitive access to petroleum assets, to ensure optimum exploration, development and commercialization of its oil and gas endowment.

The FGN however restated its commitment in developing the Nigerian domestic petroleum industry and supporting and developing indigenous players. The Policy makes it abundantly clear that the FGN will continue with its policy of awarding marginal field to indigenous players.

The Policy addresses measures to minimize environmental damage and environmental footprints. To achieve these, the FGN intends to reduce gas flaring in accordance with the gas policy and gas flare-out programme, enforce relevant regulations and international best practices, monitor oil spills closely and operate the “name and shame” and “polluter pays” principles by publishing pollution and polluters in international media, and by ensuring that the polluters pay the full costs of setting any environmental damage right. The FGN will also consider moving to a system of independent assessment of the environmental and human impact and costs of an oil spill. This is commendable because the environmental damage to the Niger Delta is a major contributing factor to the current Niger Delta militancy and is in itself evidence of a failure of regulation and governance.

As endowed as the nation is, the Policy recognizes that renewable energy is increasingly gaining ground worldwide and in Nigeria. The Policy anticipates that as the renewable energy costs continue to come down, renewable energy will become a significant part of the diversified energy mix. As such, the medium to long term plan is for oil exports to reduce significantly and for oil refining and oil based industrialization to become an integral part of the new industrial economy of Nigeria.

MIDSTREAM OPERATIONS – INFRASTRUCTURE

Nigeria's Midstream Oil Network

The Policy recognizes the need for the development of operationally effective and cost efficient facilities by midstream investors. The existing midstream facilities are in an appalling state having not been maintained for years. Currently, there is a huge deficit of midstream assets that will facilitate the transportation of Nigerian crude to inland refineries and the transportation of refined oil products to the market.

The Policy has determined that Nigeria needs onshore strategic reserves of refined petroleum products. This is to provide security of supply against the risk of any significant disruptions in supply from existing sources, or transportation routes such as import jetties at Apapa or Calabar. The Policy also emphasizes the need to audit the existing storage capacity, and proposes that an audit of all petroleum product storage within Nigeria will be undertaken in order to ascertain design and capacity, the current state of assets, current operating capacity, current entry and withdrawal speeds, and the amount of involvement needed to bring the capacity up to a sufficient level.

The country suffers greatly from refinery underperformance due to various factors including irregular turnaround maintenance, epileptic power supply, proceeds diversion by the Petroleum Products Marketing Company ("PPMC" now "NPMC") and absence of guaranteed crude. However, to achieve the vision of this Policy, a strong refining sector with high volume and commercially viable refineries is fundamental. A strong component of the refining revolution is to ensure that operators of wholesale infrastructure and refineries do not exercise undue market dominance. Under the new refining model under the Policy, refineries are expected to sell products directly to multiple off-takers. To ensure a level playing field, similar restrictions will apply to any other dominant private sector participant in the market.

The Policy recognizes the need to partner with the private sector for the development of the refining hub. Impediments to private sector participation in the sub-sector will be addressed to ensure a robust and competitive local refining industry that ensures local product availability, product export and, feedstock availability to related industries.

Furthermore, as a part of the restructuring of the NNPC, the existing NNPC refineries will be set up as autonomous, independent, profit centres with responsibility for their own commercial operations whilst there is a possibility of divestment of moribund or non-performing refineries. The Policy also intends to return storage depot assets, which had been transferred from the refineries to PPMC, back to the refineries. In addition, the perimeter fence around the refineries will be set sufficiently far from the operations including depots to ensure that proper security can be maintained. Everything inside the perimeter fence will belong to the refinery solely and will be on each refinery's asset register.

As part of their new independence, each of the refineries will be given commercial autonomy, thus enabling them to take crude oil from wherever and whoever they can on exclusive and non-exclusive basis, without being constrained to take NOC deliveries only.

Under the new Policy, different approaches for bringing international private sector finance, technical and commercial expertise into the NNPC refineries will be considered. These may include strategic

partnerships with suitable international players, concessions, or other ways of introducing long term international private sector involvement. For optimal value, the Policy proposes the co-location of new refineries developed by strategic partners within the precincts of the existing refineries. The FGN will also encourage the construction of private sector refineries. Under the market-based nature of the Policy, NNPC refineries will have to compete in an open market along with any other entrant, as well as international refineries for light crude, and with any new private refineries in Nigeria, which the FGN will encourage to develop.

The Policy exposes the infrastructure deficit, mismanagement and inefficiencies, unhealthy monopoly and oligopoly dimensions to the ownership of the import terminals at Apapa and Calabar. These factors have continued to fuel physical disruption at these import terminals blocking entry of products and leading to sub-optimal flows of product and pricing. As such, the Policy provides that an investigation will be carried out into the identified risk areas, in order to identify the level of risk and recommend mitigations. The FGN will also investigate the opportunities for increases in jetty capacity and the construction of new jetties as risk mitigation mechanics. One of the other considerations is to also introduce economic regulation of jetties in a deregulated environment.

The lack of a commercial framework for midstream oil assets has bedevilled the sector and has rendered investment impossible. The Policy provides that the commercial philosophy for the midstream oil sector will be the same as that of the midstream gas sector. The commercial philosophy is based on separation of the activities of the whole oil supply and operation of midstream facilities (gathering pipelines, onshore crude pipelines, product pipelines and storage); and regulated pricing for monopoly midstream facility operations based on a methodology of international standards or benchmark costs. The midstream tariff methodology developed by the Policy will form a part of the new commercial framework that will be implemented.

DOWNSTREAM – INFRASTRUCTURE AND MARKETS

The vision of the Policy for the downstream sector is to create additional value for Nigeria through oil refining, and then further processing into significant end products for industries, such as complex petrochemicals and plastics. The approach of the Policy is to make the oil and gas industry market driven, through commercial arrangements and a level playing field between private sector and public sector operators. This will lead to a more commercially operated and liberalized downstream petroleum products sector in Nigeria.

Bold reforms will be necessary to allow for private sector entry into the downstream sector, and these include: downstream capacity enhancements and safe operations; building up strategic product reserves; improved sector logistics; private sector investment in sector infrastructure; permanently removing all petroleum product subsidies; and unbundling and fundamental restructuring of the NPMC.



The NPMC receives petroleum products from the NNPC refineries and provides storage for importers as well as direct sale of products to marketers in bulk. The Policy recognizes that the refineries have trouble in collecting all payments from NPMC for product deliveries and in turn have problems in paying their NNPC JV crude oil suppliers. Thus, the policy highlights the need for the review of the effectiveness of NPMC in carrying out its role of marketing petroleum products and effectively developing a modern and commercial petroleum products business in Nigeria such that it does not abuse its dominant market power.

The Policy aims to move towards unregulated markets in Nigeria as much as possible. However, regulation will still be required for limited pricing regulation, health and safety, product standards and consumer protection.

In light of this, the FGN does not intend to reintroduce petroleum product subsidies as they have caused immense social and economic harm to the nation. However, support to the poor will be made directly rather than through distortions to economic pricing. Consequently, a transitional arrangement to a fully price-deregulated product market will be developed and implemented.

An objective of the Policy is for petroleum product pricing to be market-led and unregulated except for the monopoly parts of infrastructure. Additionally, a non-discriminatory regulatory stance will be adopted in order to incentivize supply, which in turn will result in competitive pricing. Also, while prices are intended to be unregulated, computation of open market pricing should be made available to the general public. End-user prices will be required to be published and prices will be monitored to avoid information asymmetry and arbitrage.

DEVELOPING NATIONAL HUMAN RESOURCES

The Policy recognizes the need to develop Nigerian human resources, and prescribes methods for doing so. It highlights the difficulty in developing Nigerian local content in a low oil price environment, and emphasizes the importance of a policy approach that is consistent with the law, which encourages indigenous participation at competitive prices. In achieving this, the strategic objectives stipulated by the Policy include enhancing the implementation of the local content legislation; institutional human capacity building for the public sector and the industry, and instilling international oil and gas industry best practice in maintenance and safety.

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