

The Petroleum Industry Act (PIA) Finally Berths: Way to Go!

At last, the much-touted Petroleum Industry Bill became law when, on Monday, August 16, 2021, President Muhammadu Buhari put pen to paper. The President consequently approved a steering committee, to be headed by the Minister of State of Petroleum Resources, to oversee the process of implementing the Petroleum Industry Act (PIA) over the next 12 months. The petroleum Act enables a number of governance, administrative, fiscal, regulatory and developmental reforms, which if properly implemented, could significantly transform the Nigerian economy by facilitating potentially greater investments in the oil and gas sector.

On the governance front, Nigeria National Petroleum Corporation (NNPC) has ceased to be a government owned enterprise; rather, it will be incorporated as a company limited by shares, NNPC Limited, over the next six months from the commencement of the Act which aims to promote good corporate governance, transparency and accountability in the administration of petroleum resources in Nigeria as well as ensuring commercial viability of the corporation. The Ministry of Finance Incorporated and Ministry of Petroleum Incorporated will be the original shareholders on behalf of the Federation and will take over assets, interests and liabilities of NNPC. The new structure is expected to pave the way for the eventually sale of shares of NNPC Limited to Nigerians.

The Act further strips NNPC of its regulatory powers by creating the Nigerian Upstream Regulatory Commission (responsible for the technical and commercial regulation of the upstream petroleum operations) and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (responsible for the technical and commercial regulation of the midstream and downstream operations in Nigeria).

The Commission shall, among other things, promote the exploration of frontier basins of Nigeria while a frontier exploration fund which shall be 30% of NNPC Limited's profit oil and profit gas shall be maintained just as in the production sharing, profit sharing and risk service contracts. On the other hand, the Authority shall, among other things, provide pricing and tariff frameworks for natural gas in midstream and downstream operations and petroleum products based on their fair market values and; regulate the bulk storage, distribution, marketing and transportation pipelines of petroleum products.



Economic Update August 2021

Also, the fiscal reform objective of the Act establishes a progressive fiscal framework that encourages investment in the Nigerian petroleum industry, provides clarity, enhances revenues for the government while ensuring a fair return for investors.

Finally, the Act introduces the Petroleum Host Community Development (PHCD) which creates a framework to support the development of host communities through, inter alia, the provision of direct social and economic benefits from petroleum activities to host communities and fostering peaceful and harmonious co-existence between licensees and host communities. One of the major benefits in favour of the host community is the annual contribution by the Settlor firm of 3% of its operating expenses of the preceding year to the host community's development trust fund.

ANALYST OPINION

Although coming rather late, taking into consideration the forgone huge economic benefits, which according to President Buhari, amounted to some USD50 billion over the last ten years – and not to mention the economic cost of an inefficiently managed industry in terms of rising public sector debt servicing due to growing annual budget deficits, volatility in foreign exchange market, slow economic growth and rising unemployment –, we believe there is ample time for the country to make the most of the emerging economic opportunities provided by the PIA. We however stress the need for flexibility when implementing the provisions of the Act in view of the dynamics in the global energy markets as well as the intensity of competition for investments in the global oil and gas industry. We also recommend that renewables be developed and run side by side hydrocarbons.

Furthermore, we feel that the PHCD initiative has fairly good prospects of improving host community relations despite initial resistance and/or agitations by various interest groups against the 3% contribution which they deem too little. This should give a new lease of life to host communities if efficiently allocated to priority areas while also brightening prospects of stable oil production, increased exports and improved government revenue.

Finally, we believe subsidy removal should follow the enactment of the PIA at the slightest opportunity and as humanly as possible while savings should be deployed to critically important sectors, especially those that border on human capital development.

IMPORTANT DISCLOSURES: This report is produced by the Research Desk, Cowry Asset Management Limited (COWRY) as a guideline for Clients that intend to invest in securities on the basis of their own investment decision without relying completely on the information contained herein. The opinion contained herein is for information purposes only and does not constitute any offer or solicitation to enter into any trading transaction. While care has been taken in preparing this document, no responsibility or liability whatsoever is accepted by any member of COWRY for errors, omission of facts, and any direct or consequential loss arising from the use of this report or its contents