

Nigeria's upstream petroleum sector: looking back at 2019 and looking ahead in 2020

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We review what happened in Nigeria's upstream petroleum sector during the year just gone – a year that saw changes to the petroleum royalty regime, an uptick in deal activity and, of course, an election and changes to the leading oil-related Government figures. We also gaze into our crystal ball to see what we can expect in 2020. (Health warning: we do not profess to be genuine clairvoyants.)

What happened in politics / regulatory matters?

Muhammadu Buhari won his second term as President of Nigeria in February.

Following his election, key new appointments are Timipre Sylva as junior petroleum minister and Mallam Mele Kolo Kyari as the group managing director of the Nigerian National Petroleum Corporation ("NNPC").

President Buhari has retained the title of petroleum minister, as he did in his first term, but Sylva is expected to lead the day-to-day running of the ministry and represent Nigeria at OPEC meetings (as his predecessor Emmanuel Kachikwu did before him).

Sylva was formerly the governor of the oil-rich Bayelsa State and a member of the Rivers State House of Assembly. Kyari previously served as Nigeria's national OPEC representative and the NNPC's crude oil marketing division group general manager.

Buhari has reportedly appointed individuals that he trusts to carry out his agenda. The long-awaited Petroleum Industry Bill and associated structural reforms remain key priorities.

What happened in legal matters?

A new law was passed in November that amended the upstream royalty rates in offshore and certain inland areas, increasing the royalties due from deep water production. It also established an oil price linked royalty – something that had been previously raised by the Government as a historic right that it might have tried to apply retrospectively.

The Deep Offshore and Inland Basin Production Sharing Contract (Amendment) Bill makes changes to an existing law, the Deep Offshore and Inland Basin Production Sharing Contract 1993 ("Act"). The key changes are:

- **Flat offshore royalty rate:** a 10% royalty will apply on production from fields with a water depth of greater than 200 metres. Under the existing Act, this rate was graduated, reducing with the extent of the depth of field (participants had paid 12% in areas from 201 to 500 metres water depth; 8% in areas from 501 to 800 metres water depth; 4% in areas from 801 to 1000 metres water depth; and 0% in areas in excess of 1000 metres water depth).
- **Reduced rate for frontier and inland basins:** these will be subject to a 7.5% royalty (under the existing Act, participants paid 10%).
- **Oil price royalty:** a new royalty is payable on the basis of the oil price with an additional rate payable of 2.5% for an oil price of US\$ 20 – 60 per barrel; 4% for an oil price of US\$ 61 – 100 per barrel; 8% for an oil price of US\$ 101 – 150 per barrel; and 10% above US\$ 150. This replaces section 16 in the existing Act which stated that the royalties in the Act were subject to review when the price of crude oil exceeded \$20 per barrel.
- **Right of review of PSC terms:** the Minister of Petroleum has a new right to call for a review of production sharing contracts every eight years and imposes new penalties of a fine not below 500,000,000 naira or five years imprisonment for non-compliance.

What deal activity happened?

After a quiet period, M&A activity in the sector resumed, including some domestic consolidation and Savannah Petroleum completing the acquisition of Seven Energy in November, with Savannah gaining interests in Seven Uquo Gas, Universal Energy Resources and Accugas. Beyond M&A, Nigeria LNG made a final investment decision on its Train 7 project, which will increase LNG production capacity by 35%.

What is expected in 2020?

- **In law:** as ever, the prospective Petroleum Industry Bill looms large over Nigeria's oil and gas sector. Buhari has reportedly set out an ambitious plan to pass legislation overhauling the industry by the end of 2020.
- **Regulatory:** a new oil licensing round for both offshore and onshore blocks has been rumoured for mid-2020. If Buhari is successful in passing any elements of the Petroleum Industry Bill, this is likely to introduce changes and restructuring to the Government entities that regulate and participate in the industry.
- **Deal activity:** many of the Majors have ongoing sale process for onshore acreage, with attempts to focus their buyer universe on the leading Nigerian E&P companies. The Petrobras Oil and Gas B.V. acquisition continues to await Ministerial consent (with just one buyer left standing).