

# THE NEW PETROLEUM INDUSTRY ACT

## A Summary

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President Muhammadu Buhari has signed into law the much-awaited Petroleum Industry Bill, now Petroleum Industry Act (“PIA”). Prior to PIA, there were different versions of the PIB. It started as an omnibus bill and was later divided into 4 separate bills before emerging in 2020 as a consolidated bill.

The PIA seeks to stimulate long term investments required in the industry to address the revenue demands of the Government, cater for host communities, and provide an enabling and transparent environment for operators in the industry, as well as resolve other challenges facing the industry. Indeed, the Act which contains 5 Chapters, 319 Sections and 8 Schedules is a crucial development needed to harmonise and create a definitive law on several issues plaguing the petroleum industry.



## Some of the key provisions in the PIA include:

**i.** Two Regulators for the oil and Gas industry, namely: the Nigerian Upstream Regulatory Commission (“the Commission”) for technical and commercial regulation of upstream petroleum operations, and the Nigerian Midstream and Downstream Petroleum Regulatory Authority (“the Authority”) for technical and commercial regulation of the midstream and downstream petroleum regulations.

**ii.** The Commission is to recommend lease and consent on assignment to the Minister for approval, and the Minister's approval shall be communicated within a specific period, otherwise same will be deemed granted.

**iii.** Incorporation of a commercial and profit focused NNPC Limited under CAMA within 6 months from commencement of the Act, with its shareholders as the Ministry of Finance Incorporated and Ministry of Petroleum Incorporated.

**iv.** Establishment of new licences and leases, that is Petroleum Exploration Licence (previously Oil Exploration Licence), Petroleum Prospecting Licence (previously Oil Prospecting Licence) and Petroleum Mining Lease (previously Oil Mining Lease).

**v.** Operators are entitled to production allowances instead of investment allowances and investment tax credits.

**vi.** Environmental and Gas Flare Management is introduced with an annual contribution dependent on the size of the operations and risks involved.

**vii.** Gas flare penalties from upstream operations to be used for environmental remediation and relief to the host communities, while those arising from midstream operations will be used for midstream and downstream infrastructure investment for the benefit of the host communities.

**viii.** The Commission is to adopt a national grid system for acreage management and develop Model Licence and Model Lease regime which shall be incorporated in the contract, with a provision giving NNPC Limited the right of participation of up to 60% in the contract.

**ix.** Introduction of new fiscal policy regime including Hydrocarbon Tax of 15% for Petroleum Prospecting Licence and 30% on Petroleum Mining Lease, as well as penalties.

**x.** Deductible cost for Hydrocarbon Tax allowable for up to 65% of gross revenue.

**xi.** The incorporation of a host communities development trust which shall be established by the settlers and funded by 3% to 5% of the settlers actual annual operating expenditure for the preceding year.

**xii.** Introduction of the following Funds: Frontier Exploration Fund (30% of profit of NNPC Limited), Midstream and Downstream Gas Infrastructure Fund (0.5% of the wholesale price of petroleum products sold in Nigeria), Authority Fund (0.5% of the wholesale price of petroleum products sold in Nigeria), Environmental Remediation Fund, Decommissioning/Abandonment Fund, and Host Community Fund.

In conclusion, the PIA is a step in the right direction in the petroleum industry. However, there are some developments in the industry that the Act does not address. The transition from fossil energy to renewable or clean energy seems not to have been given any serious attention by the government. In the whole, whether the Act will live up to its expectation is an outcome that many would expect to see.

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