A REVIEW OF THE KEY PROVISIONS OF THE PETROLEUM INDUSTRY BILL AND THE IMPLICATIONS ON DEREGULATION

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ABSTRACT

For many years, Nigeria has been classified globally as a fitting illustration of a nation suffering from the resource curse problem. This is because after decades of oil production, many parts of Nigeria have little or nothing to show in terms of social, environmental and economic development. In a bid to break loose from the resource curse classification, attempts have been made to upgrade the Nigerian oil and gas legal framework in order to boost real growth and development.

The proposed legislation, the Petroleum Industry Bill (PIB), is currently under legislative consideration and represents the most comprehensive review of the legal framework for the oil and gas sector in Nigeria since the industry began commercial operations in the 1960s. It could signal the dawn of a new era; an era in which restructuring and transformation could address many of the issues that have dominated the oil and gas industry in Sub-Saharan Africa’s second-biggest economy.

However, despite its radical promises, the PIB has constantly met a brick wall at the National Assembly. It then comes to question the reasons for this delay. If the proposed bill will do more harm than good to the country, why then has it been ingloriously delayed? This paper x-rays and reviews the potential contributions and key provisions of the PIB amongst other things for the stability and growth of the Nigerian oil and gas industry. It also comments on why the current brick wall facing the PIB must be rapidly addressed.

Keywords: Oil, Gas, Petroleum Industry Bill, Deregulation

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1. INTRODUCTION

As with many developing countries, the abundance of crude-oil deposits in Nigeria discovered in commercial quantities since 1956 has not translated into improved standard of living. As a result of the high level of inefficiency, corruption, abuse of natural monopoly powers, bureaucratic red-tapism and the existence of a distorting subsidy regime, the sector has progressed backwards against expectations.\(^1\) Oil-related pollution such as gas flaring, oil spillage and the discharge of effluents have also destroyed the environmental landscape of the Niger Delta where significant proportions of Nigeria’s oil resources are located.\(^2\) As a result of these problems, Nigeria has often been described as suffering from the theoretical concept of resource curse, also known as the Dutch Disease.\(^3\) Resource curse refers to the paradox that countries with an abundance of natural resources, specifically oil and gas, tend to have less economic growth and worse development outcomes than countries with fewer natural resources. This is most often due to government mismanagement of resources, weak, ineffectual, unstable or corrupt institutions.\(^4\) In countries suffering from resource curse, the overall impacts of natural resources might be more an economic curse than a blessing as indigenes and citizens have little or nothing to show for the abundance of oil wealth derived from their country. The Nigerian situation reeks of acute resource curse problems that could only be tackled by innovative and forward looking legal regimes.

The extant regulatory framework of the oil and gas sector which includes the Ministry of Petroleum Resources, NNPC Act 1997,\(^5\) the Petroleum Act 1969, the Oil and Pipelines Act 1990, the Petroleum Profit Tax Act 1959, the Petroleum Products Pricing Regulatory Act 2003 amongst others have had more ruinous effect on the oil and gas sector as they have

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5. The Nigerian National Petroleum Corporation Act 1997
not promoted a culture of transparency in the oil and gas sector. They have also not created the right opportunities to tackle gas flaring, oil spillage and illegal bunkering in Nigeria.

In a bid to maximally harness oil and gas resources in Nigeria, a Presidential Committee was set up in 2007 to undertake extensive oil and gas reforms in Nigeria. The committee identified absence of transparency, poor environment for investment, gas flaring, oil spillage, constant fluctuations in pricing amongst other factors as factors affecting the development of the Oil & Gas sector. The committee came up with the PIB as a fix to many of these problems.\(^6\)

The aim of this paper is to appraise the key provisions of the petroleum industry bill and its potential contribution of the Petroleum Industry Bill (PIB) to the Nigerian oil and gas industry. This paper is divided into four parts. After this introduction, part two will analyze the key features and the objectives of the bill, part three will examine and comment on some of the salient debates surrounding the PIB. Part four will be the concluding part.

### 2. A CONCISE OVERVIEW OF THE PIB

The PIB has drawn controversies from various quarters, most especially from stakeholders and investors in the Nigerian oil and gas industry. Some have argued that the Bill proposes a regime which does not encourage more incentives like the existing laws, while others argued that the effect of this regime will take a longer time before it takes a positive effect on the Nigerian economy. The key provisions of this bill are:

#### 2.1 Establishing the Following Regulatory Institutions:

**i. Petrochemical Technical Bureau\(^7\)**

This bureau is to provide technical and professional support to the Minister of Petroleum Resources on matters relating to the petroleum industry. The bureau shall also assist in the monitoring of the implementation of government policies in the industry, shall also develop exploration strategies and portfolio management for the exploration of unassigned frontier acreages

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\(^6\) A BILL FOR AN ACT TO PROVIDE FOR THE ESTABLISHMENT OF LEGAL, FISCAL AND REGULATORY FRAMEWORK FOR THE PETROLEUM INDUSTRY IN NIGERIA AND FOR OTHER RELATED MATTERS (2012).

\(^7\) The Petroleum Industry Bill 2012, s 9.
in Nigeria amongst other functions as laid out in the bill. The minister is the representative of the government in the oil & gas sector such this bureau is also providing technical support to the government.

ii. Upstream Petroleum Inspectorate

This agency is to administer and enforce policies and regulations relating to all aspects of upstream petroleum operations and also to issue, administer and enforce compliance on the issuance of licenses and leases in the downstream sector. It is also to establish, monitor, regulate and enforce health and safety measures relating to all aspects of upstream petroleum operations, publish reports and statistics on the upstream sector, validate and certify the evaluation of national hydrocarbon reserve, manage and administer all upstream petroleum data for all unallocated acreage. This agency on the approval of the minister, is to allocate petroleum production quotas and develop cost benchmarks for upstream petroleum operations performance amongst other functions as laid out in the bill.

iii. Downstream Petroleum Regulatory Agency

This agency is to administer and enforce policies, laws and regulations relating to all aspects of downstream petroleum operations and to issue and administer licenses in the downstream sector. The agency is also to ensure and enforce compliance with the terms and conditions of all licences, permits and authorizations issued in respect of the downstream petroleum operations, set and enforce approved standards for designs, procurement, construction and maintenance for all plant, installation and facilities pertaining to downstream operations.

This agency is also laden with the responsibility of inspecting measurement equipment and other facilities for downstream petroleum operations. It is also to facilitate the supply of gas to the strategic sectors in accordance with the approved national gas pricing framework, implement customer protection measures in accordance with the provisions of this Act, regulate and ensure the supply, distribution marketing and retail of petroleum products as may be prescribed by regulations and shall also do such other things as are necessary and expedient for the effective and full discharge of any of its functions under this Act amongst other functions as stipulated in the bill.

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8 ibid s.13.
9 ibid s. 43.
iv. Petroleum Host Communities Fund\textsuperscript{10}

To receive on a monthly basis from upstream petroleum producing companies sums equaling 10 per cent of their net profits and to utilize the funds for the development of the economic and social infrastructure of communities within the petroleum producing areas.

v. National Petroleum Assets Management Corporation\textsuperscript{11}

The responsibility of this corporation is to enter into contracts and incur obligations, acquire and manage investments of the government of Nigeria in the upstream petroleum industry. It shall also establish and maintain subsidiaries for the discharge of its functions, undertake such other activities as are necessary or expedient for giving full effect to the performance of its functions under this act. This investment must also be properly channeled to sector that require it for the good of the society.

vi. National Oil Company

The company is to take over certain assets currently held by NNPC on behalf of the Government not including interests in unincorporated joint ventures and assets held by the National Gas Company. They also are to manage these assets on behalf of the government for the good of the country.

vii. Nigerian Petroleum Assets Management Company Limited\textsuperscript{12}

This company is expected to take over certain assets and liabilities of the NNPC including: unincorporated joint ventures; Bonds, loans, financing arrangements, joint operating arrangements; Litigation and staff.

viii. National Gas Company Plc\textsuperscript{13}

It shall be the responsibility of this company to take over certain assets held by NNPC on behalf of the Government not including interests in unincorporated joint ventures and assets held by the National Oil Company.

\begin{itemize}
\item \textsuperscript{10} ibid s. 116.
\item \textsuperscript{11} ibid s. 120.
\item \textsuperscript{12} ibid s. 123.
\item \textsuperscript{13} ibid s. 159.
\end{itemize}
2.2 Domestic Gas Obligations

The PIB provides that the Upstream Petroleum Inspectorate shall, having regard to the needs of the domestic gas market and in accordance with the National Gas Master Plan, impose Domestic Gas Supply Obligations (DGSO) on lessees. As proposed a lessee who fails to comply with its DGSO shall not be permitted to make supplies to gas export operations, and where the lessee only supplies gas to export operations, the lessee shall be directed to suspend operations. This section will oust the existing Department of Gas in its functions and responsibilities.

2.3 Fiscal Regime Under The PIB

Presently, companies and entities engaged in upstream petroleum operations like Shell, Agip and Chevron are subject to petroleum profits tax pursuant to the Petroleum Profits Tax Act (PPTA) while other companies (including those engaged in downstream petroleum operations like Total Oil and Oando) are subject to companies' income tax pursuant to the Companies Income Tax Act (CITA). The current rate of petroleum profits tax is 50 per cent for operations in the deep offshore and inland basin and 85 per cent for operations onshore and in shallow waters. The Bill proposes to replace the existing petroleum profits tax with a Nigerian Hydrocarbon Tax (NHT) at the rate of 50 per cent for petroleum operations onshore and in shallow water fields and 25 per cent for petroleum operations in deep-water, bituminous and frontier acreages. In addition to NHT, the Bill also proposes companies income tax at the rate of 30 per cent on upstream petroleum operations (which under the existing regime are not subject to companies income tax).

2.4 Deregulation Of The Downstream Sector

The PIB provides that the pricing of petroleum products in the downstream product sector shall be deregulated to ensure market related pricing, adequate supply and removal of economic distortions and creation of a fair market value for petroleum products in Nigeria’s economy. However, although pricing is to be left to market forces, the Bill proposes to safe-

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14 ibid s. 269.
15 ibid s. 272.
16 ibid s. 299.
17 ibid s. 221.
guard the interests of consumers by providing that the Downstream Petroleum Regulatory Agency shall oversee tariffs for transportation by pipelines, bulk storage for petroleum products and regulated open access facilities. The *Downstream Petroleum Regulatory Agency* will also be responsible for market monitoring and promotion of competition. This will oust the present *Petroleum Pricing Products Regulatory Agency (PPPRA)* which is charged with the same responsibilities, but has largely been inefficient till date.

### 2.5 Abolition Of Gas Flaring

Gas flaring has been said to be a major destroyer of the ozone layer and this has a very detrimental effect on climate all over the world as is presently occurring. The United Nations Framework Convention on Climate Change (UNFCCC) has called on countries to put an end to greenhouse effect.\(^{18}\) Despite not having any binding emission target under the UNFCC, Nigeria in its own way has responded under the proposed bill to illegalize and abolish gas flaring.\(^{19}\) Accordingly the new law demands strict adherence to a gas flaring plan, along with gas utilization plans, to be submitted by all oil and gas operators to the Nigerian Petroleum Inspectorate within six months of the coming into effect of the law, indicating data on their daily flare quantity, reserve, location, composition. Statistics posit that Nigeria losses a lump sum of money every year to gas flaring, such its abolition is a wise way of saving this money and making it available for the usage of the economy and its development. This writer is of the opinion that this law reflects the characteristic the law plays in a changing society.

### 3. DEBATES ON THE DESIRABILITY OF THE PIB

The PIB has faced a plenitude of debates, criticisms and opinion for and against its passage. This has significantly stalled it passage into law, thus denying Nigerians the full benefit of the radical promise of the PIB. Expectedly, these criticisms are mostly from persons who have interest in the

\(^{18}\) The Kyoto Protocol to the United Nations Framework Convention on Climate Change (UNFCCC) is an international treaty that sets binding obligations on industrialized countries to reduce emissions of greenhouse gases. The UNFCCC is an environmental treaty with the goal of preventing dangerous anthropogenic (i.e., human-induced) interference of the climate system. According to the UNFCC website, the Protocol “recognizes that developed countries are principally responsible for the current high levels of GHG emissions in the atmosphere as a result of more than 150 years of industrial activity, and places a heavier burden on developed nations under the principle of common but differentiated responsibilities available at <http://en.wikipedia.org/wiki/Kyoto_Protocol> accessed 14 April 2014

\(^{19}\) ibid s. 277.
The major criticisms of the proposed bill are:

**i. Excessive Executive Powers**

Many have criticized that this bill vests too much power in the minister of petroleum resources. The minister in her capacity acts as the representative of the government in the oil and gas sector of the country and to ensure proper oversight efficiency the minister is permitted a wide scale of influence. An author suggested that ‘the minister of petroleum is by the designation head of the industry’ and sufficient powers reside in her office to the detriment of the sector.

Critics therefore are of the view that crafting a law that will put the Minister as Chairman of all parastatals under the same person may lead to unnecessary concentration and abuse of power in an industry that has already been fingered as the hot spot of corruption in the country. After all, the parastatals are by law to report to the Minister. The view seems to be that other credible persons be appointed to chair the Boards instead of the Minister.

On this view an economist and public analyst was quoted to have a different stand point. He said that “it was not correct to say that the PIB gave excessive powers to the minister of petroleum resources to make regulations on practically all issues. He said, “This is not true. Although the draft bill vests powers of coordination and general supervision of all institutions in the industry in the minister of petroleum resources, it nonetheless requires that the minister holds public inquiry before any regulation is made. “The draft bill further requests publication of notice of the public inquiry in at least two national dailies.” This provision, he noted, served as a check on the minister because the opinion of stakeholders and the public must be taken into consideration before regulations were made”.

Although the bill vests too much power in the minister, arguably it makes provisions for checks and balances in this regards. It will be an unnecessary duplication of office to have other persons performs this function as suggested by some critics. The minister can for no reason do anything

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that will constitute a misuse of powers and if that time comes then the checks and balances put in place will correct same.

ii. Increase in government takings in the deep and ultra-deep offshore concessions

According to section 44(3) all property, minerals, mineral oil and natural gas is vested in the government of the Federation for the benefit of its citizenry. It’s expected of the government that the resources available to it are properly harnessed to the good of everyone. Such that the laws, statutes and decrees that do not vest benefit of natural resources in the government for the citizenry is inconsistent with the intent of the law. This proposed bill reflects the requisite need of the society, so one wonders why the government should not benefit majorly from its oil and gas resources on behalf of its citizens. It proposes the increase of government’s takes from 61 to 72 per cent in the deep and ultra-deep offshore concessions. This has been heavily criticized by stakeholders and investors.

The complaints of oil majors are that the fiscal terms as related to taxes and royalties are too favourable to the Nigerian government and in the long run, will be a disincentive to investment in the sector and “as it stands now, the PIB will render all deepwater projects and all dry gas projects non-viable”.

However, throwing more light on why the Federal Government is proposing a review of the fiscal terms in the production sharing contracts for deep water fields in the draft PIB the minister of petroleum noted that the increase in government take in the Deep Offshore blocks from the current level of 61 per cent to a new figure of 73 per cent was necessitated by prevailing realities in the global oil and gas industry. “I like to state once again that the proposed increase of Government take to about 73 per cent is not only competitive but considerate when we look at the scale of other entities around the world like Norway, Indonesia and even Angola with even higher Government take,” the Minister explained. She added that based on prevailing realities in the global oil industry it was only natural to review the terms of the PSC to reflect the current trend.

23 The Constitution of Federal Republic of Nigeria 1999 (as amended)
Resting on the justification given in the introduction of this point, this writer is more inclined to the view given by the minister of petroleum resources above. An increase in the government takings will benefit the economy of the country. The government will have more capital at its disposal, the foreign reserves will rise, the gross domestic product (GDP) of the economy will boost because other sectors of the economy will benefit from the increase in available budget. One cannot out rightly project that this funds will be properly utilized, but it is not a defence as to why the takings should not be increased.

iii. Discretionary power of the President to make awards

This bill vests in the President of the Federation the discretionary power to grant a license. Some stakeholders, investors and even pundits have criticized that this power defeats the intent of the bill to have a transparent oil sector whereby individuals will be allowed to easy access to details as required. This arguably one sided criticism fails to note however that this discretionary power is not all encompassing. The President is allowed to make discretionary awards only in special circumstances. This clause will disallow the abuse of this power by the president.

Critics have voiced out their complaints that Nigeria as a country is not one where you vest this kind of power in a person, no matter his position. It has become general knowledge that this power is not inevitable to abuse. Taking a different stand on this point Mr Sanusi Bala an economist and public policy analyst stated thus “the conferment of power of discretionary award on the President was cited as a factor, which may impede transparency in the industry. However, the draft bill states that the President can only make discretional award in special circumstances. “This is a buffer against abuse and which will ensure that the exercise is in the interest of Nigerians. It should be noted that discretional award by the President is not peculiarc to Nigeria. The Norwegian petroleum industry law, for instance, provides for discretional award by the King”.

Arguably, this clause must be properly spelt in the Act, such that if a time comes for the court to interpret this section, the intent and purpose of this section may not be defeated in any way.

iv. The creation of a new ‘Petroleum Host Community Fund’

This fund was created as a means of rewarding localities and regions where oil drilling takes place. So far the resources have been mismanaged and localities have become the most impoverished instead of the contrary. This bill proposes a ten per cent (10 per cent) contribution of Operator profits to the Petroleum Host Community Fund (PHCF). This has been criticized and requested to be expunged from the bill.

The Revenue Mobilization Allocation and Fiscal Commission (RMAFC), opposed the Bill’s provision mandating a ten per cent (10 per cent) contribution of Operator profits to the Petroleum Host Community Fund (PHCF). The Commission instead advocated exploring the open-ended opportunity available under the Constitution *vis-a-vis* the provision stipulating that a minimum of thirteen per cent (13 per cent) of the revenue accruing from the Federation Account be paid to oil producing States. They also recommended that the Bill should provide for the remittance of revenue by petroleum regulatory agencies into the Commission’s account.

As a commentator noted with respect to this, this would help ameliorate the plight of the communities who have endured the negative impacts of inequitable distribution of oil wealth for many years.⁷⁷ Observably, the 10 per cent remittance will only make meaning if the funds are well managed and its impact is felt by members of the communities.⁷⁸ At a public hearing the Minster of Petroleum Resources Alison-Madueke⁷⁹ defended the inclusion of this section in the proposed bill thus “the PHCF was proposed to mitigate the human and environmental conditions in oil producing regions and to assuage the feelings of the host communities towards oil and gas companies”.

The view given by the minster above is rather neither sufficient nor acceptable by any means. These communities already have enough concession from the government such as the 13 percent derivation for oil producing areas and the onshore-offshore arrangements. How well these funds have

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been utilized was not elucidated by the Minister, yet extra provisions should be made.

It is in line with the equitable doctrines of natural justice; equity and good conscience to have oil companies contribute to the environment their refineries are located. This is totally acceptable. A situation where provisions are already made for this, yet the PIB proposes that an extra 10 per cent be remunerated. This is unacceptable as its tantamount to excessive provisions been made for an inefficient purpose. In the view of this writer this section should be totally expunged from the bill.

v. The Implications on Deregulation

The idea behind deregulation is to reduce government participation in the fixing, pricing and regulation of prices for petroleum products in the downstream sector. The downstream sector is characterized by distribution of petroleum products as fuel, gas, kerosene etc. As of today the government is largely involved in the downstream sector through the Petroleum Pricing Products Regulatory Agency (PPPRA). The government gives subsidies in this sector annually\(^{30}\) to ensure that the prices of oil are stable but this is costing the country more than it can afford as this funds can be effectively channeled into some other sector of the economy.

Deregulation will be beneficial to the end users of petroleum products, as there will be competitive tussle in the downstream sector in regards to prices of petroleum products and the proper regulation by the market forces and the Downstream Petroleum Regulatory Agency will ensure that prices are properly regulated. In essence the deregulation will ensure that any supplier whose prices are competitive will have a upper hand in the downstream sector, because the law of demand and supply which states that “the lower the price, the higher the demand and the higher the price the lower the demand” will apply and the public will be protected against monopolies, high prices and poor services.

Accordingly, the PIB in some good measures will cure the excessive illegality in the oil sector. These illegalities which were largely covered from public scrutiny will be erased under this new law. What the PIB aims to achieve will make Nigeria a major beneficiary in the sector, although this usage of this resources may end in shams, at least the country will never gain scrap from its oil resources. The Petroleum Minister Diezani Alison-Madueke

\(^{30}\) This subsidy is said to be between $1.5B to $2B.
claimed that the new bill is intended to help reform the way that Nigeria’s oil and gas industry is regulated, and provide the government with a larger share of the profits (from 61 per cent to at least 73 per cent) in order to help with the economic development of the country. Some investors in the sector have decried this move on the bases that it could actually cause Nigeria to potentially lose $185 billion over the next ten years which is detrimental to a third world country but if the benefits on the long run overwhelm the consequences on a short run one then wonders why this bill has been stalled this now.

4. CONCLUSION

The PIB like every other bill aimed at development has met with controversies from stakeholders and investors as discussed above, however lessons from the deregulation in the Nigerian communication sector lends credence to the view that a deregulated system is more advantageous in developing countries such as Nigeria. The PIB may provide the needed impetus to achieve more sustainability in the exploration of oil and gas resources in Nigeria. It is the hope that through the PIB, environmental impacts of oil production will be addressed, standard of living will improve for local communities, investors will be encouraged to invest in other sectors, reduction in the cost of subsidizing the oil and gas sector will free up funds for other sectors such as agriculture, employment rate will grow, innovation and indigenous technology will grow, and direct foreign investments will receive a boost, amongst other benefits.

This paper calls for the quick passage of the PIB into law, as it has strong potentials to act as a catalyst in ushering Nigeria out of the dark era of resource curse, to become a more progressive, sustainable and developed producer of oil in Africa and in the world.