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OIL AND GAS INVESTMENT OPPORTUNITY IN NIGERIA

INTRODUCTION

The Nigerian petroleum industry is divided into three (3) major sectors: upstream, midstream and downstream. The downstream is commonly regarded as the engine hub of the commercial activities. That is, crude oil refining, marketing and distribution of smilingly crude oil products like Gas and LPG products. Others are transportation and haulage.

There are significant investment opportunities in the downstream sector of the oil and gas industry in Nigeria. Statistics have it that there are over six thousand (6,000) independent petroleum products marketers and six (6) major marketers of distributing and marketing petroleum products across the country.

Nigeria currently consumes an estimated sixty million (60,000,000) liters of refined petroleum products (PMS, DPK and AGO) per day. With a population of over one hundred and eighty million (180,000,000) people, growing at the rate of about 2.7% per annum with an estimated economic growth rate of 5.7% in the past five (5) years, the market for refined petroleum products in Nigeria is established, growing and sustainable.

UPSTREAM

The Nigerian Oil and Gas reserves have grown tremendously since the discovery of hydrocarbon in 1956. The growth was from a modest figure of 0.184 billion barrel of oil and 2.260 billion cubic feet of gas in 1958 to 25.93 billion barrels of oil, 3.80 billion barrels of condensate and 158 trillion cubic feet of Gas as at December of 2000.

- The reserves increase was achievable because of two main factors namely: The introduction of various incentives by the Government for increasing oil reserves and gas utilization.
- In order to increase oil reserves, a Memorandum of Understanding (MOU) was negotiated and agreed to guarantee a notional profit margin of US \$2/bbl. This was revised to include the Reserves Addition Bonus clause, which qualify the operator for a tax credit for additions to reserves that exceeds its production for a year; and

- Opening up of other Basins, which are blocked into concessions and awarded to competent entrepreneurs for exploration and development. The Basins are Benin, Anambra, Benue Trough, Chad and the Deep and Ultra-deep offshore area of Nigeria.

The first four of these Basins are relatively un-explored while the Deep and Ultra-deep offshore are now partially explored. The opening-up increased the number of companies exploring for hydrocarbon in Nigeria from just a few to 59 with 46 of them discovering oil, gas and/or condensate in significant qualities. This brought about the conversion of 91 of 177 Oil Prospecting Licenses (OPLs) to Oil Mining Leases (OMLs). Seventeen of these companies have gone into actual production. In the deep and ultra-deep offshore terrain, 12 companies have discovered Oil and Gas in commercial quantities. This encouraging result made the Government to open up 22 new blocks to interested entrepreneurs for competitive bidding process in year 2000.

Government over the years awarded about 24 of the 200 Marginal fields to existing 32 local companies due to low ranking in their investment portfolio. These 24 Marginal fields have an estimated reserve of about 300 million barrels of crude.

Government encourages drilling that will target deeper horizon by giving explorationist incentives to wells that investigate depths in excess of 500 meters beyond that of the deepest well in the field. However, Similar drilling that target deeper pools are bound to yield more reserves as depth of investigation was erstwhile limited to about 3000 meters.

Some of the major activities in which investment opportunities abound include: Surveying; Civil Works

- Seismic Data Acquisition and Interpretation.
- Geological Activities; Drilling Operations
- Crude Oil Transportation and Storage
- Exploration and Production

Upstream Investment Opportunities

- Surveying - tropical and planimetric; and sea bottom survey.
- Civil Works- mud pit construction, concrete works at rig sites.
- Seismic data acquisition and interpretation.

- Drilling operations.
- Pipelining
- Crude oil transportation and storage.
- Exploration and production of oil and gas products.
- Manufacturing of consumable materials in exploration such as explosives,
- Detonators, steel casting, magnetic tapes etc.
- Search for development of local substitutes for items such as medium pressure valves, pumps, shallow drilling equipment, drilling mud, bits fittings, drilling cement etc.

DOWNSTREAM

In view of the enormous potentials in this sector, some fiscal incentives have been put in place by the government for investors are as follows:

i. Gas Production Phase

- Applicable tax rate under the Petroleum Profit Tax (PPT) Act to be at the same rate as company tax currently at 30%.
- Capital Allowance at the rate of 20% per annum in the first four years, 19% in the fifth year and the remaining 1% in the books.
- Investment Tax Credit of the current rate of 5%.
- Royalty at the rate of 7% on shore and 5% offshore.

ii. Gas Transmission and Distribution.

- Capital allowance as in production phase above.
- Tax rate as in production phase.
- Tax holiday under pioneering status.

iii. LNG Projects.

- Applicable tax rate under PPT is 45%.
- Capital allowance is 33% per year on straight-line basis in the first three years with 1% remaining in the books.
- Investment tax credit of 10%.
- Royalty of 7% on-shore, 5% off-shore tax deductible

On Gas Exploitation (Upstream Operations).

Fiscal Arrangements are reviewed as follows:

- All investment necessary to separate oil from gas from the reserves into suitable products is considered part of the oil field development.

- Capital investment facilities to deliver Associated Gas in usable form at utilization or transfer points will be treated for fiscal purposes as part of the capital investment for oil development.
- Capital allowances, operating expenses and basis for assessment will be subjected to the provisions of the PPT Act and the revised Memorandum of Understanding (MOU).

On Gas Utilization (Downstream Operations).

Incentives given to investors for encouragement of exploitation and utilization of Associated Gas for commercial purposes include:

- Companies engaged in gas utilization are to be subjected to the provisions of the Companies Income Tax Act (CITA).
- An initial tax free period of three years renewable for an additional two years has been added as part of the incentives.
- Accelerated Capital Allowance after the tax-free period in the form of 90% with 10% retention in the books for plant and machinery.
- 15% investment capital allowance which shall not reduce the value of the asset.

In 1998, the government approved additional incentives to support the gas industry in the following areas:

- All gas developmental projects, including those engaged in power generation, liquid plants, fertilizer plants, gas distribution and transmission pipelines are to be taxed under the provisions of the Companies Income Tax Act (CITA) and not the Petroleum Profit Tax.
- All fiscal incentives under the gas utilization downstream operations in 1997 are to be extended to industrial projects that use gas i.e. power plants, gas to liquids plants, fertilizer plants and gas distribution/transmission plants.
- The initial tax holiday is to be extended from three to five years.
- Gas is transferred at 0% PPT and 0% Royalty.
- Investment capital Allowance is increased from 5% to 15%. Interest on loans for gas projects is to be tax deductible provided that prior approval was obtained from the Federal Ministry of Finance before taking the loan.
- All dividends distributed during the tax holiday shall not be taxed.

INVESTMENT OPPORTUNITIES IN DOWNSTREAM

Investment Opportunities in the downstream sector are:

- Gas treatment Crude Oil and Gas conversion into refined and petrochemical Products and finer chemicals Transportation and Marketing of the products Related ancillary services

The investment opportunities in the downstream are many. Some of them are:

Refining, Petrochemicals and Gas Utilization

In order to reduce the investors' risk, speculative seismic data acquisition is carried out in the deep offshore using the services of reputable data acquisition companies. In the inland area, there is direct involvement in exploration activities.

Nigeria's production cost per barrels is one of the lowest worldwide. Huge reservoirs of hydrocarbon are found in Nigeria. Government has provided generous fiscal terms both for oil production and gas utilization.

The economic environment ensure easy repatriation of profit by investors. Productions from new ventures are guaranteed by Governments deliberate policies. An even field is provided for all operations in the Petroleum Regulations and the monitoring agency -the Department of Petroleum Resources.

Downstream- Gas

- Domestic Production and Marketing of Liquefied Natural Gas (LPG).
- Domestic Manufacturing of LPG cylinders, valves and regulators, installation of filling plants, retail distribution and development of simple, flexible and less expensive gas burners to encourage the use of gas instead of wood.
- Establishment of processing plants and industries for the production of: refined mineral oil, petroleum jelly and grease Bituminous based water / damp proof building materials e.g. roofing sheets, floor tiles, tarpaulin, Building of asphalt storage, packaging and blending that may export these products.

- Establishment of chemical industries e.g. distillation units for the production of Naphtha and other special boiling point solvents used in food processing.
- Linear Alkyl Benzene, Carbon Black and Polypropylene producing industries.
- Development of Phase II (Phase III to commence later) in Nigeria's Petrochemical Programme.
- The NLNG Projects.
- Small-scale production of chemicals and solvents e.g. chlorinated ethane, Formaldehyde, Acetylene etc. from natural gas.
- Crude oil refining with efficient export facilities. Companies with the technology can undertake turn around maintenance of refineries. There is a tremendous scope for small-scale joint venture manufacturing concerns with foreign technical partners. Such ventures can start warehousing arrangements that will ensure continuity of supply at competitive prices.
- Products Transportation and Marketing. Associated with products distribution and marketing is a chain of manufacturing and maintenance businesses e.g. Lubricating Oil processing, LPG bottles and accessories, oil cans reconditioning etc. Opportunities in Ancillary Activities Other investment opportunities contingent upon refining and ancillary activities are the manufacture of special products that include the following:
 - Industrial and Food grade solvents