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B 554

UPSTREAM PETROLEUM OPERATIONS (COST EFFICIENCY INCENTIVES) ORDER, 2025

ARRANGEMENT OF PARAGRAPHS

Paragraph:

B 556

S. I. No. 22 of 2025

UPSTREAM PETROLEUM OPERATIONS (COST EFFICIENCY INCENTIVES) ORDER, 2025

[30*th Day of April*, 2025] Commencement

WHEREAS, the operating costs in the Nigerian oil and gas sector have been observed to be high compared to global average, arising mainly from prolonged project execution timelines and local content requirements;

WHEREAS, the President has in response to the high operating costs, issued policy directives on the reduction of oil and gas sector operating costs, contracting timelines and local content compliance requirements;

WHEREAS, the Federal Government of Nigeria is committed to efficient management of petroleum resources and reduction of petroleum cost in the upstream petroleum sector to enhance competitiveness and efficiency; and

WHEREAS, it has become necessary to provide additional measures to promote fiscal discipline, reduce operating cost and maximise Nigeria's economic gains from the upstream petroleum operations through monitoring mechanisms and appropriate regime of incentives.

NOW THEREFORE, in exercise of the powers conferred on me by section 5(1) of the Constitution of the Federal Republic of Nigeria, 1999 (as amended), sections 23 (2) and 89 of the Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria, 2004, and all other powers enabling me in that behalf, I, Bola Ahmed Tinubu, President, Federal Republic of Nigeria, make the following Order—

Objective

1. The objective of this Order is to establish a Cost Efficiency Incentive (CEI) framework aimed at improving efficiency and enhancing Nigeria's competitiveness in the global oil and gas sector by—

(*a*) reducing operating costs in the upstream petroleum operations through achievable cost reduction measures, strategies and targets;

(*b*) promoting cost discipline among stakeholders in the upstream petroleum operations;

(*c*) improving operational performance and streamlining contract cycles;

(*d*) maximising economic value from the oil and gas sector; and

(*e*) offering tax incentives to companies which achieve or surpass cost reduction targets.

Application of cost efficiency incentives

2.—(1) This Order applies to lesees, licensees and their contractors operating in the upstream petroleum sector.

(2) The incentives specified under paragraphs 4 and 5 of this Order shall be accessible to lesees, licensees and their contractors who achieve or exceed cost reduction targets as determined by the Nigerian Upstream Petroleum Regulatory Commission ("the Commission").

Cost efficiency incentive benchmark

3.—(1) The Commission shall—

(*a*) on an annual basis, conduct an assessment and benchmarking study to establish appropriate cost benchmarks for upstream operational activities and Unit Operating Costs for onshore, shallow water, and deep offshore terrains;

(*b*) determine the cost benchmarks in accordance with guidelines issued by the Commission pursuant to the Petroleum Industry Act, provided that prior to the issuance of guidelines, the Commission shall consult with relevant stakeholders and publish the underlying methodology for the annual benchmarking;

(*c*) with the objective of reducing the overall cost profile of petroleum operations, annually assign specific Unit Operating Cost reduction targets for each terrain, taking into consideration the peculiarities of their operating environment and production volume; and

(*d*) conduct annual reviews within the tax return cycle of the lessee's or licensee's performance with the key assessment metric being the Unit Operating Costs to determine adherence to set targets.

(2) For the purpose of determining adherence to cost reduction targets, the Commission shall—

(*a*) verify production numbers during the annual review process; and

(*b*) reconcile the production and lifting volumes to prevent discrepancies arising from under-lift or over-lift circumstances.

(3) Pursuant to sub-paragraph (1)(*c*) of this paragraph, a lessee or licensee who achieves or surpasses it. The terms: cost performance targets (Paragraph 2(2)), operating cost reduction targets (Paragraph 3(3)) shall be eligible for the cost efficiency incentives for the year in which the cost reduction target was achieved.

(4) The Commission shall forward the list of qualified companies eligible for the cost efficiency incentives to the Service for their information, and provide a copy to the Minister, pending when the lessee or licensee makes a formal claim for the incentives.

Tax credit incentives

4.—(1) For any licence or lease where petroleum is being produced and operations are efficiently managed, such that, in any financial year, the actual costs incurred are below the cost targets set by the Commission, the company shall be eligible to claim a tax credit which shall represent a proportion of the incremental government share resulting from the reduced costs relative to the established targets.

(2) The tax credits shall be applied against the overall tax liability of the lessee's or licensee's relevant asset and calculated as provided in paragraph 5 of this Order, to reward the company for cost reductions without compromising existing government revenue expectation.

(3) The incentives established pursuant to this Order shall cease to have effect on the 31st day of May 2035, unless extended or otherwise modified by the President, and any tax credit granted but not utilised by any lessee or licensee on the expiration date shall become invalid and unenforceable.

Calculation for incentives

5.—(1) The formula for determining the Cost Efficiency Incentives (CEI) shall be:

CEI = (CS)* RTR * 50%

Where—

CS = Cost Savings* = (TOC – AOC) *V
RTR = Referenced Tax Rate
AOC = Actual Operating Costs
TOC = Target Operating Cost
V = Annual Fiscal Sales of Hydrocarbons
50% = the ceiling for the CEI.

**CS must be a positive integer to qualify for the incentive.*

(2) Companies shall receive tax credits for realised savings directly linked to their operating costs and production volume in line with subparagraph 1 of this paragraph.

Framework for the incentives

6.—(1) In setting cost reduction targets, the Commission shall align Nigeria's upstream petroleum operating costs with global standards and best practices by:

(*a*) aiming to progressively eliminate the cost premium in Nigeria's oil and gas sector; and

(*b*) establishing targets that drive year-on-year improvements in cost efficiency.

(2) Notwithstanding any other provision of this Order, the tax credit claimable in any given year shall not exceed 20% of a lessee or licensee's tax liability for that year.

(3) The Service shall validate all claims for tax credits under this Order by confirming that the Unit Operating Costs used by the Commission to determine the lessee's or licensee's eligibility for the CEI align with the Unit Operating Costs used for computing the relevant portion of its adjusted profits for tax purposes.

(4) A lessee or licensee shall ensure that cost reduction strategies do not involve harmful practices as may be determined by the Commission from time to time, and in assessing the cost reduction value of any lessee or licensee, the Commission shall exclude cost reduction derived from, or connected with, or is as a result of any unfair or prejudicial dealing or arrangement with contractors, employees, host communities or any other person.

(5) The tax credit granted under this Order shall be valid for offsetting applicable income tax liability in the year they occur and utilised within three years of issuance.

Implementation guidelines

7.—(1) The Service, in collaboration with the Commission shall, with the approval of the Minister, issue implementation guidelines within thirty (30) days of the effective date of this Order.

(2) The implementation guidelines shall—

(*a*) Hope this will not cause conflict between NUPRC and the Service in view of Paragraph 6(3) above, matrix and other criteria to be used for evaluating the unit costs, which shall be published on the website of the Commission within 90 days of the start of each calendar year;

(*b*) specify information and data which a lessee and licensee shall submit to the Commission for annual cost efficiency evaluation;

(*c*) require the Commission to publish, at the end of each annual cost efficiency evaluation, a list of companies that qualify for the tax incentives for that year on its website, prior to the deadline for filing tax returns for the relevant year; and

(*d*) specify the details of the computation of the incentives.

Effective date

8. The effective date of this Order shall be April 30th, 2025.

Interpretation

9. In this Order—

"*Actual Operating Costs*" means the actual unit cost of operations expended by lessee and licensee, which shall be compared with the Target Operating Cost to determine eligibility for the CEI;

"*Annual Fiscal Sales of Hydrocarbons*" means the total volume of hydrocarbons measured at the relevant fiscal points used to determine payment of royalties in respect of the relevant asset where a CEI is to be claimed;

"*Commission*" means Nigerian Upstream Petroleum Regulatory Commission established under the Petroleum Industry Act, No. 6, 2021;

"*Contractors*" means contractors in a profit sharing contract or production sharing contract as contemplated in the Petroleum Industry Act, No. 6, 2021 and any other petroleum law in force;

"*Lessee*" has the meaning ascribed to it under the Petroleum Industry Act, No. 6, 2021;

"*Licensee*" has the meaning ascribed to it under the Petroleum Industry Act, No. 6, 2021;

"*Minister*" means the Minister responsible for finance;

"*Referenced Tax Rate*" means the applicable companies income tax rate, that will serve as the reference tax rate in determining the tax credits, regardless of whether the credits are being computed for company income taxes or other income taxes;

"*Service*" means the Federal Inland Revenue Service;

"*tax laws*" means the Companies Income Tax Act, Petroleum Profits Tax Act, Petroleum Industry Act , No. 6, 2021 and any other relevant law or regulation applicable to companies in the upstream Oil & Gas sector;

"*Target Operating Cost*" means the target unit operating cost set by the Commission in furtherance of this Order; and

"*Unit Operating Cost*" means the cost incurred for the day-to-day functioning of upstream petroleum operations expressed on a per unit basis, excluding capital expenditures related to the development of new fields or large infrastructure investments.

Citation

10. This order may be cited as the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.

MADE at Abuja this 30th day of April, 2025.

BOLA AHMED TINUBU, GCFR
President, Federal Republic of Nigeria