STREN & BLAN PARTNERS

A BIRD AT HAND: NAVIGATING NIGERIA'S 2024 OIL BID ROUND: OPPORTUNITIES, CHALLENGES, AND STRATEGIC INSIGHTS.

www.strenandblan.com

Nigeria's petroleum industry has been a cornerstone of its economy since the discovery of oil in commercial quantities in Oloibiri in 1956. Initially dominated by international oil companies (IOCs), the industry has evolved over the decades. To stimulate growth and broaden participation, the government introduced several licensing rounds which is aimed at empowering indigenous companies.

I. Licensing Rounds

Licensing rounds are important in the development of Nigeria's petroleum sector. These rounds allow the government to grant exploration and production licenses to oil companies, which enables them to explore for and produce hydrocarbons. The process ensures that the country's resources are developed efficiently and transparently.

Key Licensing Rounds in Nigeria.

- **1960s-1970s:** Licensing rounds were primarily dominated by international oil companies (IOCs). These rounds laid the foundation for Nigeria's oil industry, attracting major players like Shell, Chevron, and ExxonMobil.

- **1980s-1990s:** The Nigerian government sought greater control over its resources, leading to the establishment of the Nigerian National Petroleum Corporation (NNPC) in 1977. Licensing rounds during this period emphasized local content and participation of Nigerian companies.

- **2000s:** The government introduced more structured and competitive bidding processes. The 2000 licensing round marked a significant shift towards transparency and efficiency. It attracted both IOCs and indigenous companies, fostering a more diverse and competitive market.

- **2010:** The focus shifted to deepwater and ultra-deepwater exploration, with rounds targeting offshore blocks. The 2010 and 2017 licensing rounds highlighted Nigeria's commitment to maximizing its offshore potential.

- **2020:** The Nigerian government conducted a successful marginal field bid round, awarding licenses to several indigenous companies. This round aimed to increase local participation in the oil and gas sector.

- **2022:** These rounds were influenced by the Petroleum Industry Act 2021 (PIA), which aims to reform the sector, enhance regulatory frameworks, and promote sustainable development. The government initiated this Mini-Bid Round to accelerate exploration and production in deepwater blocks. This round was designed to attract new investors and stimulate economic growth. However, due to the ongoing political transition, the bidding process was temporarily halted.

- **2024:** The Federal Government of Nigeria (FGN) has taken initial measures to launch the 2024 petroleum licensing round through its upstream oil and gas industry regulator, the Nigerian Upstream Petroleum Regulatory Commission ("NUPRC"). NUPRC recently announced the start of this Licensing Round, aimed at enhancing the country's oil production and revenue. This round offers thirty-six (36) selected blocks[1] across various geological formations and is anticipated to draw substantial interest from both domestic investors and international oil companies (IOCs). According to the event calendar, the Licensing Round is expected to conclude by January 2025.

II. Analysis of the Ongoing Licensing Round (The 2024 Licensing Round) in Light of the Petroleum Industry Act 2021

The 2024 licensing round in Nigeria represents a significant shift in the country's petroleum sector, driven by the reforms introduced by the Petroleum Industry Act 2021. This round is the first to be "officially conducted" under the regulatory framework, and it aims to capitalize on the changes brought about by the PIA to attract investment and enhance the efficiency and transparency of the licensing process.

[1] 12 new oil blocks: These are onshore and shallow water blocks. 24 deepwater blocks: These blocks were carried over from the 2022 Mini-Bid Round.

Key Features and Objectives of the 2024 Licensing Round

The current licensing round is designed to align with the objectives of the PIA, focusing on maximizing the potential of Nigeria's oil and gas resources while ensuring sustainable development and community benefits.

Key Features:

a. **Diverse Block Offerings:** The round includes a mix of onshore, shallow water, and deepwater blocks, offering opportunities for a range of investors, from major international oil companies to smaller indigenous firms.

b. **Simplified Application Process:** The NUPRC has implemented a more efficient application and bidding process, which utilizes digital platforms to streamline submissions and evaluations.

c. **Competitive Fiscal Terms:** With the new fiscal terms under the PIA, the round offers more attractive financial conditions, including reduced royalty rates and favorable tax terms, to encourage investment.

d. **ESG Compliance:** Companies are required to demonstrate compliance with environmental regulations and to outline their plans for community development, ensuring that investments contribute positively to local communities.

e. **Transparency Initiatives:** The process includes public disclosure of all bidding criteria, applicants, and awards, ensuring a transparent and accountable licensing round.

Objectives:

Attract Investment

Enhance Production

Sustainable Development

Economic Diversification

Mandate for Licensing Round under the Petroleum Industry Act

Under the PIA, the Federal Government of Nigeria holds ownership of all petroleum resources within the country's territory . The government controls these resources and permits their exploitation only through a license or lease. These licenses are divided into 2 types namely;

1. **Petroleum Prospecting License (PPL):** This is a license granted to qualified applicants to drill exploration and appraisal wells and undertake corresponding test production on an exclusive basis. A PPL for onshore and shallow water acreages shall be for a period of not more than six (6) years comprising of an initial exploration period of three (3) years and an optional extension period of three (3) years. For deep offshore and frontier acreages, it shall be for a duration of not more than ten (10) years comprising of an initial exploration period of five (5) years and an optional extension period of five years.

2. **Petroleum Mining Lease (PML):** A PML is granted to qualified applicants to win, work, carry away, dispose of crude oil, condensate, and natural gas on an exclusive basis. It also allows to drill exploration appraisal wells and carry out the related test production on an exclusive basis. A PML shall be for a period of twenty (20) years which term shall include the development period.

Licenses are allocated to operators in areas with potential petroleum deposits through a "transparent and competitive bidding process", adhering to applicable laws and guidelines issued by NUPRC for each licensing round. The allocation criteria are disclosed to interested companies at the time of bidding.

The Minister of Petroleum Resources, upon the NUPRCs recommendation, may grant a PPL or PML to the winning bidder, provided the bidder meets all bid requirements.

The licensing round follows several stages namely:

a. Formal announcement of the licensing round commencement.

b. Launch of the licensing round portal.

c. Advertisement.

d. Registration and submission of pre-qualification documents.

e. Pre-bid conference.

f. Evaluation and publication of prequalified applicants.

g. Issuance of invitations to prospective bidders.

h. Data prying/leasing or purchase of relevant reports.

i. Submission of bids.

j. Evaluation of technical bids.

k. Notification of results to successful bidders.

l. Commercial bid conference and announcement of winning bids.

The bidding procedure typically consists of two stages:[3]

1. **Qualification Stage:** At this stage, interested parties would submit applications. NUPRC then shortlists qualified applicants based on the guidelines. Shortlisted applicants are required to sign a mandatory confidentiality agreement.

2. **Bid Stage:** At this stage, shortlisted bidders submit their technical and commercial bid proposals according to the regulations and guidelines provided by the NUPRC.

The overarching aim of this process is to ensure a fair and competitive environment for the allocation of petroleum licenses.

Eligibility and Participation in Licensing Rounds.

Under the Petroleum Industry Act (PIA), both foreign and Nigerian companies can participate in the licensing rounds for PPL and PML. However, only companies incorporated and validly existing in Nigeria can be awarded these licenses. Foreign companies that qualify must incorporate a Nigerian company for the award.

Applicants can however participate either as individual companies or as members of a consortium. For consortia, the following requirements apply:[4]

1. **Consortium Agreement:** Companies forming a consortium must provide a Consortium Agreement, which must:

    - Identify the lead firm (Lead Member).
    - Specify the roles and responsibilities of each member.
    - Appoint a representative from the lead member with a power of attorney to act on behalf of the consortium.

2. Consortium Operations:

- The representative signs bid proposals and acts as the primary contact with the NUPRC.
- At least one member must be designated as the Operator, with a minimum 30% interest. Changes to the Operator or consortium members require NUPRC's approval.
- Pre-qualified applicants can form consortia with other pre-qualified applicants, subject to NUPRC's approval.
- In unincorporated joint ventures, each company's liability is joint and several.

Disqualification Criteria

Pre-qualified applicants can be disqualified if they or their members:

a. Are indebted to the Government.

b. Have previously mismanaged an awarded license or lease.

c. Presented false information or forged documents in past bids.

d. Submit multiple bids for the same block.

e. Breach the Confidentiality Agreement or other terms of existing licenses.

f. Become insolvent or undergo unauthorized changes in control.

g. Are found guilty of offenses affecting professional integrity and financial viability.

h. Obtain bid information through unauthorized means.

i. Fail to comply with applicable laws, including tax and regulatory obligations.

If disqualification criteria apply to only some members of a consortium, the consortium can avoid disqualification by removing the affected members, provided they notify NUPRC and update their Consortium Agreement accordingly.

Applicable Fees

There shall be separate Applications for each Block. Each Prospective Bidder shall pay a mandatory Bid fee per Block. All Bidders are also required to pay a signature bonus on the Blocks. The amount to be paid shall be based on the terrain and nature of the instrument of a Block. The maximum amount to be paid on each Block and terrain are:

a. US$10m per block for deep offshore blocks; and
b. US$7m per block for shallow waters and onshore blocks.

The signature bonus is required to be paid in United States Dollars.

Prequalification Criteria

To qualify for participation in the bid, applicants must satisfy various financial, technical, legal, health, safety, and environmental performance criteria, after which the Prequalified participants would be required to submit:

a. Technical Bid;
b. Commercial Bid; and
c. Bid Guarantee. (together referred to as the "Bid").

It is however important to note that bidders are required to submit a bid guarantee amounting to 5% of the proposed Signature Bonus alongside their Commercial Bids. This guarantee must be an on-demand payment bond from an international or Nigerian bank or insurance company with a "BBB" rating, valid for 120 days post the Commercial Bid Conference or an extended period as agreed. A parent company guarantee may be accepted if the parent company holds an equivalent rating. Bids lacking this guarantee will be rejected. If a Bidder does not extend the Guarantee Validity Period when requested, their guarantee will be returned, and the Bid will be disregarded. If the Bid Validity Period is extended, the guarantee must also be extended by 21 days beyond the new period. The preferred Bidder must extend both the Bid Validity Period and the guarantee until the signature bonus payment .

Bids lacking a valid Bid Guarantee are disqualified. NUPRC publishes the winning and reserve Bidders within five working days of the Conference and issues an offer letter to the winning Bidder within 14 working days. The signature bonus must be paid within 60 days of the offer letter. If the winning Bidder cannot meet the conditions within 90 days, the reserve Bidder is invited to fulfill them. The Minister of Petroleum Resources decides on the granting of the license or lease based on NUPRC's recommendation. If the Minister does not grant the license, any guarantees are voided, and payments are refunded. NUPRC can award a block to multiple Bidders, designating the most technically competent Bidder as the Operator. The Bid opening and announcement are conducted in the presence of accredited representatives from various government bodies and the Bidders.

Closing of the Licensing Round

At the closing of the licensing round, the successful Bidder must fulfill the offer terms, which include paying the signature bonus within the specified time, signing the Model Concession Contract before or at the time of the signature bonus payment, and signing the License or Lease Instrument and General License or Lease Conditions after the Minister’s approval under section 73(4) of the PIA.

III. Challenges Facing the 2024 Licensing Round: Investor Concerns and Recommendations

The oil bid round in Nigeria is a crucial event for both the government and potential investors. However, several realistic challenges can impact the success of this process, which need to be addressed to attract quality investments and ensure the sustainable development of Nigeria's oil resources.

1. Perceived Risk of Oil Blocks: One of the significant challenges in the oil bid round is the perception of the viability of the oil blocks being offered. Some blocks may be located in frontier areas with limited exploration data, making them less attractive to potential investors. The perceived geological risk, coupled with the uncertainty of discovering commercially viable reserves, can deter bidders. Mitigating this risk can be achieved by investing in and providing more detailed and extensive seismic data, along with robust technical reports. By doing so, the government would be addressing a key issue that is currently deterring investors. High Signature Bonuses: The requirement to pay high signature bonuses has emerged as a significant challenge in the ongoing oil bid round, potentially limiting the participation of smaller companies or new

entrants into the market. Signature bonuses, which are upfront payments made by winning bidders before exploration begins, serve as a crucial revenue source for the government. However, when these demands are set too high, they can discourage potential bidders and place financial strain on those who do win, potentially impacting their ability to develop the blocks effectively.

II. In the current bid round, the government has set the signature bonus for deepwater blocks at $10 million, significantly reduced from the previous $200 million. For shallow water and onshore blocks, the signature bonus is now $7 million. While these reductions reflect an effort to make the bidding process more accessible, the amounts still represent a substantial financial commitment, particularly for smaller players or those new to the industry.

III. This highlights a key issue -the balance between generating immediate revenue and encouraging broader participation in the bidding process. While high signature bonuses can quickly boost government revenues, they also risk narrowing the field of bidders to only the most well-capitalized companies, potentially reducing competition and innovation in the sector. A more balanced approach to setting these bonuses—perhaps one that takes into account the block's potential and prevailing market conditions—could stimulate greater interest and participation, ultimately leading to a more dynamic and competitive oil and gas sector.

2. **Economic and Market Conditions:** The global oil market is highly volatile, and fluctuations in oil prices can affect the attractiveness of participating in a bid round. Low oil prices can make investment in new exploration projects less appealing, as the profitability of developing new fields becomes questionable. Also, the economic conditions in Nigeria, including foreign exchange availability and fiscal stability, play a critical role in the decision-making process for investors. To mitigate these challenges, the bid round process should be timed and structured to align with favorable market conditions and provide incentives that cushion against economic uncertainties.

3. **Infrastructure Deficits:** The lack of essential infrastructure such as roads, pipelines, and export terminals in regions where certain oil blocks are located poses a significant challenge, which has over the years led

to higher costs and logistical difficulties that has deterred investors. o tackles these challenges; Nigeria can enhance its current efforts by aligning Public-Private Partnerships (PPPs) more closely with the specific needs of the oil and gas sector. By doing so, the country can better address the infrastructure gaps that impact Exploration and Production (E&P) activities. Also, Nigeria could strengthen its oil bidding process by including infrastructure development as part of the exploration and production agreements. For instance, Angola has incorporated such requirements, where bidders are obligated to contribute to or develop necessary infrastructure as part of their agreements. By adopting these strategies, Nigeria can reduce infrastructure-related risks, making oil blocks more attractive and fostering a more competitive bidding environment.

4. **Security Concerns in Oil-Producing Regions:** Security issues, particularly in the Niger Delta, remain a critical concern for investors. Militant activities, pipeline vandalism, and community unrest can disrupt operations and increase project costs. Ensuring a stable and secure environment for oil operations is essential for the success of the bid round. The government must continue to address these security challenges through engagement with local communities, investment in security infrastructure, and collaboration with stakeholders.

Conclusion

The 2024 oil bid round represents an important moment for Nigeria's oil industry. As we've explored in this article, there are significant challenges to overcome, from block viability to infrastructure needs and security concerns. Tackling these issues head-on will be crucial for success. By effectively addressing these challenges and leveraging the opportunities created by the PIA, Nigeria has a chance to attract substantial investment and boost production. How well these challenges are managed will determine whether this bid round can drive meaningful growth and position Nigeria as a key player in the global oil market.

About Stren & Blan Partners

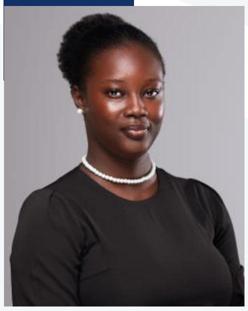
Stren & Blan Partners is an innovative and dynamic Law Firm with a compelling blend of experienced lawyers and energetic talents. We are focused on providing solutions to our client's business problems and adding value to their businesses and commercial endeavours. This underpins our ethos as everything we do flows from these underlying principles.

Stren & Blan Partners is a full-service commercial Law Firm that provides legal services to diverse local and multinational corporations. We have developed a clear vision for anticipating our client's business needs and surpassing their expectations, and we do this with an uncompromising commitment to Client service and legal excellence.

THE AUTHORS

Ozioma Agu
Partner

Oziomaagu
@strenandblan.com



Chizitereihe Oti
Associate

Chizitereiheoti
@strenandblan.com

Kolajo Onasoga
Associate

Kolajoonasoga
@strenandblan.com

Stren & Blan Partners

+234 (0)702 558 0053
3 Theophilus Orji Street, Off Fola Osibo Road, Lekki Phase 1, Lagos, Nigeria

www.strenandblan.com
contact@strenandblan.com
@strenandblan