# The Petroleum Industry Act (PIA): One Year On- Impact, Challenges, and the Road Ahead

OLUWATUMININU ODUNUGA

***Abstract- Before the enactment of the Petroleum Industry Act (PIA), Nigeria's oil and gas sector was governed by a patchwork of outdated and often inconsistent statutes like the Petroleum Act, Petroleum Profits Tax Act, Inland Basin Production Sharing Contract Act, Deep Offshore, and many more. Chief among them, the Petroleum Act of 1969, had long outlived its utility, failing to reflect modern industry practices or respond to the economic and social realities facing Nigeria. The resulting legal uncertainty and regulatory inefficiency hindered investment, reduced government revenue, and strained relations between host communities and oil companies.***

## I. INTRODUCTION

Before the enactment of the Petroleum Industry Act (PIA), Nigeria's oil and gas sector was governed by a patchwork of outdated and often inconsistent statutes like the Petroleum Act, Petroleum Profits Tax Act, Inland Basin Production Sharing Contract Act, Deep Offshore, and many more. Chief among them, the Petroleum Act of 1969, had long outlived its utility, failing to reflect modern industry practices or respond to the economic and social realities facing Nigeria. The resulting legal uncertainty and regulatory inefficiency hindered investment, reduced government revenue, and strained relations between host communities and oil companies.

After several years, however, the Petroleum Industry Act (hereinafter referred to as the "PIA" or "The Act") was enacted on August 2021, a significant piece of legislation, representing a turning point of development and symbolises a major milestone by sweeping reforms to Nigeria's oil and gas industry as it established new legal, governance, administrative, host community development, and fiscal framework for the Nigerian Petroleum Industry. The PIA is a regulatory instrument, rule proving for legal[1], governance, regulatory and fiscal framework for Nigerian Petroleum Industry, the host communities; and for related matters.[2] It also sought to close Nigeria's persistent infrastructure gaps in the gas sector, positioning the country to better exploit its abundant gas reserves.

This article explores the key reforms introduced by the PIA, assesses the progress made one year after its passage, identifies ongoing challenges, and reflects on the path forward.

## II. OVERVIEW OF THE PETROLEUM INDUSTRY ACT

The Petroleum Industry Act provides a legal, governance, regulatory, and fiscal framework for the petroleum/Oil & Gas Industry.[3] Below is an overview:

## III. GOVERNANCE

The Petroleum Industry Act formally segments the country's petroleum Industry into three different sectors – upstream, downstream, and midstream; each sector with its defined duties and the general oversight power is vested in the Minister of Petroleum, who receives and advises on the report by any of the sectors.

The Nigerian Upstream Petroleum Commission is the body established purposely to regulate upstream petroleum activities and ensure due compliance with laws regulating its operations.[4] The commission is a body corporate with a common seal and perpetual succession while the Nigerian Midstream and Downstream Regulatory Authority was created to regulate midstream and downstream operations in ensuring commercial and technical efficiency and effectiveness.[5]

The Act also incorporated NNPC[6] as a limited company whose shares is owned by government and held by the Ministry of Finance on behalf of the federation.

## IV. HOST COMMUNITIES' DEVELOPMENT

In a bid to foster sustainable prosperity in the crude oil host communities and to ensure peaceful co-existence between licensees and host-communities, economic benefits are provided on every petroleum activity within host community. The regulations and financial arrangement in the oil and gas industry were restructured by the PIA. It introduced two new regulations- NUPRC and NMDPRA. The HCDT provisions[7] replace voluntary non-mandatory social spending or CSR by oil and gas companies with mandatory contributions. Section 253 of the Act requires a settlor or a group of settlors to incorporate a Host Community Development Trust. All licensees are expected to deposit in host community development trust fund, failure of which lead to revocation of his license.[8] Such deposit by the licensees is solely for the development of the host communities. This is to ensure sustainable prosperity, provision of direct social and economic benefits from petroleum operations, enhancing peaceful and harmonious co-existence between licenses and host communities. The settlors are also to appoint Board of Trustees for the purpose of managing the Trust. Section 251 further requires settlor to conduct a host community needs assessment to determine the needs of each host community and develop plan to address the identified needs. Funds contributed by settlors to the host community as Host Community Development Trusts are exempted from tax.[9]

## V. FISCAL FRAMEWORK

One of the most notable aspects of the Act is its comprehensive revamping of regulatory framework governing the country's oil and gas industry. For nearly two decades, both foreign and local investors were uncertain about what to expect by investing in Nigeria as they will prefer to put their investment in countries with greater clarity and fiscal certainty. The Petroleum Industry Act introduced the Petroleum Industry Fiscal Framework to: (i) simplify the administration of petroleum tax; (ii) promote transparency in petroleum fiscal regime; (iii) promote clarity in fiscal rules and their application; (iv) provide chargeable[10] (allowable and non-allowable deductions[11]) on profits of petroleum companies; (v) Clarity on pre-emption right; and (ii) Unbounding.

With regard to unbounding, these are to be achieved by encouraging investment in the Nigerian Petroleum Industry while balancing rewards with risks and enhancing government revenue, offer a forward looking fiscal framework based on core principles of clarity, dynamism and fiscal rules of general application, increase the revenue base of the Federal Government of Nigeria whilst ensuring a fair return for investors, streamline the administration of petroleum tax and foster equity and transparency in the Petroleum Industry Fiscal Regime.[12] The administration of Petroleum Tax is simplified as the new amendment applies to operational companies in the petroleum Industry, upon the conversion of existing Oil Prospecting Licenses and Oil Mining Leases to Petroleum Prospecting Licenses and Petroleum Mining Licence. The transparency in the petroleum fiscal regime shall take place upon holders of Oil Prospecting License and Oil Mining Leases will continue to be taxed under the current regime pending the expiration of their licences. However, these holders may choose to convert their licences before expiration by executing conversion contracts.

Furthermore, the PIA promotes the removal of boundaries or limit on exploration and production areas whilst uncovering new reserves or potential drilling sites.

The Act also requires that the price of petroleum be put at a reasonable value at the point of delivery and the Minister may take control of any license in exchange for a reasonable compensation.

## VI. IMAPCT AFTER ONE YEAR

The first year of implementation has witnessed notable institutional, structural, and economic shifts. Perhaps the most visible change was the reconstitution of NNPC into NNPC Ltd,[13] an entity now subject to commercial and financial discipline and governed by Companies and Allied Matters Act[14]. Simultaneously, the erstwhile Department of Petroleum Resources was dissolved, making way for the more specialized NUPRC and NMDPRA, which have been more proactive in regulatory enforcement and investor engagement.

Institutionally, the Petroleum Industry Act dissolved former regulatory bodies like the Department of

Petroleum Resources (DPR) and in place, established two new agencies which are the Nigerian Upstream Petroleum Regulatory Commission (NURPC) and the Nigerian Midstream and Downstream Petroleum Authority (NMDPRA) and tasked them with improving regulatory oversight, ensuring operational clarity, and fostering investor confidence through transparent policy environment.

One other significant effect was the reduction of royalties for deep offshore and frontier basin exploration, which stimulated interest in previously neglected areas such as the Chad Basin. The transformation of the Nigerian National Petroleum Corporation into the commercially driven NNPC Ltd enhanced transparency and opened the door for greater joint ventures and public-private partnerships. A prominent example of this was the $5 billion corporate finance commitment secured from Afreximbank in 2022, aimed at boosting oil production and infrastructure. Under its new corporate status, NNPC Ltd also became more active in commercial collaborations, such as the $740 million agreement with Daewoo for the rehabilitation of the Kaduna Refinery, reflecting a strategic shift toward profitability and investment-readiness.

Furthermore, the PIA played a key role in the conclusion of the 2020 Marginal Field Bid Round, leading to the issuance of over 50 field licenses to local operators in 2022, thereby strengthening indigenous participation in the petroleum sector. The Act's gas-friendly provisions—most notably the exemption of natural gas from hydrocarbon tax[15] and the introduction of incentives such as capital allowances and investment tax credits for gas infrastructure—spurred significant deals. Among these was the $700 million agreement between Seplat Energy and NNPC Ltd for the development of a gas processing plant. Similarly, the signing of six new Production Sharing Contracts in 2022 with major international oil companies, including Shell, Chevron, TotalEnergies, and ExxonMobil, helped unlock long-delayed investments in deep-water assets. Additionally, clearer investment terms and enhanced regulatory support under the PIA encouraged the expansion of modular refining efforts, exemplified by the joint initiative between Waltersmith Petroman and the Nigerian Content Development and Monitoring Board (NCDMB) to scale up refinery operations in Imo State.

There has also been attraction of Investments and Strategic partnerships be ventures within a year of enactment of the Petroleum Industry Act. Commercialisation of NNPC limited especially has led to notable advancements in operational autonomy, investment attraction and regulatory reforms. It facilitated engagement in significant investment ventures. NNPC Limited secured about 20% stake in Dangote Refinery.

Furthermore, apart from the above listed invaluable contributions is also its Environmental and Community Initiatives by way of its introduction of Host Community Development Trust Fund allocating 3% of NNPC Limited's proceeds to enhance infrastructure and welfare in oil producing regions. This equally gives room for Host communities to be involved in identifying development priorities via Board of Trustees and Management Committees of the Trust which consequently fosters sense of ownership and transparency. It can be said basically that HCDTF in the first year created a modest framework of hope and potential for sustainable development in host communities.

Another significant contribution of PIA is reduction of gas flaring as a result of integration of Environmental and Social Governance (ESG) into policy through PIA[16]. PIA prohibits gas flaring except under specific conditions such as emergencies, and mandates operators to submit gas flare elimination plans[17]. In Nigeria, gas flaring has been a persistent issue which contributes significantly to greenhouse gas emission and environmental degradation, thereby posing health risk in oil producing communities. The enactment of PIA marks a major step toward aligning ESG rules with petroleum operations. This influenced energy transition goals and gas flaring practices in the Nigeria's petroleum sector. The PIA provides a legal foundation to reduce gas flaring through provision for and enforcement of penalties and promoting gas commercialisation. This is a clear attempt to promote environmental responsibilities, social benefits, and improved governance[18]. By integrating ESG into policy, the Oil and Gas industry is duly guided toward reducing emissions and enhancing energy efficiency in line with global climate and sustainability targets. PIA serves as a vital tool in operationalizing ESG rules by embedding accountability and sustainability in to the country's petroleum governance.

The PIA had a huge impact on Nigeria's Petroleum sector in its first year of implementation through improvement of regulatory clarity for environmental protection, a better social investment, clearer delineation of assets and liabilities, and attracting potential private investment.

## VII. KEY CHALLENGES

1. Challenge on Public Finances

The recently enacted law carries a pivot consequence for financial health of Nigeria's federation, affecting the federal, state and local government. One of the immediate concerns is the reduction of taxes and royalties, which is expected to lead to a substantial decline in government revenues at all levels- an outcome that comes at a particular inopportune time. Under the law, all profits generated by government-owned entities are remitted into the federation account. For many states and local government areas, allocations from this account constitute a huge percentage of their total revenues. However, the new PIA[19] requires 30% percentage of NNPC Limited's profits to be allocated to frontier exploration is poised to reduce its remittance to the Federation account.

2. Equity Challenge

The PIA also raises concerns equity between indigenous oil producers and multinational corporations operating in Nigeria as a result of crucial shift that occurred as international oil companies like Shell, has significantly scaled back their involvement in onshore oil exploration and production, opting instead to focus on deep offshore operations which are exempt from taxation under the current legal framework. By divesting from onshore assets, multinational firms are effectively exempt from the mandatory 3% contributions to the Host communities Development Trust Fund. This provides multinationals with a substantial cost advantage, and thereby affecting negatively the growth of indigenous companies.

3. Federal vs State Jurisdiction conflict

There has also been a complex challenge in the implementation of the Petroleum Industry Act due to overlapping authority and governance conflicts. Under the Nigerian constitution, all mineral resources, including petroleum are vested in the federal government[20]. However, all producing states often argue for greater control over resources derived within their territories. This complicates application of Petroleum Industry Act particularly in the areas related to Host community benefits.

States also seek greater shares of petroleum revenues through derivative principle, while the Federal Government maintains centralized control of oil. This informs frequent disputes arising over allocations from Host communities Development Trust Fund.

## VIII. THE ROAD AHEAD

The PIA represents Nigeria's effort to fit in to its changing environment and if religiously implemented, it can represent the gold standard of natural resources management. Following are some potential solutions to the challenges;

1. Challenges facing application of PIA can be resolved by clarifying ambiguous sections through policy guidelines and interpretative regulations[21]. Policy intervention can help in defining clear roles, coordination mechanisms, and jurisdictional boundaries. A prioritized and clear fiscal operational guideline can make the petroleum sector attractive and competitive globally[22]. Nigeria as a country in Africa is blessed with enormous natural and mineral resources and proper implementation of laws like the Petroleum Industry Act is to be encouraged for maximum exploration and utilization of these resources for the good of Nigerians.
2. The government must enforce environmental regulations. The rigorous enforcement of these laws will form an essential component of fostering community sustainability. This is because erecting economic development projects cannot by itself foster sustainable prosperity without aggressively reducing the unsustainable level of environmental pollution in the communities. Statistics have showed that over 70% of Nigerians residing in host

communities are affected by the economic degradation caused by petroleum exploration in host communities, hence, the need for the environmental regulations to be strictly enforced.

3. A community development summit where relevant information, strategic engagement on community-related issues should be organised for the implementation of PIA. Proper sensitization of Nigerians is important to be informed of the reformation brought by the PIA and its impacts in economic development of the country.
4. The potential impact of energy transition is the crux of Energy sustainability and climate change. Fossil fuels are apparently contributing to carbon dioxide emission which in turn leads to climate change. Nigeria needs to broaden its energy mix well beyond the present.

## CONCLUSION

This research has given an in-depth analysis of the impact of PIA especially within its first year of enactment and some challenges emanating from its provisions. Before the enactment of the Act, there were many issues in the oil and gas industry which required the enactment and enforcement of the laws for possible outcome. Whilst the promulgation of the PIA has brought amazing changes in the petroleum sector, its weaknesses in full operation and implementation cannot be denied. As long as the recommendations elucidated in this Act can be implemented and acted upon by stakeholders which include the government, investors and communities, positive development is ultimately guaranteed.

## REFERENCES

[1] The Petroleum Industry Act (PIA) LFN 2021. Sections 4-28

[2] M.N Umenweke, and W.A Chukwuma, An Examination of the Petroleum Industry Act 2021 and the Quest for A New Nigerian Law and Social Justice Review (LASJURE) 2 (2) 2021

[3] https//pia.gov.ng

[4] Section 4, *Petroleum Industry Act 2021*

[5] Section 31, Petroleum Industry Act, 2021

[6] Means Nigerian National Petroleum Company Limited

[7] Chapter 3

[8] Section 238, Petroleum Industry Act

[9] Section 256, Petroleum Industry Act

[10] Section 263, Petroleum Industry Act

[11] Section 264, Petroleum Industry Act

[12] Section 258(1) of the Petroleum Industry Act

[13] Nigeria National Petroleum Corporation

[14] LFN CAP 3, 2020

[15] https://www.morganlewis.com/pubs/2021/12/nigeria-overhauls-its-oil-and-gas-laws-with-petroleum-industry-act?

[16] Section 104, Petroleum Industry Act 2021

[17] Section 104, Petroleum Industry Act 2021.

[18] Global Gas Flaring Reduction "International Energy Agency- (IEA), 2023

[19] Section 9(4) and 64(c), Petroleum Industry Act 2021

[20] Bosselmann, K., "The Principle of Sustainability: Transforming Law and Governance" Aldershot: Ashgate Publishing Limited (2008)

[21] Babalola, A. "Legal Challenges in the Implementation of the Petroleum Industry Act" Nigerian Journal of Energy Law and Policy, 4(1), 45-62

[22] Omorogbe, Y. "Sustainability and Environmental Protection in the PIA" Centre for Petroleum, Energy Economics and Law, University of Ibadan (2021)