REGULATORY NEWSLETTER

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Understanding the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025

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INTRODUCTION

Nigeria is currently ranked the second most expensive country globally for crude oil production, a position that underscores the significant cost challenges faced by companies operating in the upstream petroleum sector.[1] This high cost is largely attributed to protracted project execution timelines, regulatory hurdles (approval), manpower inefficiencies and host community unrest, among others. To put this in perspective, it costs upstream oil producers in Nigeria between $40 and $49 to produce a barrel of crude oil, a sharp contrast to Saudi Arabia, where the production cost ranges from $2 to $8 per barrel.

In a decisive policy shift aimed at improving Nigeria's global competitiveness in the oil and gas industry, President Bola Ahmed Tinubu issued a landmark Executive Order titled the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025 (**the "Order"**). This marks the fourth Executive Order introduced in the oil and gas sector under this administration and underscores the government's commitment to reforming the upstream petroleum landscape.

REGULATORY MEASURES FOR COST EFFICIENCY IN NIGERIA'S UPSTREAM PETROLEUM SECTOR.

The Order is designed specifically for the upstream petroleum sector and applies to all lessees, licensees, and contractors operating within that sector.[2] Its core objectives include reducing operating costs, promoting cost discipline, enhancing operational performance, and introducing tax incentives.[3]

In achieving the above objectives, the Nigerian Upstream Petroleum Regulatory Commission (**the "Commission")** is required to set annual cost benchmarks for upstream operational activities and Unit Operating Costs (UOC) for onshore, shallow water, and deep offshore terrains.

[1] Nigeria is world's second most expensive country to produce oil - Businessday NG.
[2] Section 2(1) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025
[3] Section 1 of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.

The Order also mandates the Commission to determine cost benchmarks in line with guidelines provided under the Petroleum Industry Act following stakeholders' consultation and publication of the benchmarking methodology. In furtherance of the foregoing, the Commission is to assign cost reduction targets for each terrain and monitor performance of the lessee's or licensee's tax return cycle to assess compliance with cost targets, using UOC as the key performance metric.[4] In setting cost reduction targets, the Commission is guided by global standards and best practices. Its objective is to eliminate the excessive cost premium that characterizes Nigeria's oil and gas sector while setting targets that promote continuous annual improvements in cost efficiency.[5]

A lessee or licensee who meets or exceeds the assigned operating cost reduction targets within a given year becomes eligible to receive a cost efficiency incentive for the relevant year in which the target was achieved.[6] This incentive is granted by the Federal Inland Revenue Service (the "Service") upon receipt of the Commission's list of qualified companies, with a copy also sent to the Minister of Petroleum Resources.[7]

It should also be noted that for a lessee or licensee to achieve these cost reduction targets, they must ensure that the strategies adopted are ethically sound and do not involve any harmful or detrimental practices. Furthermore, in evaluating a company's eligibility for the incentive, the Commission is required to exclude any cost savings resulting from unfair, prejudicial, or improper dealings with contractors, employees, host communities, or any other stakeholders.[8]

TAX CREDITS FOR COST-EFFECTIVE OPERATIONS

As part of the efforts to promote cost efficiency in Nigeria's upstream petroleum sector, the Federal Government has also introduced a tax credit incentive for lessees, licensees, and contractors who successfully manage their production costs below the annual cost targets set by the Commission.

Under this framework, companies that operate below the Commission's cost benchmark for a financial year become eligible for a tax credit. This tax credit reflects a portion of the additional revenue earned by the government as a result of the cost savings achieved by the company.[9] For instance, if the Commission sets an annual cost target of $80 million for producing crude oil, and an upstream company, through efficient operations, spends only $65 million, the resulting $15 million savings means that the government's share of profit increases, since government revenues are calculated after deducting costs. In recognition of the company's contribution to enhancing government revenue through efficiency, the company is granted a tax credit equivalent to a proportion of that incremental government gain.

The Order sets out the methodology by which this incentive will be calculated.[10] The tax credit granted shall be applied toward offsetting a lessee's or licensee's income tax liability in the year it arises and shall remain valid for use within three years from the date of issuance.

[4] *Section 3 of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[5] *Section 6 (1) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[6] *Section 3(3) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[7] *Section 3(3) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[8] *Section 6(4) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[9] *Section 4 of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[10] *Section 5 of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*

The Service is also required to collaborate with the Commission to develop and issue implementation guidelines within thirty (30) days from the effective date of the Order, subject to the approval of the Minister of Petroleum Resources.[11] The implementation guidelines are expected to establish a clear and transparent framework for evaluating unit costs, incorporating defined benchmarks, performance targets, and assessment matrices. These evaluation criteria must be published on the Commission's website within 90 days of the start of each calendar year. Additionally, the guidelines should set out the specific data that lessees and licensees are required to submit for the annual cost efficiency assessment. Based on this evaluation, the Commission is to publish, ahead of the tax filing deadline, a list of qualified companies along with details of the incentive computation.[12]

The amount of tax credit that may be claimed in any given year is capped at 20% of the lessee's or licensee's tax liability for that year.[13] This means that regardless of how much cost savings a company achieves, it cannot reduce its tax bill by more than 20% in a single year. For example, if a company owes ₦100 million in taxes for the year, it can only apply for a maximum tax credit of ₦20 million toward that liability.

It is noteworthy that the incentives introduced under the Order are time-bound and shall cease to have effect on 31 May 2035.[14]

[11] *Section 7(1) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[12] *Section 7(2) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[13] *Section 6(5) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*
[14] *Section 4(3) of the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025.*

CONCLUSION

The Order is a significant policy intervention that signals a strong commitment by the Federal Government to address Nigeria's high upstream operating costs. By introducing measurable cost benchmarks and a tax credit regime tied to performance, the Order provides a clear incentive structure that rewards efficiency and discipline. This is a welcome step in the right direction, as it is expected to foster investors' confidence, attract fresh capital into the upstream petroleum sector, and ultimately ramp up crude oil production in line with Nigeria's broader energy security and economic goals.

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