

The Impact of the COVID-19 pandemic on the Oil and Gas Industry in Nigeria

Introduction

The oil and gas industry in Nigeria is extremely important to the country in terms of what it contributes to the economy and the necessity of energy for day to day living. This write-up will highlight the impact that the COVID-19 pandemic is having on the Nigerian oil and gas industry currently and in the long term. A good place to begin this discussion is the current state of collapsing oil prices. Due to a combination of reasons such as the expiration of production cuts by the Organisation of the Petroleum Exporting Countries (OPEC), the disagreement between OPEC+ on extending production cuts, Saudi Arabia increasing production, the trade war between Saudi Arabia and Russia and the economic effects of COVID-19, there has been negative supply and demand shocks which have in turn resulted in significantly low oil prices. In fact as at night time on 21st April, 2020, Brent crude fell to \$15.98 per barrel, a price not seen since 1999.¹ US oil prices turned negative for the first time as oil producers without storage space began paying customers to take their barrels from May 2020.² Oil analysts think that even with Russia, Saudi Arabia and a few other oil producing countries agreeing to cut production by up to as much as 15 million barrels per day (bpd), it would not be enough to balance the market in face of a deep economic recession caused by the COVID-19 pandemic.³ Demand for oil has dropped by about 25 million barrels per day due to COVID-19 lockdowns. Of course, demand for crude will rise again as countries begin to relax lockdowns and resume business activities, but this will take time.⁴ Undoubtedly, this will have an impact on Nigeria's oil and gas industry and the economy at large.

The 2020 budget for Nigeria was initially pegged on the presumption that oil would sell at \$57 per barrel but a new budget was proposed reducing the oil benchmark to \$30. Current happenings indicate that oil prices are likely to remain very low or even plummet lower. If the state of things continue, it means that the 2020 budget for the country would be in a deficit. This could hinder the Nigerian National Petroleum Corporation (NNPC)⁵ from fulfilling its contractual financial obligations across the various joint venture agreements that it is a party to.

¹<https://www.theguardian.com/business/2020/apr/22/brent-crude-oil-price-hits-21-year-low-amid-glut>

² <https://www.theguardian.com/business/2020/apr/20/over-a-barrel-how-oil-prices-dropped-below-zero>

³<https://www.offshore-technology.com/news/brent-crude-oil-futures-rise-30-oil-prices/>

⁴ <https://time.com/5821593/opec-deal-trump/>

⁵ State-owned oil company.

i. Impact on operations in the Oil and Gas Industry

The COVID-19 pandemic is also having significant impact on operations in the oil and gas industry. The Department of Petroleum Resources (DPR) recently instructed oil and gas companies in Nigeria to reduce the workforce on offshore platforms. In its official communication, the DPR instructed that only workers on essential duties should be nominated and permitted to travel to offshore/remote locations. Also, staff rotation of less than 28 days/28 days has been temporarily suspended, which implies that workers are required to stay a minimum of 28 days at these offshore locations per rotation.

Furthermore, the DPR has issued a list of operational measures to oil and gas contractors and service providers.⁶ These measures stipulate that in all project and construction sites in the industry, operators and contractors are mandated to ensure strict compliance with relevant Government directives and limit the number of personnel at project/construction sites in compliance with WHO-recommended social distancing measures. In addition, the DPR has tagged the current situation as “force majeure” in order to ensure the safety and welfare of all personnel and to contain the spread of COVID-19. Consequently, operators and their contractors are required to comply with the directives of government authorities as they relate to social distancing, curfews, lockdowns, etc. as may be applicable. To this end, the DPR also expects the demobilization of personnel from these sites to the extent required to satisfy its above requirements. The above-mentioned measures apply to all operators and their contractors in the oil and gas industry, thus it is expected that production will be reduced across all supply chains, ranging from crude oil, to gas, to petrochemicals and the like.

ii. Impact on Premium Motor Spirit (PMS) pump price

In order to reflect the global slump in oil prices (to which the COVID-19 pandemic plays a contributory role) and consequent price of fuel imports, the Nigerian government on March 18, 2020 reduced the pump price of PMS from ₦145 to ₦125 and again from ₦125 to ₦123.50 with effect from April 1, 2020. This was announced by the Petroleum Products Pricing Regulatory Agency (PPPRA). The PPPRA also informed the public of its plan to start a new pricing modulation that would reflect global oil markets fundamentals. Thus, we can expect that the pump price of PMS may further reduce depending on the fluctuation of global oil price. There is also an

⁶<https://www.dpr.gov.ng/>

expectation that the Federal Government will use this opportunity to fully deregulate the downstream sector as has been advised and recommended by various reports. It remains to be seen whether the Federal Government will finally implement this advice post-COVID-19.

iii. Impact on oil and gas companies and preventive measures

Across the private sector and in the public sector (Nigerian National Petroleum Corporation (NNPC)), oil and gas companies in Nigeria are committed to striking a balance between social distancing and supplying energy. Below are some of the measures currently being taken to contain the spread and manage the effects of the COVID-19 pandemic on their operations:

1. Strict adherence to the guidelines issued by the Nigerian Centre for Disease Control (NCDC) guidelines and the guidance of international and local health authorities, including daily temperature screening at the entry points to offices and field locations and promotion of social distancing and simple personal hygiene measure.
2. Issuance of travel advisory to guide all rotational/business and personal travels, pre-embarkation screening.
3. Increased utilisation of non-face-to-face meeting tools and minimising inviting external parties to offices.
4. Donations and contributions to both the Federal Government and the NCDC, such as significant sums of money, medical infrastructure and isolation centres.

Although these companies have not made their economic and financial coping strategies available to the public, analysts expect that companies may take the following steps:

- i. Reduce operation costs as much as possible, with a view to spending less.
- ii. Review capital and corporate cost budgets, including holding off on major future investments.

- iii. In anticipation of debt risks, consider diversifying, divesting non-core or under-performing assets.
- iv. Consider refinancing debt.
- v. Review existing contracts such as service contracts, joint venture agreements, etc. with a view to terminating, or suspending or renegotiating such contracts where necessary.
- vi. Be vigilant for opportunities for mergers & acquisitions, as distressed assets or non-core assets may be a potential source of cash for distressed companies.
- vii. Identify alternative suppliers in order to maintain operations.

Conclusion

This write-up has outlined the impact that the COVID-19 pandemic is currently having on the Nigerian oil and gas industry, across economic and operational lines. It has also outlined the steps that operators in the industry could take to manage the situation and how they can contribute to the slow but sure eradication of the pandemic. These are unprecedented times and it is imperative that the Nigerian oil and gas industry exercise creativity and strategic planning in order to weather this storm.

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