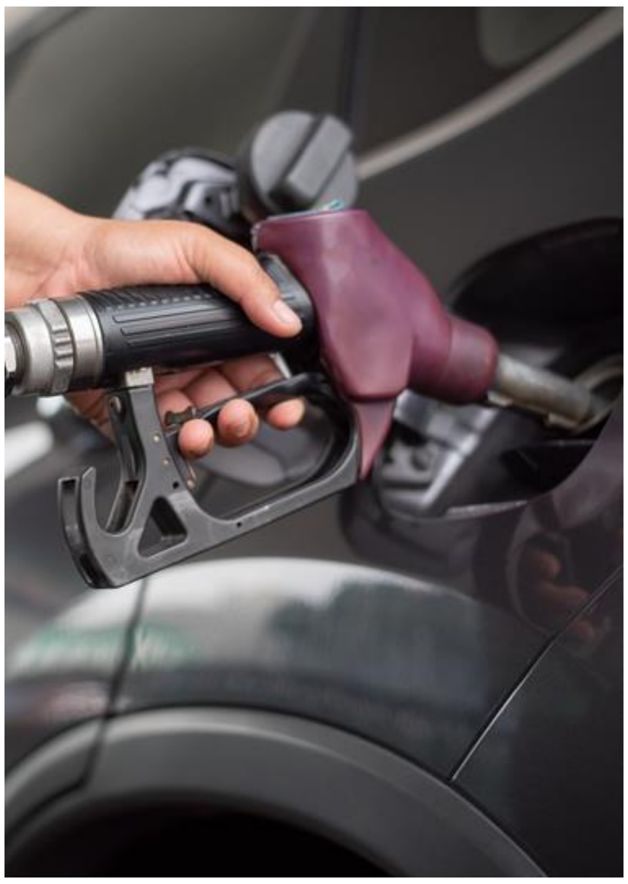
Tax Alert

Upstream Petroleum Operations (Cost Efficiency Incentives) Order 2025



Overview

On April 30, 2025, The President of Nigeria signed into law the Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025. This order aims to reduce operating costs in the upstream oil and gas sector while enhancing global competitiveness and efficiency.

The Order introduces a Cost Efficiency Incentive (CEI) framework, which offers a performance-based tax incentive for eligible upstream operators who reduce their Unit Operating Costs (UOC) below annual targets.

It also seeks to maximise economic returns from petroleum operations by reducing operational costs, project delays and contracting inefficiencies.

Key highlights

1. Scope and eligibility
The Order applies to lessees, licensees, and contractors engaged in upstream petroleum operations. Eligibility for incentives is contingent on achieving or exceeding annual cost reduction targets set by the Nigerian Upstream Petroleum Regulatory Commission (NUPRC).

2. Cost benchmarks and targets
The NUPRC will publish annual benchmarks for Unit Operating Costs (UOC) for onshore, shallow water, and deep offshore terrains. Eligible companies must reduce UOC below the Commission’s targets to qualify for incentives.

3. Tax credit incentives
Eligible companies can claim a tax credit equal to 50% of cost savings, multiplied by the applicable income tax rate.
The CEI credit is capped at 20% of tax liability and must be used within 3 years of issuance.

4. Validity period
The incentive programme is valid for 10 years from 30 April 2025 to 31 May 2035, unless extended by the President. Any unused tax credits after 31 May 2035, become void.

5. Implementation guidelines
With the approval of the Minister of Finance, the FIRS and NUPRC are required to issue implementation guidelines within 30 days of the effective date.

The guidelines will include benchmarks, submission requirements, evaluation methodology, and publication of qualifying companies.

6. Oversight and compliance
The NUPRC will verify cost savings, assess claims, and exclude those derived from unfair practices.

Harmful or non-transparent cost reduction strategies such as those unfavourable to contractors, employees, or host communities will be disallowed in the CEI calculation.

Analysis and takeaways

Nigeria's average oil and gas operating costs is considered among the highest globally, ranging around $30-48 per barrel, significantly higher than countries like Saudi Arabia, which averages around $10 per barrel. Previous initiatives such as the National Oil and Gas Excellence Centre, established in 2021, and the Nigerian Upstream Cost Optimisation Program (NUCOP) have been implemented to optimise costs and streamline contracting cycles. In addition, the Petroleum Industry Act (PIA) introduced a Cost Price Ratio (CPR), limiting the total allowable costs for tax deductions to 65% of gross revenue at the measurement point. This measure aims to encourage more disciplined cost management

The Order has the potential to address the persistent high operating costs in Nigeria’s upstream oil and gas the sector while encouraging production. It may also be signaling that the government is moving towards performance-based incentives rather than blanket tax concessions.

However, the success of the NUPRC's annual cost benchmarking hinges on transparent methodology, robust stakeholder engagement, and effective dispute resolution mechanisms.

The incentive creates more administrative obligations for the NUPRC to verify costs and monitor them, which adds to the strain on the resources of the regulator. In addition, the discretionary power granted to NUPRC to determine “harmful practices” may result in regulatory uncertainty and potential disputes.

Based on this, upstream operators must now reassess their cost structures, identify sustainable efficiency levers, and ensure compliance with transparent and ethical practices.

There are different implementation pathways: the CEI is being introduced through an executive order, whereas the tax reform measures are advancing through the legislative process. This raises questions about whether the incentives might have been more impactful if incorporated into the new bills. There are ongoing debates about the legal standing and enforceability of executive orders compared to enacted legislation. Companies therefore need to assess to what extent they can rely on the incentives they obtain in relation to this Order.

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