



NIGERIAN UPSTREAM PETROLEUM OPERATIONS (COST EFFICIENCY INCENTIVES) EXECUTIVE ORDER, 2025

INTRODUCTION

President Bola Ahmed Tinubu recently signed the Nigerian Upstream Petroleum Operations (Cost Efficiency Incentives) Order, 2025 (the

“Order”) which was unveiled on May 29, 2025, with an effective date of April 30, 2025. This Order aims to tackle one of the most persistent challenges in the upstream sector: excessive and inefficient operating costs.

Nigeria's upstream operations have faced issues such as production delays, political interference, inefficient workflows, fiscally negligent procurement processes, amongst others, all of which contribute to rising operating costs. Rather than imposing punitive measures, the Order introduces a performance-based incentive regime. Under this framework, companies that can demonstrate cost-effective operations by meeting or spending below the benchmark Unit Operating Costs (“UOC”) set annually by the Nigeria Upstream Petroleum Regulatory Commission (“NUPRC”) will be rewarded with tax credits. This newsletter outlines the key highlights of the Order for upstream companies.



OVERVIEW OF THE ORDER

The Order applies to licensees, lessees, and contractors involved in upstream petroleum operations across onshore, shallow water, and deep offshore terrains.¹ Aimed at promoting cost discipline and operational efficiency, streamlining contract cycles and maximizing sector value.² The Order incentivizes upstream companies (the “Companies”) that achieve or surpass cost efficiency benchmarks set by NUPRC annually, which shall be published on NUPRC's website within 90 days of the start of each year.³ NUPRC in collaboration with the Federal Inland Revenue Service (“FIRS”) is to issue implementation guidelines within thirty (30) days of the effective date of the Order.⁴ These guidelines will establish a transparent evaluation framework for the benchmarks, data requirements for annual cost efficiency, evaluation of upstream companies, qualifying company lists for each year, and incentive computation details.⁵

^[1] Nigerian Upstream Petroleum Operations (Cost Efficiency Incentives) Order 2025, Orders 2 (1) & 3 (1) (a)

^[2] Ibid Order 1

^[3] Ibid Orders 3(1)(a),(b) and 7(2)(a)

^[4] Ibid Order 7 (1)

^[5] Ibid Order 7 (2)

^[5] Ibid Order 7(2)

KEY HIGHLIGHTS OF THE ORDER

01 Performance-Based Tax Credits

Companies that operate below the annual UOC benchmark will be eligible for tax credits⁶ equivalent to 50% of the government's gain from the cost savings generated by the company's efficiency.⁷

02 Annual Cap on Credits

In claiming the tax credit, eligible companies are permitted to offset a maximum of 20% of their tax liability in any given financial year.⁸

03 Three-Year Carry Forward

Unused tax credits must be applied within three years; otherwise, they will expire.⁹

04 Fair and Regulated Cost Reduction Strategy

Companies must adopt cost reduction strategies that exclude harmful, unfair, or prejudicial practices, as determined by NUPRC, and any cost savings resulting from such practices will be disqualified from the incentive evaluation.¹⁰

05 Validity Period of the Order

The incentives under the Order are valid until 31 May 2035, after which they will lapse unless renewed or modified by the President. Tax credits unutilized as of the expiration date will become unenforceable.¹¹

Benchmarking and Oversight

- ▶ The NUPRC is tasked with developing and publishing terrain-specific cost benchmarks annually, reflecting local realities and international best practices.¹²
- ▶ The FIRS will review and validate all tax credit claims, using NUPRC's benchmarks as the baseline.¹³
- ▶ The Special Adviser to the President on Energy, on the direction of the President, has oversight power to lead an inter-agency effort to coordinate implementations by aligning the relevant institutions and ensuring the objectives of the Order are realized across all levels of implementation.¹⁴

Conclusion

This Order represents a strategic shift from enforcement led regulation to a performance-based incentive model, which presents both a challenge and an opportunity for Nigeria's upstream sector. Upstream companies must now closely monitor the NUPRC's annual operating cost benchmarks and align their operations accordingly. To qualify for tax incentives, companies will need to streamline procurement processes, adopt disciplined cost management practices, and phase out inefficient or outdated operational models. Importantly, cost reduction strategies must comply with regulatory standards ensuring that no reduction is derived from unfair or prejudicial practices involving contractors, employees, host communities, or other stakeholders. As such, maintaining transparent, well documented cost records for annual evaluations is essential.

The Order presents a timely shift from punitive regulation to performance-based incentives, rewarding upstream companies for achieving genuine cost efficiency. With proper alignment and compliance, operators stand to gain financially while contributing to a more sustainable upstream sector in Nigeria.

^[5] Ibid Order 7(2)

^[6] Ibid Order 4(1)

^[7] Ibid Order 5(1)

^[8] Ibid Order 6(2)

^[9] Ibid Order 6(5)

^[10] Ibid Order 6(4)

^[11] Ibid Order 4(3)

^[12] Ibid Orders 3(1) (c) and 6(1)

^[13] Ibid Order 6(3)

^[14] <https://newsdigest.ng/tinubu-unleashes-executive-order-to-slash-oil-sector-costs-attract-investment/> accessed on June 10 2025



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