Restructuring to continue in Nigeria

Amidst the slump in crude prices, Nigeria has accelerated its structural reforms in the oil sector

International attention focused on the Nigerian oil sector at the beginning of March 2016 after President Muhammadu Buhari approved the restructuring of the Nigerian National Petroleum Company (NNPC), write *Mayank Gupta* and *Kieron Dwyer*, Partners, and *Bourn Collier*, Associate, at Mayer Brown International LLP.

Long established but in need of reform, NNPC will be divided into five independent divisions – upstream, downstream, gas and power, refineries and ventures – along with two services units for corporate finance services, each headed by a chief executive officer. Current NNPC operations will be reorganised with the formation of up to 30 new companies.

The new divisions and greater autonomy are intended to inject stronger commercial discipline into NNPC. The Minister of State for Petroleum, Dr Ibe Kachikwu, was keen to clarify that the restructuring will not result in an immediate breaking up or 'unbundling' of NNPC. The change is intended to enhance profitability and output at the producer – a key concern following declines in global oil prices. The changes follow the early steps of prior reform of the power sector.

Observers have welcomed the announcement and appointment of division heads as positive for NNPC and the industry, although details of the exact corporate structure and operating arrangements remain to be finalised. Players in associated industries, such as power generation, will be watching developments for any follow-up opportunities.

In addition it is anticipated that a new statutory framework to the Nigerian oil industry will be introduced pursuant to a bill to be put before the National Assembly. If enacted, the Petroleum Industry Governance and Institutional Framework Bill 2015 will provide for a strengthened, independent regulator – the Nigerian Petroleum Regulatory Commission – and for NNPC to be split into two commercial entities to provide transparent operations. The entities will be the Nigeria Petroleum Assets Management Company (NPAMC), which will manage investments in oil and gas assets, and the National Petroleum Company (NPC), a fully integrated oil and gas company, of which the Nigerian government intends to list certain shares by 2018.

The 2015 Bill comprises one part of a broad set of reforms which had been set to be enacted under the comprehensive Petroleum Industry Bill 2012 (the 2012 Bill), but which were delayed in proceedings before the National Assembly. Future reforms are anticipated to be commenced in a piecemeal fashion.

Currently, a number of other jurisdictions such as India, Mozambique and Tanzania have updated their upstream regulatory frameworks, partly in response to declining exploration and production investment, and the success of Nigeria's reforms will remain to be seen.

Looking ahead, 2016 is expected to be a difficult year for both upstream producers as price hedges expire and for banks which will come under greater pressure to redetermine borrowing base facilities and address or restructure non-performing loans. In a recent *Mergermarket* survey of the European distressed debt market, 94% of respondents thought the oil and gas sector presented significant opportunities for distressed investors.

In Nigeria, divestments by international oil companies of mostly onshore and shallow water projects continued through 2015 (although higher returning offshore projects were retained). For those looking at restructuring opportunities, attention needs to be focused on a number of key factors for divestments, including obtaining ministerial and other third party consents, and ensuring appropriate financing arrangements are in place (and documentary evidence is capable of being provided as necessary).

Some indigenous oil and gas companies as well as private equity funds may benefit from the developing regime in Nigeria. However, increased restructuring is expected in the months to come.

Restructuring of NNPC is intended to inject stronger commercial discipline across the company's operations, enhancing profitability and output

Pipelines

Greece pipeline state aid approved

The European Commission (EC) has approved tax breaks from the Greek government that will benefit the Trans Adriatic Pipeline (TAP) project, reports *Keith Nuthall*. The gas pipeline will run from from Greece to Italy, via Albania.

The EC had to decide whether the support complied with European Union (EU) state aid rules, designed to limit national government subsidies to companies in the EU's border-free single market. While it decided that TAP would get special tax treatment compared to other energy operators, it said this was justified because of the importance of the pipeline to EU energy security.

The TAP pipeline will have an initial capacity of 10bn cm/y of gas, transporting gas from Azerbaijan's Shakh Deniz II field to EU markets as of 2020. Some €5.6bn is to be invested in the project over five years, €2.3bn in Greece.

Under a deal with the Greek government, TAP operations in Greece will have a special tax regime for 25 years. It involves taxation rates being adjusted lower than normally applied to such projects – although that reduction is capped if Greek general tax rates fall below certain floors.

In its decision, the EC said TAP would 'diversify European energy supplies' and would be 'unlikely to be carried out' without this government help.

The decision comes as the European Investment Bank (EIB) approved €330mn in financing to help develop another key Adriatic energy initiative – the first LNG import terminal in Croatia. Built on the island of Krk in the northern Adriatic, it will have a throughput capacity of 6bn cm/y. It will include a tanker jetty to accommodate an LNG carrier, two LNG storage tanks with total LNG storage capacity of up to 360,000 cm, vapourisers and ancillary equipment. The developer is LNG Hrvatska doo.