Title Taxation System in Nigeria: How Efficient Is It?

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Crude oil was discovered in Nigeria in 1958 in the Niger Delta region of Oloibiri, Bayelsa State

Nigeria is the largest producer of oil in Africa and is ranked 13th in the world – After U.S.A, Russia etc.

As at 2014, production has increased to 2,427 thousand barrels per day

INTRODUCTION

- Revenues are gotten from the activities in the petroleum industry. However, surplus revenues are known as ECONOMIC RENTS.
- How much of these rents do the government receive after Exploration, Development and Production?
- Production Sharing Contract (PSC) is implemented to ensure that these economic rents are obtainable by the government and the oil companies.
- The PSC in Nigeria came into effect in 1993
- How efficient has this been especially in the development of the economy?
- Profit is shared based on R-Factor:

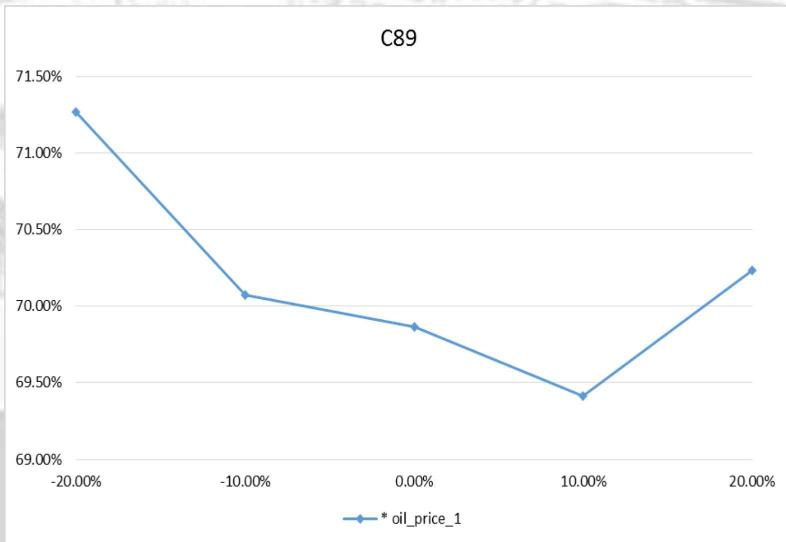
Profit oil Sharing(BASED on R-factor)	Government	Contractor
Profit oil share <1.20	30%	70%
Profit share 1.20 &2.50	Linear function	Linear function
Profit oil share <2.50	75%	25%

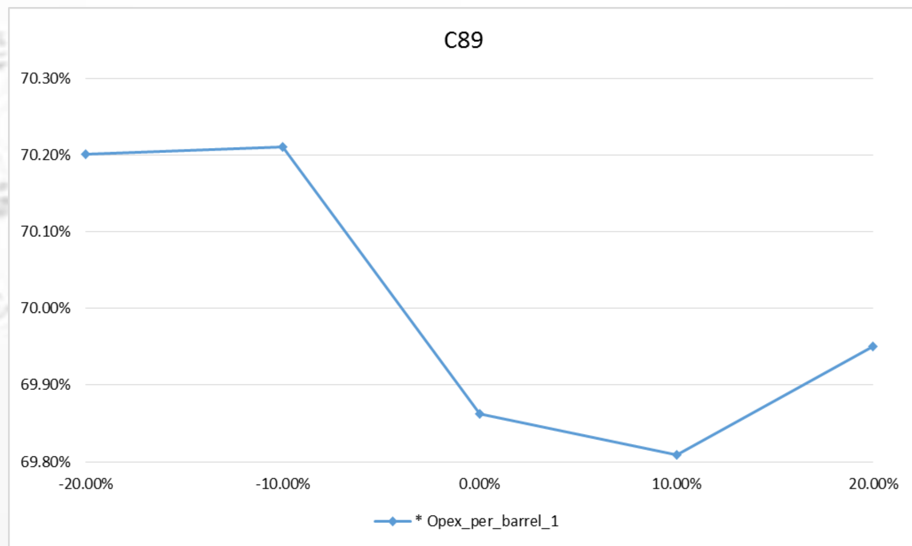
METHODOLOGY & APPROACH

Discounted Cash flow, Sensitivity Analysis and Monte-Carlo.

RESULT & INTERPRETATION

Methodology/ Approach		RECOVERABLE RESERVES (IN MILLION BARRELS)			
		50	100	250	
Discounted Cash Flow	Government % Net Present Value	61%	69.86%	69%	Government % NPV is higher than the contractor's
	Contractor % NPV	39%	30.14%	31%	Low % NPV, gold-plating could occur
Monte Carlo Simulation	Government Base Case	$479,934,745.27	$1,241,309,835	$3,651,995,873	Positive NPV; Viable NPV
	Government Mean	$488,544,213.50	$3,653,480,005	$3,625,853,854	Mean is obtained for 250mmbs field
	Contractor Base Case	$303,374,593.28	$535,470,166	$1,642,950,012	Positive NPV; Incentive to Invest
	Contractor Mean	$300,127,825.73	$557,309.778	$1,671,046,732	Field 50 mmbbs has a base case greater than the expected mean
Sensitivity Analysis	Oil Price	An increase will increase Net Present Value		No significant change	
	Development cost per barrel	A decrease will increase Net Present Value			
	Operating cost per barrel	An increase in operating cost would reduce NPV			





CONCLUSION

- PSC terms in Nigeria should be adjusted for, e.g. royalties should be paid on profit and not gross revenue.

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