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## *Licensing and Compliance in Upstream Petroleum Operations in Nigeria*

### Introduction

Nigeria's upstream petroleum sector remains one of the most critical drivers of the nation's economic development. The exploration and production of crude oil and natural gas generate substantial government revenue, attract foreign investment, and support industrial growth. However, the effectiveness and sustainability of this sector depend largely on the strength of its licensing regime and the degree of regulatory compliance enforced by governing institutions. The enactment of the Petroleum Industry Act marked a significant turning point in the governance of Nigeria's oil and gas industry. This legislation introduced a comprehensive legal and institutional framework aimed at improving transparency, accountability, and efficiency in petroleum operations. It replaced a fragmented system of outdated laws and established clearer rules for licensing, regulation, and fiscal administration.

## Opportunities That Continue to Inspire Confidence

The Nigeria Startup Act offers an impressive fiscal incentive structure that places Nigeria among the most forward-looking startup regimes in Africa. Labelled startups, that is, those formally recognized under the Act, are eligible for several benefits. These include tax holidays under the Pioneer Status Incentive, full deductions for in-country research and development expenses, and exemptions from certain training levies.

For investors, the Act provides capital gains tax exemptions on equity investments held for at least two years, along with an investment tax credit of up to thirty percent. These are not minor provisions. They are designed to de-risk early investment and attract both domestic and international venture capital.

A Lagos-based venture capitalist, for example, noted that the Act gives investors more clarity. “For once, we can model our returns knowing the government is not trying to take an unexpected bite from our exits,” he said. While the reality of implementation may still lag, the intention of these fiscal measures is widely appreciated.

Another promising feature of the Act is the creation of the Startup Investment Seed Fund, which is meant to inject ten billion naira every year into early-stage ventures. This fund, if properly managed, can help bridge the notorious financing gap that prevents most Nigerian startups from moving beyond proof-of-concept. Consider a small edtech startup in Ibadan that has an innovative platform but cannot attract venture backing due to limited visibility. Access to a transparent seed fund could provide not only capital but also validation that strengthens its credibility with other investors.

The Act also envisions a Startup Portal that simplifies registration, licensing, and access to incentives. Founders often complain about navigating multiple agencies with overlapping mandates. By consolidating processes, the portal aims to reduce administrative burden and improve transparency. Though still evolving, the concept reflects a genuine understanding of what entrepreneurs face daily.

For tech hubs, innovation centres, and co-working spaces, the Act's provision that recognises innovation infrastructure as part of public funding is a step forward. Hubs such as Co-Creation Hub in Lagos, nHub in Jos, and Wenovation Hub in Ibadan play a crucial role in nurturing startups. Their recognition in the legal framework provides a pathway for them to benefit from government support programs, grants, and partnerships.

Central to this framework is the Nigerian Upstream Petroleum Regulatory Commission, which is responsible for overseeing upstream petroleum activities. The Commission ensures that petroleum resources are developed in a manner that aligns with national interests while also promoting investor confidence. Licensing grants qualified entities the right to explore and produce petroleum resources, while compliance mechanisms ensure that such activities adhere to legal, environmental, and operational standards. In recent years, reforms such as the 2025 Licensing Round have further demonstrated Nigeria's commitment to strengthening its upstream sector. These initiatives aim to enhance transparency in the allocation of petroleum assets and to attract credible investors capable of delivering value. This article analyzes the licensing framework, compliance requirements, operational challenges, and best practices in Nigeria's upstream petroleum sector.

## Licensing Framework in Nigeria's Upstream Sector

The licensing system forms the legal foundation upon which upstream petroleum operations are conducted. Under the Petroleum Industry Act, petroleum resources remain vested in the state, meaning that private entities can only participate in exploration and production through licenses or leases granted by the government.

Three principal types of petroleum titles are recognized under the Act. The first is the Petroleum Exploration Licence, which is granted for preliminary exploration activities such as geological and geophysical surveys. This licence allows companies to assess the resource potential of a designated area without engaging in drilling operations. It is typically issued for a limited duration, reflecting its exploratory nature.

The second category is the Petroleum Prospecting Licence. This licence permits more advanced exploration activities, including drilling and appraisal of discovered resources. It represents a critical phase in upstream operations, as it determines whether a discovery is commercially viable. The duration of this licence is structured to allow sufficient time for technical evaluation and planning.

The third and most commercially significant title is the Petroleum Mining Lease. This lease grants the holder the right to develop and produce petroleum resources on a commercial scale. It is issued for a longer duration and is renewable, subject to compliance with regulatory requirements and performance obligations.

The Nigerian Upstream Petroleum Regulatory Commission administers these licences and leases, subject to approvals from the relevant ministerial authorities. Applicants must demonstrate technical expertise, financial capability, and a clear operational strategy before any licence is granted. This ensures that only competent entities are entrusted with the development of Nigeria's petroleum resources.

Host community obligations have also gained prominence under the Petroleum Industry Act. Operators are required to establish and fund host community development trusts, which are designed to promote sustainable development in oil producing areas. This provision aims to address longstanding issues of community dissatisfaction and conflict.

Fiscal compliance is equally important. Licence holders must fulfill their financial obligations, including the payment of royalties, taxes, and other statutory charges. Transparent reporting and accurate record keeping are essential to maintaining compliance in this area.

The Nigerian Upstream Petroleum Regulatory Commission plays a prominent role in enforcing these requirements. Through audits, inspections, and reporting mechanisms, the Commission ensures that operators adhere to the terms of their licences. Non compliance may result in fines, suspension of operations, or revocation of licences.

## Challenges in Licensing and Compliance

Despite the progress made through regulatory reforms, several challenges continue to affect licensing and compliance in Nigeria's upstream sector. One of the primary challenges is bureaucratic inefficiency, which can lead to delays in the processing of licences and approvals. Such delays may discourage investment and hinder project timelines.

Access to reliable data also presents a challenge. While data rooms are provided during licensing rounds, the quality and accessibility of information may vary, affecting the ability of bidders to make informed decisions. Improving data transparency remains a key priority for regulators.

Economic factors such as currency fluctuations and inflation can impact the financial viability of projects. These factors may affect the ability of operators to meet their financial commitments, particularly in a volatile global oil market.

Regulatory complexity is another issue. The multiplicity of laws, regulations, and agencies involved in the sector can create uncertainty and increase compliance costs. Streamlining regulatory processes and improving coordination among agencies would enhance efficiency.

Security concerns, particularly in the Niger Delta region, also pose significant risks to upstream operations. Issues such as pipeline vandalism and oil theft can disrupt production and increase operational costs.

## Best Practices for Effective Participation

To navigate the complexities of licensing and compliance, stakeholders must adopt strategic and proactive approaches. One important best practice is early preparation. Companies seeking to participate in licensing rounds should begin by assembling strong technical and financial teams capable of developing competitive bids.

Forming strategic partnerships through consortium arrangements can also enhance capacity and reduce risk. By combining expertise and resources, companies can improve their chances of success in competitive bidding processes.

Engaging experienced legal and technical consultants is another critical step. These professionals can provide valuable insights into regulatory requirements, contract structures, and compliance obligations, thereby reducing the risk of errors and omissions.

Maintaining transparency and ethical conduct throughout the licensing process is essential. Compliance with regulatory guidelines not only improves the likelihood of success but also builds credibility with regulators and stakeholders.

Finally, continuous monitoring and internal compliance systems are necessary to ensure that operational activities remain aligned with regulatory requirements. Companies that prioritize compliance are better positioned to sustain long term operations and avoid penalties

## Conclusion

Licensing and compliance are central to the effective functioning of Nigeria's upstream petroleum sector. Through the framework established by the Petroleum Industry Act, Nigeria has taken significant steps toward creating a more transparent, efficient, and investor friendly environment. The role of the Nigerian Upstream Petroleum Regulatory Commission in administering licences and enforcing compliance cannot be overstated. By ensuring that operators adhere to legal and operational standards, the Commission safeguards national interests while promoting sustainable resource development.

Although challenges remain, ongoing reforms such as the 2025 Licensing Round demonstrate a commitment to continuous improvement. By adopting best practices and strengthening regulatory frameworks, Nigeria can enhance its position as a leading destination for petroleum investment. Ultimately, effective licensing and compliance not only support economic growth but also ensure that petroleum resources are developed responsibly and sustainably for the benefit of present and future generations.

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