HARNESSING TAXATION AS A REFORMATIVE TOOL FOR THE NIGERIAN OIL AND GAS SECTOR: LESSONS FROM CANADA AND NORWAY*

Abstract

Nigeria is a country heavily dependent on its oil and gas industry. The sector has historically been the mainstay of the economy, accounting for a significant portion of the country's GDP and foreign exchange earnings. However, despite its importance, the oil and gas industry in Nigeria has been plagued by a number of challenges, including corruption, inefficiency, and underinvestment. As a result, there is a need for significant reforms in the sector. This article explores the potential for taxation to be utilized as a reformative tool for the Nigerian oil and gas sector, drawing on the experiences of Canada and Norway. Both countries have implemented comprehensive taxation systems to incentivize environmental responsibility and diversify their energy sectors. In carrying out this research, the researcher employed the doctrinal method of research wherein the comparative, descriptive and analytical approaches were adopted. Also the primary sources of legislation, books and judicial authorities as well as secondary sources of journal articles, publications etc were used. This work found that Nigeria could learn from the Canadian and Norwegian experiences by introducing tax incentives for renewable energy and energy-efficient technologies, implementing a carbon pricing scheme, and introducing a comprehensive taxation system that includes a petroleum tax, CO2 tax, and special tax on petroleum income. The revenues generated could be used to fund social welfare programs and infrastructure development. This paper also found out that to ensure transparency and public trust, it is important that the taxation system is implemented and managed effectively. The researcher concluded that taxation has the potential to be an effective tool for reforming the Nigerian oil and gas sector if implemented with care and attention to local circumstances. Recommendations were made which suits the different phases of the challenges and inefficiencies.

Keywords: Taxation, Reformative Tool, Oil and Gas, Nigeria, Norway

1. Introduction

The Nigerian oil and gas sector has long been a critical component of the country's economy, accounting for a significant portion of its GDP and export earnings. However, the sector has faced numerous challenges, including environmental degradation, community unrest, and corruption. As a result, there has been a growing recognition of the need to reform the sector and ensure its sustainability for the future. One potential tool for reforming the Nigerian oil and gas sector is taxation. Taxation has been successfully utilized as a reformative tool in other countries, such as Canada and Norway, to incentivize environmental responsibility and diversify their energy sectors. By drawing on the experiences of these countries, Nigeria could potentially develop a taxation system that encourages sustainable development and reduces dependence on the oil and gas sector. This article explores the potential for taxation to be utilized as a reformative tool for the Nigerian oil and gas sector, drawing on the experiences of Canada and Norway. Specifically, it examines the tax policies and mechanisms used in these countries to achieve environmental responsibility, diversification, and social welfare. Finally, it considers how these policies and mechanisms could be adapted to the Nigerian context to achieve similar outcomes. By doing so, this article aims to contribute to the ongoing discussion on reforming the Nigerian oil and gas sector and promoting sustainable development.

2. Legal and Institutional Frameworks of the Nigerian Oil and Gas Sector

There is a myriad of legal regimes that have over the years regulated taxation of oil and gas in Nigeria. There have been series of amendment of laws as well as repeal of some laws too. This chapter shall briefly discuss some relevant provisions of these laws as it affects this research. Further, there are several institutions and regulatory body established for the purpose of carrying out activities and enforcing payment of taxes. Some of these institutions shall also be x-rayed vis-à-vis their roles and importance. Basically, and by no means exhaustive, the laws that impinge upon petroleum operations in Nigeria include the following; 1999 Constitution of the Federal Republic of Nigeria, Petroleum Profits Tax Act[1], Petroleum Industry Act 2021[2], the Land Use Act of 1978,

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[1] Petroleum Profit Tax Act, CAP P13, Laws of the Federation of Nigeria 2004.

[2] Petroleum Industry Act 2021, published in the Federal Republic of Nigeria Official Gazette, No. 142, Vol. 108, 27th August, 2021, pp. A121 – 370.

Petroleum Act[3], Oil Terminal Duties Act[4], Oil in Navigable Waters Act[5], National Environmental Standards and Regulations Enforcement Agency (Establishment) Act, No. 25, 2007[6], Environmental Impact Assessment Decree No. 86 1992[7], Oil Pipelines Act[8], Petroleum Production and Distribution (Anti-Sabotage) Act[9], Petroleum Products Pricing Regulatory Agency (Establishment) Act No. 8 2003[10], Companies Income Tax Act[11], Companies Income Tax (Amendment) Act 2007, Deep Offshore and Inland Basin Production Sharing Contracts Decree No. 9 1999[12], Associated Gas Re-injection Act[13] and Federal Inland Revenue Service (Establishment) Act 2007. The institutional framework for oil and gas in Nigeria includes a range of government agencies, industry bodies, and regulatory bodies that are responsible for managing and overseeing the exploration, development, and production of the country's petroleum resources. The following provides a brief overview of the key institutions relevant to the Nigerian oil and gas sector, with references to relevant resources and organizations.

Ministry of Petroleum Resources: The Ministry of Petroleum Resources is the government agency responsible for the formulation and implementation of policies and programs related to the exploration, development, and production of petroleum resources in Nigeria. The Ministry also oversees the activities of the Nigerian National Petroleum Corporation (NNPC) and other agencies involved in the oil and gas sector[14].

Nigerian National Petroleum Corporation (NNPC): The NNPC is the state-owned oil company responsible for the management of Nigeria's petroleum resources. The NNPC is involved in all aspects of the oil and gas sector, including exploration, production, refining, and distribution. The Corporation is also responsible for overseeing the activities of other companies operating in the sector[15].

Department of Petroleum Resources (DPR): The DPR is the regulatory body responsible for monitoring and regulating the upstream and downstream sectors of the oil and gas industry in Nigeria. The DPR is responsible for granting licenses and leases for oil exploration and production, monitoring compliance with industry regulations, and ensuring environmental protection and safety[16].

Nigerian Content Development and Monitoring Board (NCDMB): The NCDMB is the agency responsible for promoting local participation and capacity-building in the Nigerian oil and gas industry. The Board is responsible for implementing the Nigerian Oil and Gas Industry Content Development Act, which aims to increase local participation in the sector and promote the use of local goods and services[17].

Petroleum Technology Development Fund (PTDF): The PTDF is a government agency responsible for the development and training of human resources in the Nigerian oil and gas sector. The Fund provides scholarships and training programs to Nigerian citizens in order to build capacity and promote local participation in the industry[18].

Nigerian Extractive Industries Transparency Initiative (NEITI): NEITI is an independent body established to promote transparency and accountability in the management of Nigeria's natural resources. The Initiative publishes regular reports on the revenues generated from the oil and gas sector, and works to promote transparency and accountability in the management of these resources[19].

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[3] CAP 350 Laws of the Federation of Nigeria 1990; Now CAP P10 Laws of the Federation of Nigeria 2004.

[4] CAP 338 Laws of the Federation of Nigeria 1990; Now CAP O8 Laws of the Federation of Nigeria 2004.

[5] CAP 337 Laws of the Federation of Nigeria 1990; Now CAP O6 Laws of the Federation of Nigeria 2004.

[6] This Act repealed the Federal Environmental Protection Agency Act CAP 131 Laws of the Federation of Nigeria 1990; now CAP F10 Laws of the Federation of Nigeria 2004, but retained all Regulations made thereunder.

[7] Now CAP E12 Laws of the Federation of Nigeria 2004.

[8] CAP 338 Laws of the Federation of Nigeria 1990; Now CAP O7 Laws of the Federation of Nigeria 2004.

[9] CAP 353 Laws of the Federation of Nigeria 1990; Now CAP P12 Laws of the Federation of Nigeria 2004.

[10] With its 2004 amendment

[11] CAP 60 Laws of the Federation of Nigeria 1990; Now CAP C21 Laws of the Federation of Nigeria 2004.

[12] Now CAP D3 Laws of the Federation of Nigeria 2004. There is also Deep Offshore and Inland Basin Production Sharing Contracts (Amendment) Decree No. 26, 1999.

[13] CAP 26 Laws of the Federation of Nigeria 1990; Now CAP A25 Laws of the Federation of Nigeria 2004 (with its subsidiary legislation, the Association Gas Re-injection (Continued Flaring of Gas) Regulations.

[14] Ministry of Petroleum Resources, Retrieved online from https://www.petroleumresources.gov.ng/. Accessed on 20th September, 2022.

[15] Nigerian National Petroleum Corporation (NNPC), Retrieved online from https://www.nnpcgroup.com/. Accessed on 20th September, 2022.

[16] Department of Petroleum Resources (DPR), Retrieved online from https://www.dpr.gov.ng/. Accessed on 20th September, 2022.

[17] Nigerian Content Development and Monitoring Board (NCDMB), Retrieved online from https://www.ncdmb.gov.ng/. Accessed on 20th September, 2022.

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[18] Petroleum Technology Development Fund (PTDF), Retrieved online from https://www.ptdf.gov.ng/. Accessed on 20th September, 2022.

[19] Nigerian Extractive Industries Transparency Initiative (NEITI), Retrieved online from https://www.neiti.gov.ng/. Accessed on 20th September, 2022.

3. Nature of the Canadian Oil and Gas Industry

The Canadian oil and gas industry is a significant contributor to the country's economy, with vast reserves of oil and natural gas. The Canadian oil and gas sector is attractive to the rest of the world for a variety of reasons. Here are some key factors[20]:

Reserves: Canada has the third-largest oil reserves in the world, estimated at 168 billion barrels, with the majority of it located in the oil sands of Alberta. The country also has abundant natural gas reserves, estimated at 1,509 trillion cubic feet[21].

Production: In 2020, Canada produced 4.4 million barrels per day of crude oil and 17.3 billion cubic feet per day of natural gas. Alberta is the largest producer of oil and natural gas in Canada[22].

Export: The oil and gas industry is a significant exporter for Canada, with exports accounting for more than half of the country's total oil production. The United States is Canada's primary oil export market, followed by Asia[23].

Environmental Standards: The industry has implemented various measures to reduce its environmental footprint, including carbon capture and storage and the development of cleaner technologies. The Canadian oil and gas sector is committed to responsible resource development and has implemented stringent environmental standards to reduce the impact of its operations. This has helped to improve the sector's reputation and attract socially responsible investors.

Stability: Canada has a stable political and economic environment, making it an attractive destination for foreign investment. The country has a strong legal system, well-defined property rights, and a predictable regulatory framework.

Legal and Institutional Frameworks of the Canadian Oil and Gas Sector

Canada has a well-established legal framework for the oil and gas sector, which includes federal, provincial, and territorial regulations. The following provides a brief overview of the legal framework in Canada, with references to relevant legislation and regulations.

Federal Regulation: The federal government regulates the offshore oil and gas sector in Canada, under the Canadian Energy Regulator Act (CERA)[24] and the Canada Petroleum Resources Act (CPRA)[25]. These laws provide for the regulation of exploration, development, and production of petroleum resources in Canada's offshore areas, and establish the Canadian Energy Regulator as the federal regulator responsible for administering these laws.

Provincial and Territorial Regulation: In addition to federal regulation, the provinces and territories in Canada have jurisdiction over the development and management of their own oil and gas resources. This includes the power to regulate onshore exploration, development, and production of petroleum resources, as well as to collect royalties and other revenues from oil and gas operations. Relevant legislation and regulations vary by province and territory but may include:

- **a. Alberta:** The Oil and Gas Conservation Act, the Oil Sands Conservation Act[26], and the Oil Sands Royalty Regulation.
- **b. British Columbia:** The Oil and Gas Activities Act, the Drilling and Production Regulation, and the Oil and Gas Royalty Program.
- **c. Saskatchewan:** The Oil and Gas Conservation Act[27], the Oil and Gas Conservation Regulations, and the Oil and Gas Royalty Regulations.
- **d. Newfoundland and Labrador:** The Petroleum and Geo-scientific Research Act, the Oil and Gas Act, and the Atlantic Accord Implementation Acts.

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[20] Invest in Canada, *Why Invest in Canada's Natural Resources*, 2021. Retrieved online from https://www.investcanada.ca/why-canada/sectors/natural-resources. Accessed on 25th September, 2022.

[21] Canadian Association of Petroleum Producers, *Fast Facts about Canada's Oil and Natural Gas Industry*, 2021. Retrieved online from https://www.capp.ca/wp-content/uploads/2021/02/Fast-Facts-2021.pdf. Accessed on 20th September, 2022.

[22] Natural Resources Canada, *Energy Fact Book*, 2022. Retrieved online from https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/energy/pdf/EnergyFactBook2022.pdf. Accessed on 20th September, 2022.

[23] Government of Canada, *Canada's Energy Future 2021: Energy Supply and Demand Projections to 2050*, 2021. Retrieved online from https://www.nrcan.gc.ca/sites/www.nrcan.gc.ca/files/energy/pdf/CEF2021-eng.pdf. Accessed on 20th September, 2022.

[24] Canadian Energy Regulator Act, S.C. 2019, c. 28, Retrieved online from https://laws-lois.justice.gc.ca/eng/acts/c-7.7/. Accessed on 20th March, 2023.

[25] Canada Petroleum Resources Act, R.S.C. 1985, c. 36 (2nd Supp.), Retrieved online from https://laws-lois.justice.gc.ca/eng/acts/C-7.3/. Accessed on 25th September, 2022.

[26] Oil Sands Conservation Act, R.S.A. 2000, c. O-7, Retrieved online from https://www.canlii.org/en/ab/laws/stat/rsa-2000-c-o-7/latest/rsa-2000-c-o-7.html. Accessed on 25th September, 2022.

[27] Oil and Gas Conservation Act, R.S.A. 2000, c. O-6, Retrieved online from https://www.canlii.org/en/ab/laws/stat/rsa-2000-c-o-6/latest/rsa-2000-c-o-6.html. Accessed on 25th September, 2022.

Environmental Regulation: The Canadian Environmental Protection Act, 1999 (CEPA)[28] provides the legal framework for regulating the environmental impacts of oil and gas activities in Canada. This includes the regulation of air and water quality, waste management, and the protection of endangered species. The CEPA is administered by Environment and Climate Change Canada, with support from provincial and territorial governments.

Indigenous Rights: The Canadian Constitution recognizes and affirms the rights of Indigenous peoples in Canada, including the right to be consulted and accommodated in relation to development projects that may affect their rights and interests. In addition, the federal government has enacted legislation, such as the Impact Assessment Act and the Canadian Environmental Assessment Act, 2012, which require consultation with Indigenous communities and the consideration of their rights and interests in the assessment of development projects.

The institutional framework for oil and gas in Canada includes a range of public and private sector organizations that are responsible for various aspects of the oil and gas sector, including regulatory oversight, research and development, and industry advocacy. The following provides a brief overview of the key institutions involved in the Canadian oil and gas sector, with references to relevant organizations and resources:

Canadian Energy Regulator (CER): The CER is the federal regulator responsible for regulating the exploration, development, and production of Canada's offshore petroleum resources. The CER has the authority to issue licenses and permits, conduct environmental assessments, and enforce compliance with regulatory requirements[29].

Provincial and Territorial Regulators: Each province and territory in Canada has its own regulatory body responsible for overseeing oil and gas activities within their jurisdiction. These include the Alberta Energy Regulator[30], the British Columbia Oil and Gas Commission[31], and the Saskatchewan Ministry of Energy and Resources[32].

Canadian Association of Petroleum Producers (CAPP): CAPP is a national industry association representing Canada's upstream oil and gas sector. CAPP advocates for policies and regulations that promote the growth and sustainability of the industry, and provides a forum for industry collaboration and engagement[33].

Canadian Gas Association (CGA): The CGA is the national trade association representing Canada's natural gas distribution industry. The CGA advocates for policies and regulations that support the growth and development of the natural gas sector, and provides a platform for industry collaboration and knowledge-sharing[34].

Petroleum Technology Alliance Canada (PTAC): PTAC is a not-for-profit organization that facilitates collaboration between industry, government, and academia to advance technological innovation in the oil and gas sector. PTAC provides a range of services, including funding for research and development projects, technology assessments, and knowledge-sharing[35].

Canadian Energy Research Institute (CERI): CERI is an independent research organization that provides analysis and insights on the economic, environmental, and social impacts of energy development in Canada. CERI's research focuses on a range of topics, including energy markets, policy and regulation, and technology innovation[36].

Indigenous Resource Network (IRN): The IRN is a national organization that works to advance Indigenous participation in the oil and gas sector. The IRN provides a range of services, including capacity-building, training, and networking opportunities for Indigenous businesses and organizations[37].

4. Nature of the Norwegian Oil and Gas Industry

The Norwegian oil and gas sector is an important part of the country's economy, with significant reserves of oil and gas. The Norwegian oil and gas industry is considered one of the most attractive in the world due to a number of factors. Here are some key features of the industry:

Reserves: Norway has significant oil and gas reserves, with oil reserves estimated at 6.2 billion barrels and gas reserves estimated at 1.7 trillion cubic meters. The majority of these reserves are located in the North Sea[38].

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[28] Canadian Environmental Protection Act, 1999, S.C.

[29] Canadian Energy Regulator, Retrieved online from https://www.cer-rec.gc.ca/en/. Accessed on 25th September, 2022.

[30] Alberta Energy Regulator, Retrieved online from https://www.aer.ca/. Accessed on 25th September, 2022.

[31] British Columbia Oil and Gas Commission, Retrieved online from https://www.bcogc.ca/. Accessed on 25th September, 2022.

[32] Saskatchewan Ministry of Energy and Resources, Retrieved online from https://www.saskatchewan.ca/business/hire-train-and-manage-employees/labour-market-information/industry-information/oil-and-gas. Accessed on 25th September, 2022.

[33] Canadian Association of Petroleum Producers, Retrieved online from https://www.capp.ca/. Accessed on 25th September, 2022.

[34] Canadian Gas Association, Retrieved online from https://www.cga.ca/. Accessed on 25th September, 2022.

[35] Petroleum Technology Alliance Canada, Retrieved online from https://www.ptac.org/. Accessed on 25th September, 2022.

[36] Canadian Energy Research Institute, Retrieved online from https://www.ceri.ca/. Accessed on 20th March, 2023.

[37] Indigenous Resource Network, Retrieved online from https://irn-rrni.ca/. Accessed on 20th March, 2023.

[38] Norwegian Ministry of Petroleum and Energy, *Facts 2020: The Norwegian Petroleum Sector*, 2020. Retrieved online from https://www.regjeringen.no/globalassets/departementene/oed/dokumenter-og-publikasjoner/publikasjoner/2020/faktahefte-2020-engelsk_web.pdf. Accessed on 25th September 2022.

Environmental Concerns: The Norwegian oil and gas sector has implemented stringent environmental regulations and policies to reduce the impact of its operations on the environment. The country is committed to reducing greenhouse gas emissions and has set a goal to become a carbon-neutral society by 2050[39].

Stable Investment Climate: Norway offers a stable political and economic climate, making it an attractive destination for foreign investment. The country has a transparent and predictable regulatory framework, well-defined property rights, and a strong legal system[40].

High Level of Innovation: Norway has a highly skilled workforce and is at the forefront of innovation in the oil and gas industry. The country has invested heavily in research and development to improve production efficiency, reduce costs, and minimize environmental impact[41].

Sustainable Development: Norway is committed to sustainable development and has implemented strict environmental regulations to minimize the impact of oil and gas production on the environment. The country is also investing in renewable energy sources to reduce its reliance on fossil fuels[42].

Technological Expertise: Norway has developed world-leading expertise in offshore oil and gas production, including advanced drilling techniques, subsea technology, and underwater robotics. This expertise has enabled the country to overcome the technical challenges of operating in harsh environments and deep waters[43].

Legal and Institutional Frameworks of the Norwegian Oil and Gas Sector

Norway has a comprehensive legal framework for its oil and gas sector, which includes a range of laws and regulations designed to promote the responsible and sustainable development of the industry. The following provides a brief overview of the key legal instruments relevant to the Norwegian oil and gas sector, with references to relevant resources and organizations.

Petroleum Act: The Petroleum Act is the primary law governing the Norwegian oil and gas sector. The Act provides the legal framework for the exploration, development, production, and transportation of petroleum resources in Norway. It also establishes the regulatory framework for the industry, including licensing and safety regulations[44].

Pollution Control Act: The Pollution Control Act sets out the legal framework for environmental protection in Norway, including measures to prevent and control pollution from oil and gas activities. The Act imposes strict liability on companies for damage caused by pollution, and establishes a range of environmental standards and regulations that must be complied with by companies operating in the oil and gas sector[45].

Working Environment Act: The Working Environment Act sets out the legal framework for health and safety in Norway, including measures to protect workers in the oil and gas sector. The Act requires employers to take all necessary measures to ensure the health and safety of their employees, and establishes a range of health and safety standards and regulations that must be complied with by companies operating in the oil and gas sector[46].

Petroleum Tax Act: The Petroleum Tax Act establishes the legal framework for the taxation of the Norwegian oil and gas industry. The Act imposes a range of taxes on oil and gas production, including an ordinary tax, a special tax, and a resource rent tax. The Act also provides for the calculation and payment of royalties, as well as deductions and allowances for exploration and development costs[47].

Continental Shelf Act: The Continental Shelf Act provides the legal framework for the management of Norway's continental shelf, including the exploration, development, and production of petroleum resources. The Act establishes the jurisdiction of the Norwegian state over the continental shelf, and provides for the licensing and regulation of petroleum activities in this area[48].

Norway has established a comprehensive institutional framework to manage its oil and gas sector. The following provides a brief overview of the key institutions responsible for regulating the industry and promoting its sustainable development, with references to relevant resources and organizations.

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[39] Norwegian Oil and Gas Association, *About the Industry*, 2021. Retrieved online from https://www.norskoljeoggass.no/en/about-the-industry/. Accessed on 25th September, 2022.

[40] Invest in Norway, *Oil and Gas,* 2021. Retrieved online from https://www.investinnorway.com/key-sectors/oil-and-gas/. Accessed on 25th September 2022.

[41] Norwegian Petroleum Directorate, *Industry - Business Environment*, op cit.

[42] Norwegian Ministry of Foreign Affairs, *Norway - A Sustainable Oil and Gas Producer*, 2021. Retrieved online from https://www.norway.no/en/missions/UN/permanent-representation/news-publications/news2/norway-a-sustainable-oil-and-gas-producer/. Accessed on 25th September 2022.

[43] Norwegian Petroleum Directorate, *Industry - Business Environment*, 2021. Retrieved online from https://www.npd.no/en/facts/business-environment/. Accessed on 25th September 2022.

[44] Petroleum Act, Retrieved online from https://www.regjeringen.no/en/topics/energy/oil-and-gas/petroleum-act/id219505/. Accessed on 20th March, 2023.

[45] Pollution Control Act, Retrieved online from https://www.regjeringen.no/en/dokumenter/pollution-control-act/id442260/. Accessed on 20th March, 2023.

[46] Working Environment Act, Retrieved online from https://www.arbeidstilsynet.no/en/. Accessed on 20th March, 2023.

[47] Petroleum Tax Act, Retrieved online from https://www.skatteetaten.no/en/business-and-organisation/oil-and-gas-activities/petroleum-tax-act/. Accessed on 20th March, 2023.

[48] Continental Shelf Act, Retrieved online from https://www.regjeringen.no/en/topics/energy/oil-and-gas/continental-shelf-act/id428729/. Accessed on 20th March, 2023.

Ministry of Petroleum and Energy: The Ministry of Petroleum and Energy is responsible for overall policy development and management of the Norwegian oil and gas sector. The Ministry's responsibilities include licensing and regulation of petroleum activities, management of the state's ownership interests in petroleum resources, and administration of the taxation and fiscal regimes governing the industry[49].

Norwegian Petroleum Directorate: The Norwegian Petroleum Directorate (NPD) is a government agency responsible for managing petroleum resources on the Norwegian continental shelf. The NPD's responsibilities include geological and geophysical mapping, licensing of exploration and production activities, and management of production licenses[50].

Petroleum Safety Authority Norway: The Petroleum Safety Authority Norway (PSA) is an independent government agency responsible for regulating health, safety, and environmental protection in the Norwegian oil and gas sector. The PSA's responsibilities include monitoring compliance with safety and environmental regulations, providing guidance and advice to industry stakeholders, and investigating accidents and incidents in the sector[51].

Climate and Environment Ministry: The Climate and Environment Ministry is responsible for developing and implementing policies related to environmental protection and climate change mitigation in Norway. The Ministry's responsibilities include monitoring and regulating emissions from the oil and gas sector, as well as promoting the use of renewable energy sources and energy efficiency measures[52].

Norwegian Oil and Gas Association: The Norwegian Oil and Gas Association is a trade organization representing companies operating in the Norwegian oil and gas sector. The association's members include major oil and gas companies, as well as service and supply companies. The association works to promote the interests of its members, and to support the development of sustainable and responsible practices in the sector.

5. Challenges Plaguing the Oil and Gas Industry in Nigeria

Without a doubt, the oil and gas sector in Nigeria faces several challenges that hinder its growth and development. Some of the key challenges include:

Corruption in the Government: The oil and gas industry has been plagued with corruption at different levels, from management of the NNPC, the federal government, state governments, in terms of allocation of contracts, appropriation of petroleum revenue, diversion of petroleum tax bonuses and a myriad of other practices. As noted by an author, the forms of endogenous corruption in the industry include overpricing, inventory recycling, syndicated bidding, connivance, espionage, collusion and fraud[53].

Tax Evasion: Generally, the incidence of tax evasion in any country reduces the revenue needed by the government for the provision of public goods for citizens[54]. In May 2014, a diagnostic study of Nigeria's tax system revealed that sixty-five per cent (65%) of eligible corporate taxpayers in Nigeria do not pay taxes to the federal government as required by tax laws[55]. This conduct was reported to have contributed to an eight percent (8%) decline in tax revenue contribution to Nigeria's Gross Domestic Product (GDP) for the period under consideration.

Inadequate Technology and Qualified Personnel in Tax Administration: Lack of qualified personnel and the slow pace of technology are additional factors limiting the growth of Nigeria's oil and gas industry. A 2010 study conducted on tax administration in Nigeria reveals that the slow pace of technology in tax administration is a contributing factor to the high rate of tax evasion in Nigeria[56]. Currently, the majority of tax filings and tax remittances in Nigeria are done manually through the submission of hard copies of relevant documents. Such manual tax filing system has the tendency to increase human errors and processing times as tax officials may be required to sort through unrelated paperwork in order to find relevant data needed for any verification exercise. In addition to the need for advanced technology in tax administration, Nigeria's National Tax Policy report

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[49] Ministry of Petroleum and Energy, Retrieved online from https://www.regjeringen.no/en/dep/oed/id675/. Accessed on 20th March, 2023.

[50] Norwegian Petroleum Directorate, Retrieved online from https://www.npd.no/en/. Accessed on 20th March, 2023.

[51] Petroleum Safety Authority Norway, Retrieved online from https://www.ptil.no/en/. Accessed on 20th March, 2023.

[52] Climate and Environment Ministry, Retrieved online from https://www.regjeringen.no/en/dep/kld/id678/. Accessed on 20th March, 2023.

[53] PC Nwakanma, The Influence of Corruption on the Value of the Manufacturing Concern, *International Research Journal for Development*, 5(1), 2003, pp. 5 - 12.

[54] OJ Otusanya, The Role of Multinational Companies in Tax Evasion and Tax Avoidance: The Case of Nigeria, *22*:3 *Critical Perspectives on Accounting*, 2011, pp. 316 at 316.

[55] Friday Atufe, 65% of Corporate Citizens Don't Pay Tax – Okonjo-Iweala, *Leadership Newspaper*, 16 May 2013. Retrieved from http://leadership.ng. Accessed on 22nd December, 2022.

[56] See generally, James Abiola & Moses Asiweh, Impact of Tax Administration on Government Revenue in a Developing Economy - A Case Study of Nigeria, 2012 3:8 *Int'l J Bus & Soc Sci,* p. 99; PricewaterhouseCoopers, *Nigeria @ 50: Top 50 Tax Issues*, October 2010, PricewaterhouseCoopers. Retrieved online from http://www.pwc.com. Accessed on 24th January, 2023.

indicates that a major factor limiting the development of tax administration in Nigeria is shortage of qualified personnel[57].

Poor Refineries Status: At present, the combined output of gasoline otherwise known as petrol or PMS, from the four existing refineries still fall short of the total national demand. The government had attempted to meet the shortfall by importing fuel. But it has now assumed a national pastime since operators at the NNPC and oil marketers have now seen how lucrative it is to import than to refine the products. To make matters worse, bad management and poor maintenance have cut refining output considerably below the installed capacity to as low as 32 per cent on the basis of weighted average[58].

Environmental Pollution caused by Oil Spillage and Gas Flaring: Oil spillage and gas flaring causes land, air, water, and noise pollution and the results of these pollutions are; Health Issues such as perinatal disorder, infant mortality, respiratory disorder, allergy, malignancies, cardiovascular disorder, increase in stress oxidative, endothelial dysfunction, mental disorder, and various other harmful effects[59]; Global warming; Ozone layer depletion and Destruction of marine life and depletion of fish populations

Oil Theft and Pipeline Vandalization: Oil theft and pipeline vandalization can be seen to be encouraged due to a thriving black market, high rate of bribery and corruption, foreign buyers of stolen crude and inadequate funding and resources to combat oil theft and pipeline vandalization[60]. The effects of oil theft and pipeline vandalization includes; huge economics losses from pipeline and plant shutdown, environmental pollution, fire outbreaks which usually results in loss of life or major injuries, scarcity and shortage of petroleum products, decrease in electricity supply and destruction of the reputation of the country[61].

6. The Role of Taxation in oil and Gas Sector Reforms in Nigeria: Lessons from Canada and Norway.

Taxation plays a crucial role in oil and gas sector reforms in Nigeria. The Nigerian government has implemented various tax policies and reforms in the oil and gas sector to increase revenue, attract investment, and promote transparency and accountability. One of the major tax policies in the Nigerian oil and gas sector is the Petroleum Profit Tax (PPT), which is a tax on the profits made by companies engaged in petroleum operations. The PPT is levied at a rate of 85%[62] for Joint Venture (JV) companies and 65.75%[63] for Production Sharing Contract (PSC) companies. The PPT has been a major source of revenue for the Nigerian government, and it has helped to fund various infrastructure projects in the country. Another important tax policy in the Nigerian oil and gas sector is the Gas Flaring Penalty. The Nigerian government imposes a penalty on companies that flare natural gas during oil production. The penalty is aimed at reducing gas flaring, promoting environmental sustainability, and encouraging the use of natural gas for power generation and other industrial purposes. Furthermore, the Nigerian government has implemented various tax incentives and exemptions to attract foreign investment and promote local content in the oil and gas sector. For instance, the Nigerian Content Development and Monitoring Board (NCDMB) provides tax incentives to companies that invest in the development of local content in the oil and gas sector.

Taxation can play a significant role in oil and gas sector reforms in Nigeria, drawing lessons from Canada and Norway. Here are some references to support this claim:

Carbon Pricing: Canada and Norway have implemented a carbon pricing system to incentivize companies to reduce their greenhouse gas emissions.

Oil and Gas Extraction Tax: Norway has implemented an oil and gas extraction tax based on the value of production.

Elimination of Tax Incentives: Canada has eliminated tax incentives for oil and gas exploration to promote market efficiency.

Public Investment: Both Canada and Norway have used tax revenues from the oil and gas industry to fund public investment in infrastructure, education, and healthcare to promote economic development.

Sovereign Wealth Fund: Norway has established a sovereign wealth fund that invests its oil and gas revenues to promote long-term economic growth.

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Tax Administration: Both Canada and Norway have implemented measures to improve tax administration in the oil and gas sector to ensure effective collection and enforcement of taxes. **vii. Transparency:** Norway requires companies to disclose information on their operations and payments to the government to increase transparency in the oil and gas sector.

The examples of Canada and Norway show that taxation can be an effective tool for reforming the oil and gas sector. Nigeria can draw lessons from these countries to adopt similar measures such as carbon pricing, oil and gas extraction tax, elimination of tax incentives, public investment, establishment of a sovereign wealth fund, improved tax administration, and transparency to promote sustainable development and revenue generation in its oil and gas sector.

7. Conclusions and Recommendations

In conclusion, taxation can be an effective tool for reforming the Nigerian oil and gas sector, as demonstrated by the experiences of Canada and Norway. Both countries have implemented various taxation measures to promote sustainable development, generate revenue for the government, and reduce the industry's dependence on government support. Nigeria could consider implementing similar measures, such as a carbon tax, oil and gas extraction tax, and the elimination of tax incentives for exploration. Additionally, Nigeria could use tax revenues to fund public investment and establish a sovereign wealth fund to promote long-term economic growth. By implementing these taxation measures, Nigeria could potentially address the challenges facing its oil and gas sector and promote sustainable development in the country.

Based on the experiences of Canada and Norway, here are some recommendations for using taxation as a reformative tool for the Nigerian oil and gas sector:

1. Nigeria should consider implementing a carbon tax to incentivize companies to reduce their greenhouse gas emissions and promote the transition to a low-carbon economy.
2. Nigeria should implement an oil and gas extraction tax that is based on the value of production to generate revenue for the government and promote sustainable development.
3. Nigeria should consider eliminating tax incentives for oil and gas exploration to promote market efficiency and reduce dependence on government support.
4. Nigeria should use tax revenues from the oil and gas industry to fund public investment in infrastructure, education, and healthcare to promote economic development.
5. Nigeria should establish a sovereign wealth fund to invest its oil and gas revenues and promote long-term economic growth.
6. Nigeria should improve tax administration to ensure effective collection and enforcement of taxes in the oil and gas industry.
7. Nigeria should increase transparency in the oil and gas sector by requiring companies to disclose information on their operations and payments to the government.

By implementing these taxation measures, Nigeria could potentially address the challenges facing its oil and gas sector, such as environmental sustainability, revenue generation, and market efficiency. Additionally, these measures could promote sustainable development and economic growth in the country.