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Understanding The Domestic Crude Oil Supply Obligation Framework in Nigeria

1. Introduction

1.1 There has been no love lost between Dangote Petroleum Refinery and Petrochemicals Limited ("Dangote Refinery") and the upstream and midstream petroleum regulators—Nigerian Upstream Petroleum Regulatory Commission ("NUPRC") and Nigerian Midstream and Downstream Petroleum Regulatory Authority ("NMDPRA") since the commencement of operations of Africa's largest crude oil processing facility. The 650,000 barrels per day integrated refinery continues to import significant volumes of crude despite Nigeria being one of Africa's top crude oil producers. Since the refinery began processing crude oil, it has had to rely on American oil imports.[2]

1.2 It has been reported that, following a prolonged back-and-forth with Nigeria's national petroleum company, the Dangote Refinery turned to the United States crude oil market in 2025 by sourcing West Texas Intermediate (WTI) Midland crude, with Bloomberg ship-tracking data indicating that American crude now accounts for roughly one-third of its intake, almost double the proportion recorded during its 2024 start-up phase,

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2 Business Insider, 'Dangote's $20B refinery sources U.S. crude, raising questions on Nigeria's output'. Retrieved on 7th June 2025 from <https://africa.businessinsider.com/local/markets/dangotes-dollar20b-refinery-sources-us-crude-raising-questions-on-nigerias-output/qeety6w#google_vignette>.

despite Nigeria's status as Africa's leading crude oil producer and a key member of the Organisation of Petroleum Exporting Countries ("OPEC").[3]

1.3 The laws governing the Nigerian oil and gas industry contain provisions and regulations to address this inefficiency through the domestic crude oil supply obligation ("DCSO") framework. Realities however suggest that these laws may be under-implemented. In light of recent developments in the sector and the broader implication of the continued friction between the various stakeholders on the Nigerian economy, this article examines the DCSO framework made pursuant to section 109 of the *Petroleum Industry Act* 2021 ("the PIA") and the subsidiary instrument—the *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations*, 2023.

2. Analysis of the law on domestic crude oil supply obligation

2.1 A statutorily entrenched domestic crude oil supply obligation helps to prevent a situation whereby an oil producing country like Nigeria exports all its crude oil while relying on imports for refined petroleum products. The DCSO stipulates that oil producers or lessees of Petroleum Mining Leases allocate a specified volume of their produced crude to the domestic market before exporting the remainder. This allocated volume is to be sold to local refineries who then process the crude to supply local demands. The DCSO is important because oil producers are naturally inclined to sell their crude to export markets where they are guaranteed better prices and do not have to grapple with FX volatility.

2.2 The DCSO framework is established under section 109(2) of the PIA which entrusts the NUPRC with the responsibility of issuing regulations and/or guidelines to govern the imposition of a domestic crude oil supply obligation on lessees of upstream petroleum operations. To effectively implement this obligation, the PIA requires the NMDPRA to provide, on a regular basis, the NUPRC with crude oil requirements, crude oil shortage, and inadequate supply situations of refineries.[4] Upon receiving such reports, the NUPRC shall then facilitate the supply of crude oil to the affected refineries.

2.3 The PIA laid down some ground rules for the effective implementation of the DCSO. The first is that only duly licensed and operating refineries will be contemplated for crude oil supply under the DCSO framework.[5] Second, any crude oil sale transaction

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3 *Ibid*. See also, Kpler, 'US crude overtakes Nigerian barrels in Dangote's import mix'. Retrieved on 6th August 2025 from <https://www.kpler.com/blog/us-crude-overtakes-nigerian-barrels-in-dangotes-import-mix>.

4 Section 109(3), *Petroleum Industry Act*, 2021.

5 Section 109(4)(a).

between a lessee and a crude oil refining licensee shall be commercially negotiated on a willing buyer, willing seller basis, with regard to prevailing international market price for the same or similar grade of crude oil being sold. This requirement merits detailed consideration. Here, the PIA states that despite the obligation on an oil producer/lessee, the crude oil trade between it and a refining licensee shall be freely negotiated on a willing buyer, willing seller basis and at the prevailing international market price such that a lessee is not strong-armed into disposing its crude to the refining licensee at a cost below what the lessee would have obtained in the international oil market. It can be deduced from this requirement that the purpose of the DCSO framework is to ensure the availability of crude oil for processing and not to create a regime of subsidy for local refineries. Lastly, the PIA provides that for the purpose of the crude oil sale under the DCSO framework, the crude oil refining licensee, i.e., the buyer, must provide payment guarantees as prescribed by the oil producer.[6] Payment guarantees help to hedge against the risk of non-payment, ensuring that the lessee receives payment for the supplied crude.

2.4 Further to the requirements laid down in the PIA, the NUPRC, in order to establish a comprehensive rulebook for the enforcement of the DCSO issued the *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations* on 24th May 2023. The Regulations provide that all crude oil produced by a lessee shall be subject to DCSO as imposed by the NUPRC.[7] It further provides that after production, a lessee is entitled to export only such volume of crude oil after it has earmarked the allocated volume for domestic crude oil supply. Where an oil lessee fails to comply with the DSCO, the NUPRC is empowered to curtail the export of such lessee's crude oil by refusing to endorse the lessee's application for grant of export permit, among other sanctions.

2.5 To foster compliance with the DCSO, the NMDPRA is required to send to the NUPRC the refining requirements of all the operating refineries in the country.[8] With this information, the NUPRC is then required to publish bi-annually (on 1st January and 1st July every year) the refining requirements on its website. This publication is to include the total number of operating refineries in the country in each of the bi-annual period, the name and location of each refinery, the estimated crude oil requirement, and the

6 Section 109(3).

7 Regulation 9(1), *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations*, 2023.

8 Section 109(4)(c), *Petroleum Industry Act*, 2021

crude oil specification or grade for each refinery.[9] Concurrently, the NUPRC is expected to publish the production data of all oil-producing lessees for the corresponding bi-annual period.[10] This corresponding data shall include the names, locations, and terminal streams of the producing lessees, their forecasted production, and their crude specification and quality.[11] The essence of this corresponding disclosure is to facilitate bilateral crude oil sale transactions between a willing crude oil refining licensee and a willing oil producer.

2.6 More than just notifying the NUPRC of the refining requirements of operating refineries, the NMDPRA also has the responsibility of notifying the NUPRC where a refinery suffers shortage of inadequate supply of crude oil. The shortage notification shall include details of the shortage volume, the refineries affected by the shortage, specification of the grade or quality of crude oil in short supply, etc.[12] Upon receipt of the shortage notification, the NUPRC is required to issue a Request for Quotations (RFQ) to all producing lessees requiring them to submit quotations for the supply of any of the required volume for the purpose of supplying crude oil to fill the shortage volume. The RFQ contains information on the volume of crude required by operating refineries, their location, and price considerations. Once the oil producers respond to the RFQ with their proposals, the NUPRC cascades them to the operating refineries affected by the shortage or inadequate supply. This is to facilitate crude oil sales transactions that will address the shortage on a willing buyer, willing seller basis.

2.7 Another important regulation in the *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations* is the disclosure requirement which requires oil producers to submit a monthly report of the details of the operating refineries to whom domestic crude oil allocation was sold. The report shall also indicate the volume and price of crude oil sold, the date of such sale, and other relevant information on the loading and discharge of the crude oil.

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9 Regulation 10(2), *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations*, 2023.

10 Regulation 10(3).
The NUPRC's press release showing the First Half 2025 crude oil requirement of functional refineries and the corresponding First Half 2025 Production Forecast of oil producing companies in Nigeria is available on <https://www.nuprc.gov.ng/wp-content/uploads/2025/01/PRESS-RELEASE_1H-2025-REFINERY-REQUIREMENT-AND-PRODUCTION-FORECAST.pdf> accessed on: Dec. 29, 2025.

12 Regulation 11, *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations*, 2023.

3. Penalties for non-compliance

3.1 Any lessee or oil producer who fails to comply with its DCSO by failing to deliver or sell its DCSO volume is liable to pay an administrative penalty of 15% of the fiscal price[13] of the DCSO volume imposed by the NUPRC.[14] As earlier stated, the NUPRC may also refuse to endorse a defaulting oil producer's application for grant of export permit as a way to enforce the domestic crude supply obligation. Where, however, an oil producer is able to show that its failure to supply its allocated DCSO volume is as a result of some *force majeure* or through the default of the crude oil refining licensee, the oil producer may escape liability.

3.2 In addition, where an oil producer fails to submit a proposal to the NUPRC's request, or where such oil producer submits the proposal outside the time specified in the RFQ, the lessee shall be liable to pay an administrative fine of $10,000 to the NUPRC.[15]

4. Conclusion

4.1 Nigeria's domestic crude oil supply obligation framework under the PIA and the Regulations is a carefully constructed statutory response to a long-standing oil trade irony in the Nigeria's petroleum economy. It remains paradoxical that as Nigeria boasts of abundant crude production, the problem of chronic dependence on imported petroleum products should have died a natural death. As the analysis shows, the *Petroleum Industry Act*, 2021 deliberately balances competing interests: it mandates crude availability for domestic refining while preserving commercial freedom through willing-buyer, willing-seller pricing at international market rates and robust payment guarantees. In doing so, the DCSO is designed not as a subsidy regime for refineries, but as a market-aligned tool for fuel availability, energy security, and industrial growth.

4.2 The *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations* further operationalise this intent by introducing transparency, structured coordination between the NUPRC and the NMDPRA, enforceable compliance mechanisms, and meaningful sanctions for default. Together, these instruments establish a framework that, at least on paper, should make situations where a large-capacity and operating refinery like Dangote relies on imported crude the exception rather than the norm. Yet, the persistent friction between regulators, the Nigerian National Petroleum Company

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13 The fiscal price means the price determined by the NUPRC for calculating royalties on oil production.

14 Regulation 18(2), *Production Curtailment and Domestic Crude Oil Supply Obligation Regulations*, 2023.

15 Regulation 18(1).

Limited, oil producers, and crude oil refining licensees reveal that the fault is not the laws but regulatory implementation. Without consistent enforcement, timely disclosures, and good-faith commercial engagement by all stakeholders, the DCSO risks becoming another well-intentioned provision undermined by practice. If fully and transparently applied, however, the DCSO framework holds the potential to see that we say a final goodbye to fuel queues and the recalibration of Nigeria's petroleum value chain, anchoring domestic refining, conserving foreign exchange, and aligning crude production with national economic priorities. In that sense, the DCSO is not merely a regulatory obligation, it is a litmus test for the credibility of Nigeria's post-PIA petroleum governance regime.

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