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PRO ALLY

Risk Insight for Oil &Gas Service Companies

THE EXPOSED BUSINESS

The Compliance Reckoning for Nigeria's Oil and Gas Service Sector.

A new NUPRC directive now requires standardised emissions reporting. Most service companies think that is the operator's problem.

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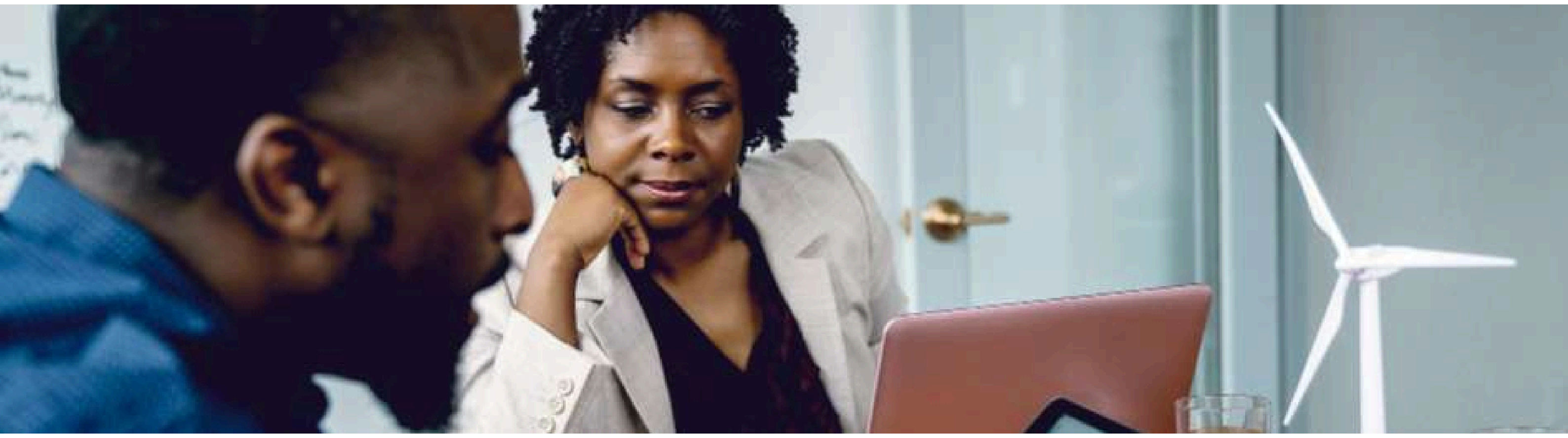
Why Oil and Gas Service Companies Can No Longer Sit on the Sidelines.

The first thing that strikes you when you speak to Nigerian oil and gas service company leaders about ESG is how consistent the misunderstanding is. Most of them believe the Petroleum Industry Act 2021 is an operator's problem.

Most of them believe that the gas flaring penalties accumulating across Nigeria's upstream sector are an operator's problem. Most of them believe that ESG is, at its core, a public relations function, something that international companies do for their annual reports and that Nigerian service companies can acknowledge from a comfortable distance.

The evidence of the past twelve months suggests this misunderstanding is costing them more than they know. Between January and May 2025 alone, Nigeria lost 15,400 gigawatt hours of power generation potential to gas flaring, a 17.5% increase on the same period in 2024, with defaulting companies facing penalties of $308.1 million. By the end of the full year, the penalty figure for gas flaring across Nigeria's upstream sector had reached $646.3 million, the highest in five years



Why Oil and Gas Service Companies Can No Longer Sit on

In late 2025, the National Oil Spill Detection and Response Agency, the body responsible for monitoring gas flaring across the country, quietly discontinued its tracking operations without explanation or timeline for resumption. And in April 2026, the Nigerian Upstream Petroleum Regulatory Commission responded by issuing its most demanding emissions reporting directive yet, requiring all upstream operators and service providers to adopt IPCC Tier 2 measurement-based reporting by the third quarter of 2026 and full Tier 3 verification systems by January 2027.

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Each of these developments, in isolation, reads as a regulatory story. Taken together, they describe something more significant. They describe the systematic tightening of an ESG compliance environment that Nigerian oil and gas service companies have not yet fully reckoned with, and the commercial consequences of that gap are arriving whether or not the companies in it are ready.

THE PIA AND THE SUPPLY CHAIN CASCADE

The Petroleum Industry Act was signed into law on 16 August 2021, consolidating decades of fragmented regulation into a single legislative framework. For operators, the implications were immediate and heavily publicized. For service companies, the implications were quieter but no less consequential.

Section 277 of the Act mandates that upstream petroleum license holders contribute 3% of their annual operating expenditure to a registered Host Community Development Trust. A June 2025 BudgIT assessment found that nearly 30% of upstream license holders in Nigeria had still not established a compliant HCDT structure as required.

Field research by Connected Development in Rivers, Bayelsa, and Delta States confirmed that companies were continuing operations without the Trust structures the law required.
The mechanism by which this becomes a service company problem is straightforward. When an operator's HCDT is non-functional, under regulatory review, or contested by communities, the operational consequences fall on every contractor working under that license. Right-of-Way access is disputed. Site entry is blocked. Mobilization is delayed. A contract that was supposed to run for twelve months extends to eighteen with no adjustment in compensation.

“If your client is among the 30% with a non-compliant HCDT, their regulatory exposure is your operational risk. You are not holding the liability, but you are absorbing the consequences.”

In December 2024, the Federal High Court of Nigeria expanded the legal standing of host communities to challenge operator divestment processes, a ruling that signals community-related ESG disputes are no longer peripheral. They are live litigation risks capable of disrupting transactions and delaying operations at scale.

NUPRC and NOSDRA enforcement pressure cascaded further when, between January and May 2025, Nigeria’s gas flaring enforcement penalties reached $308.1 million for that five-month period alone. This financial pressure on operators prompted many to tighten their supply chain documentation requirements. Service companies working on or near non-compliant assets found themselves being asked to provide environmental performance records, incident logs, and HSE management system documentation that they had never previously been required to produce.

For a pipeline company, an EPCI firm, a marine logistics operation, or any engineering services business in Nigeria’s oil and gas sector, the PIA does not operate in isolation from the business. It operates through the clients. And the compliance obligations it places on operators cascade directly into the pre-qualification standards, documentation requirements, and contractual expectations that now govern how service companies are engaged, evaluated, and retained.

THE GAS FLARING REALITY: WHEN THE NUMBERS ARE NOT ABSTRACT.

The financial scale of Nigeria's gas flaring crisis is frequently cited in industry publications but rarely connected directly to its consequences for service companies on the ground. Nigeria lost $1.1 billion to gas flaring across the full year of 2025, as oil and gas companies flared 323.2 billion standard cubic feet of gas, a 7.2% increase on 2024. The full year penalty exposure was $646.3 million. Onshore operations accounted for 63.8% of total flaring. The World Bank's 2024 Global Gas Flaring Tracker Report ranked Nigeria second globally in volume increase of gas flaring. Approximately 60% of flaring in 2024 originated from indigenous operators.

These numbers describe the operational environment inside which Nigerian service companies are working. They describe the financial pressure bearing on the operators whose licences fund service company contracts. And they describe the enforcement scrutiny that is generating a new wave of supply chain documentation requirements.

The gas flaring penalty model has demonstrably failed to deter flaring at scale. Many companies have been choosing to pay the fine rather than invest in gas commercialisation infrastructure. The response from the NUPRC has not been to ease the documentation burden. The response has been to shift the compliance model entirely from penalty-based enforcement toward mandatory, verifiable, measurement-based reporting

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When the NOSDRA discontinued its monitoring operations in late 2025, the regulatory vacuum was not filled with less scrutiny. It was filled with the NUPRC's April 2026 directive requiring auditable, evidence-based environmental performance reporting from every operator and service provider in the upstream sector. The deadline for Tier 2 compliance is the third quarter of 2026. The deadline for full Tier 3 measurement-based verification is January 2027. Service companies that have not yet begun building the environmental performance records that satisfy these requirements are working against a deadline that is already visible on the calendar.

THE MISCONCEPTION THAT IS COSTING THE MOST

If there is a single observation that runs through every conversation with Nigerian oil and gas service company leaders about ESG, it is this: most of them believe they have a PR problem.

They believe their ESG challenge is a communications challenge. If their story were better told, if their visibility in the sector were stronger, if their brand narrative were more compelling, the commercial outcomes would be different. So, they invest in communications. They refresh their websites. They engage PR firms. They enter industry awards. The pre-qualification outcome does not change. The financing conversation does not convert. The community dispute does not resolve.

The distinction that most Nigerian service company leaders have not yet made is the distinction between a PR problem and an ESG risk.

"A PR problem is a perception gap. An ESG risk is an operational gap. You cannot communicate your way out of one."

No press release closes a documentation gap at a pre-qualification stage. No brand narrative resolves a community dispute that is blocking Right-of-Way access. No LinkedIn post satisfies an IFC Performance Standard assessment. The response to a PR problem and the response to an ESG risk are completely different interventions. Companies that have misidentified their ESG risk as a PR problem are investing in the wrong solution for the wrong problem.

The pre-qualification requirements for new engagements with operators and major industry clients have shifted materially in the past two years. A service company that cannot produce an auditable HSE management system, documented environmental performance records, and a structured community engagement log is increasingly finding itself eliminated before the technical evaluation even begins. This is not a reputation problem. It is a documentation problem.

THE GOVERNANCE VACUUM

The NOSDRA monitoring withdrawal in late 2025 was, in retrospect, less a regulatory failure and more a harbinger. The body responsible for holding companies to account stepped back. The compliance architecture did not collapse. It was replaced, almost immediately, with something more demanding.

The NUPRC's April 2026 directive on standardised methane and greenhouse gas reporting marks a shift that energy sector analysts have described as moving Nigeria's emissions compliance from policy-level expectations to an auditable, evidence-driven framework. All current submissions to the Commission must comply with measurement, reporting, and verification principles that are transparent, verifiable, and evidence based. Those three words describe a standard that most Nigerian service company documentation does not currently meet.

Transparent. Verifiable. Evidence-based.

The directive applies to all upstream operators and service providers. The qualification threshold is not aspirational. It is a published standard with a binding timeline. The companies that will be inside the commercial and financing conversations that matter in 2027 are the companies building that documentation record today. The companies that are waiting are structurally behind in a race they have not yet acknowledged entering.

THE COMMERCIAL ARGUMENT FOR IMMEDIATE ACTION

The case for treating ESG as an operational framework rather than a communications exercise rests, ultimately, on a commercial argument rather than a compliance one.

In May 2026, the African Development Bank approved a $200 million financing facility for the Bank of Industry in Nigeria. The facility included a technical assistance grant specifically designated to improve ESG practices among recipient companies. That is the architecture of development finance in Nigeria in 2026. ESG practice improvement is not an optional component of the financing conversation. It is a named requirement built into the deal.

The Central Bank of Nigeria's sustainable finance principles are now routinely applied as conditions in commercial bank lending to Nigerian energy sector companies. The development finance channel and the commercial bank channel are converging on the same ESG documentation standard simultaneously.

"The companies winning in Nigeria's oil and gas sector right now are not the best-known companies. They are the best-documented ones."

The operators whose licences provide the revenue base for Nigerian service companies are themselves under ESG scrutiny from their financing partners. That scrutiny cascades through every contractor relationship.

A service company that cannot contribute verifiable environmental data to its operator’s greenhouse gas emissions management plan is creating a problem for its most important client’s regulatory submission. Operators will resolve that problem by finding a service company that can.

The ESG compliance environment that Nigerian oil and gas service companies are operating in today is not the environment of three years ago. The PIA 2021 has created cascading supply chain obligations. The gas flaring enforcement landscape has generated a new wave of documentation requirements. The NUPRC’s April 2026 directive has set binding measurement and verification deadlines. And the financing channels that service companies need for growth have made ESG documentation a qualification threshold rather than a preference.

The companies that treat ESG as an operational discipline will be positioned to access those conversations. The companies that continue to treat ESG as a communications exercise will continue to find those conversations going quiet without explanation.

The explanation has been available for the past twelve months. The compliance environment has been providing it consistently. The question is no longer whether Nigerian oil and gas service companies need to respond. It is whether they will respond before the consequences of not doing so become irreversible.

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