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A CLAIM FOR THE PAYMENT OF CRUDE OIL SALE PROCEEDS DOES NOT FALL WITHIN ADMIRALTY JURISDICTION

GENERAL HYDROCARBONS LTD v. FIRST BANK OF NIGERIA LTD & ORS.

SUPREME COURT OF NIGERIA

(ABBA AJI; SAULAWA; AGIM; NWAOMA UWA; ABIRU: JJ.SC)

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SUPREME COURT OF NIGERIA
(EKANEM; OBIORAH; BASSI, JJ.CA)

Background Facts

General Hydrocarbons Limited ("the Appellant"), having been granted Oil Mining Lease (OML) 120 by the Federal Ministry of Petroleum Resources for a term of twenty years, entered into a Memorandum of Understanding with First Bank of Nigeria Limited ("the 1st Respondent") for the funding, development, operation, and optimal exploration of the oil block. Under the arrangement, the 1st Respondent undertook to finance the Appellant's operations, while the Appellant agreed that the parties would share the profits from the sale of crude oil produced from OML 120 in the ratio of 50:50. As part of the financing structure, the Appellant was required to domicile the proceeds of all crude oil sales from OML 120 into a designated collection account maintained with the 1st Respondent. The parties further agreed that the loan facilities advanced by the 1st Respondent would be repaid from the proceeds of crude oil sales paid into the account before the balance was applied in accordance with the parties' profit-sharing arrangement.

The relationship between the parties subsequently deteriorated when the Appellant accused the 1st Respondent of failing to honour its funding obligations under the agreement and frustrating its efforts to obtain alternative financing for the development of the oil block. The dispute eventually resulted in arbitral proceedings and separate proceedings before the Federal High Court, Lagos, where preservative orders were granted in aid of the ongoing arbitration. Dissatisfied with those orders, the 1st Respondent appealed against the decision of the trial court and also sought a stay of execution, alleging that the Appellant had failed, refused, and neglected to remit the proceeds from the 2024 lifting and sale of crude oil into the designated collection account despite repeated demands. While those proceedings remained pending, the 1st Respondent commenced a fresh action seeking to enforce the Appellant's contractual obligation to domicile the proceeds of crude oil sales into the designated account pursuant to the Memorandum of Understanding and the facility agreement. In the suit, the 1st Respondent also filed an ex parte application for an order arresting, attaching, and placing a lien on the entire cargo of crude oil aboard the Floating Production Storage and Offloading (FPSO) vessel Tamara Tokoni. The trial Federal High Court granted the application and ordered the arrest, attachment, and lien over the cargo.

The Appellant and the other Respondents challenged the ex parte orders by filing preliminary objections and applications to set them aside on the grounds that the orders were obtained through material misrepresentation, concealment of pending proceedings, and constituted an abuse of court process. The trial court upheld the objection, declined jurisdiction, dismissed the suit, and vacated the arrest order. On appeal, however, the Court of Appeal reversed that decision, restored the arrest order, and further directed that the crude oil cargo be sold, with the proceeds paid into an escrow account pending the determination of the substantive dispute.

Dissatisfied with that decision, the Appellant appealed to the Supreme Court.

The issue raised by the Supreme Court suo moto for the determination of the appeal was: *Whether in the circumstances of this case, the trial court had the subject matter jurisdiction to entertain the suit.*

Arguments

Learned Senior Counsel for the Appellant contended that the transaction between the parties was purely a financing arrangement governed by the Memorandum of Understanding and the facility agreements. He argued that the dispute did not concern the ownership, possession, or carriage of crude oil, nor did it involve any proprietary or possessory interest in the cargo aboard the vessel. Rather, the complaint was simply that the proceeds realized from the sale of crude oil had not been paid into the designated collection account as agreed by the parties.

According to the Senior Counsel, the claim arose solely from an alleged breach of the financing agreements and was, in substance, a debt recovery claim founded on contract and argued that the arrest and detention of the crude oil cargo were unwarranted because the Bank had no legal interest in the cargo itself. He submitted that neither the Memorandum of Understanding nor the facility agreements created a mortgage, charge, assignment, or any other security interest over the crude oil. The 1st Respondent's Bank's rights were limited to receiving payment into the designated account, and those contractual rights could not transform an ordinary commercial dispute into an admiralty claim.

In response, learned Senior Counsel for the 1st Respondent argued that the Appellant had deliberately breached its contractual undertaking by diverting the proceeds of crude oil sales instead of paying them into the designated collection account. Having provided the funds for the development and production of the crude oil, the 1st Respondent was entitled to seek the arrest and preservation of the cargo to protect its financial interest and prevent the dissipation of assets pending the determination of the dispute. He submitted that the reliefs sought, including the preservation of the crude oil cargo and recovery of the diverted proceeds, were sufficient to invoke the admiralty jurisdiction of the Federal High Court.

DECISION OF THE COURT

In resolving the issue, the Supreme Court held that:

A claim founded on the breach of a contractual obligation to pay proceeds from the sale of produced crude oil into a designated account, and to recover any diverted proceeds, is not a maritime matter and does not fall within admiralty jurisdiction merely because the crude oil is stored aboard a vessel at sea.

The Supreme Court explained that a dispute concerning the alleged diversion of proceeds from produced and lifted crude oil, in breach of a financing arrangement, is essentially a banking and commercial dispute. The fact that the subject matter involved crude oil did not, without more, convert the claim into an admiralty claim. According to the Court, the Appellant's promise to pay sale proceeds into a designated account created, at most, a contractual right in favour of the 1st Respondent and does not give the 1st Respondent ownership of the crude oil, nor did it make the crude oil security for the financing provided.

Consequently, although the 1st Respondent financed the production of the crude oil and was entitled to recover the facility from the proceeds of sale paid into the designated account, that entitlement did not confer any right to seize or detain the crude cargo itself.

Issue resolved in favour of the Appellant.

Dr. A. I. Layonu, S.A.N, Chika Osolu Ojukwu, S.A.N, with them, Yakubu O. Galadima, Esq., Doherty Taiwo, Esq., S.A. Liman, Esq., Usman Munirat Musa and Maxwell C. Ukomah, Esq.For Appellant(s)

Babajide Kuku, S.A.N, with him, Kehinde Wilkey, Esq. and Buchi Ofolue, Esq. - for 1st Respondent

Onome Okodiya, Esq., with him, Emmanuel Esedo, Esq., and E. Erewa, Esq. - for 2nd to 4th Respondents

This summary is fully reported at (2026) 7 CLRN in association with ALP NG & Co.

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