

INTO AFRICA

A publication from Capital Markets in Africa

MAY 2018

BOUNCING BACK **AFRICAN OIL & GAS**

**AFRICAN OIL & GAS:
OVERVIEW & PROSPECTS**

**OIL AND GAS M & A IN AFRICA:
KEY TRENDS AND PROSPECTS**

**NIGERIAN OIL AND GAS SECTOR:
REGULATIONS AND INCENTIVES**

**ANGOLA'S OIL AND GAS SECTOR:
REGULATION & LAW INSIGHT**

**FINANCING AND STRUCTURING
LNG PROJECTS IN AFRICA**

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Welcome to the May 2018 edition of **INTO AFRICA**, a publication with fresh insight into Africa's emerging capital markets. This month's edition, titled: **Bouncing Back: African Oil and Gas** explores oil and gas laws and regulations across African countries as well financing options for oil and gas projects.

With the oil price pushing through to the US\$70 mark, and further confidence that the price will remain more stable in 2018. As a result, 2018 is set to see an increased level of activity in Africa. As well as bringing a greater level of exploration activities by international oil companies (IOCs). The renewed confidence in the market is leading African jurisdictions to actively compete to attract investment from foreign investors, as well as carving out a more active role for National Oil Companies (NOCs). Established jurisdictions (such as Nigeria and Angola) are being joined by new oil jurisdictions (in particular, Senegal, Gambia, Liberia, Kenya, Uganda and Ghana) and one expects to see the establishment of new cross-border exploration/production zones.

In term of availability of finance, there will remain tightened controls from international commercial banks which will make it more difficult to raise finance. Banks will remain active (but cautious) and lending will be relationship driven with priority given to projects in "easier" jurisdictions. Export credit agencies and DFIs remain a key to financing the large-scale oil and gas projects and there is a notable trend of increased availability of Chinese financing for such projects.

We open this edition, with a discourse from **DEREK BOULWARE** (Senior Manager, PwC Energy Advisory Operations South Africa) where he gives insight into African oil and gas sectors and of the view that the African oil & gas industry continues to play catch-up with the rest of the world. Also, he advised that oil & gas organizations need to rethink the way they embrace change to their benefit.

Looking at the laws and regulation, **IRINA NEVES FERREIRA** (Partner, ALC ADOGADOS Angola), **ALUKENY NEINDA** (Lawyer, ALC ADOGADOS Angola) and **LILIANA CANUDO CRUZ** (Associate, MLGTS Legal Circle Portugal) discuss Angolan oil and gas regulations and laws as well as offer insight into the proposed laws on oil and gas in the country. While **JEAN-PIERRE BOZEC** (Managing Partner, Project Lawyers Gabon) dissects Gabon 2018 hydrocarbons law reform and emerging incentives and opportunities.

PAULO RAGE (Partner, T & C Mayer Brown Brazil) explores Mozambique oil and gas regulations as well as emerging challenges and opportunities. In parallel, **ONA OKWESA** (Associate, Ukiri Lijadu Nigeria) and **OBARO OBUKOHWO** (Associate, Ukiri Lijadu Nigeria) look at the Nigerian oil and gas sector laws and emerging incentives. Further, **LIZEL OBERHOLZER** (Director, Norton Rose Fulbright South Africa) guide us through the key Mineral and Petroleum Resources Development (MPRDA) amendments for the South African oil and gas industry.

On the other hand, **PAUL EARDLEY-TAYLOR** (Oil & Gas Southern Africa, Standard Bank) and **DEZLYN MAKHETHA** (Oil & Gas Southern Africa, Standard Bank) delve into financing and structure of liquefied natural gas (LNG) in Africa with some selected projects. In parallel, **ADAM BLYTHE** (Partner, Bracewell (UK) LLP) explores some of the significant trends that have emerged from recent oil and gas upstream deal activity in Africa following in the aftermath of 2015's oil price crash, as well as considering the outlook for future transactions and the dynamics in play that influence acquisitions and disposals in the industry.

Still more, we bring you an exclusive write-up by **NJ AYUK** (Chief Executive Officer, Centurion Law Firm) titled: Local Content: Oil Lessons for the Future. He noted that despite decades of continued oil and gas exploration and production, some of Africa's wealthier oil producers have failed to not only integrate their own people in this dominant industry but also to provide their general population with a better standard of living.

As usual, we provide you with timely updates on African Capital Markets as well as an update on commodity outlook and analysts views on African credit and economic outlook.

Tunde Akodu

Editor

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AFRICAN OIL & GAS: OVERVIEW & PROSPECTS

By **Derek Boulware**, Senior Manager, PwC Energy Advisory Operations South Africa



In a world where ‘easy oil’ is a thing of the past, Africa is popping up on the agenda for many energy players. Not only does it offer a frontier exploration playground, it also represents a growth market where players can make a difference. New countries all over Africa are being explored for hydrocarbons, and some of them are proving to be resource rich. Mauritania and Senegal are good examples of countries where hydrocarbons have recently been discovered. This leads to a scramble for acreage by other players, and the prices will usually sky-rocket as prospectivity increases. Oftentimes, this will also be followed by an increase in the government share of the profit.

To date, the African oil & gas industry continues to play catch-up with the rest of the world. The oil price fall-out at the end of 2014 further exacerbated the already fledgling oil-producing countries in the region. Many of the newly emerging hydrocarbon territories on the continent are struggling because their governments and national oil companies (NOCs) don’t have enough knowledge of the industry. They were riding the wave of high prices and now find themselves paralysed by the prospect of low margins on their natural resources. The lack of industry knowledge has long plagued the African landscape. Some refer to it as “Dutch disease” whereby an economy is negatively impacted by a sharp rise in foreign currency inflow which is what happens when large oil or gas reserves are discovered. This leads to an appreciation of the local currency and makes other locally produced goods less price competitive on the export market. In most cases, the country reaps very few benefits of its own natural resources, making the entire proposition unattractive.

Nowadays, the pendulum has swung the other way, and countries in Africa are hyper vigilant to ensure that they reap the benefits of their own natural resources. In many countries, stringent local content programmes have been put into place, and the fiscal terms on offer are not necessarily as attractive as they might need to be in order to pull in the investment needed to develop

the industry. In many cases, the local content requirements make hydrocarbon plays uneconomic. While this reaction is understandable and justified, there is a need for some balance. International oil & gas players still have a world of opportunities from which to choose, and they will choose the easiest and most (potentially) profitable regimes to invest in the already volatile game of exploration. Governments must get up-to-speed with industry realities in order to be able to step up to the negotiating table, offering terms that are mutually acceptable on both sides of the deal.

While Africa’s industry maturity level may be a bit behind the curve with other more developed parts of the world, we don’t think that the game of catch-up is altogether necessary. In the face of volatility and uncertainty, oil & gas players in Africa have the option to do things differently. There are new technologies that can enable a profound transformation to the way operations and business are conducted in the industry. At PwC, we believe that African oil & gas companies should be ‘learning to leapfrog’. Challenges will persist, but given new technologies and ways of working, companies could learn to leap over them rather than going through them. Take for example the lack of infrastructure that plagues the industry in Africa. If there are no roads to get parts and equipment to remote work sites, why not utilise drones? Imagine when the need for a small replacement is produced by 3D printers and delivered to a drilling location via drone—reducing downtime to a fraction of what it would have been with traditional sourcing methods. Among other things, drones allow energy companies to monitor their assets, detect spills and inspect flare stacks and derricks.

Likewise, oil & gas organisations need to rethink the way they embrace change to their benefit. Industry leaders have often been accused of being laggards when it comes to tech adoption. On the surface it comes as a surprise considering the level of innovation and new technology that has been developed by the industry to explore for and produce hydrocarbons. But when it comes to the

structure and functioning of the organisation itself, more visionaries are needed in Africa to ensure that they don't find themselves on the bottom of the hierarchy when it comes to the diffusion of innovations. One such call to action is the need to pay attention and do something about cyber security. The threat is real. Cyber security must become a matter of national security, and pretending that it does not exist or threaten your organisation is a sure-fire way to get your fingers burned. On average, 46% of cyber attacks are believed to go undetected, and nearly 70% of oil & gas companies were hacked in the past 12 months, according to a recent study by the Ponemon Institute. The motive behind cyber attacks on the oil & gas industry can range from being malicious, economically disruptive and profit motivated to being politically driven. One thing is for sure: the more we embrace new technology, the more critical cyber security will become.

The industry is undergoing a seismic shift

While oil prices are gradually creeping back up, the reality is that the sustained lower price of oil has largely been accepted as the new normal. Players are hesitant to ramp operations back up too quickly, and most don't plan to hire a surge of new employees. Companies are also putting plans in place to enable a more dynamic and nimble response to commodity price fluctuations in the future. For some, this means a diversification of portfolio, and many are considering moves to an energy mix that includes some form of renewables and other alternatives. As low carbon continues to feature high on government agendas, renewables will continue to gain momentum—and they will present more competition to traditional hydrocarbon solutions. This includes Africa where renewable energies have been embraced, and they've taken root.

In addition to balancing portfolios, oil & gas companies are also reconsidering their overall strategies to ensure that they are aligned and poised to evolve in the future energy market. Key to this are the capabilities that can differentiate them in the market, cost structures that make them competitive in the industry and organisational designs that allow for resilience in a changing world.

According to PwC's 21st CEO Survey¹, there is a sense of optimism among oil & gas executives with a majority of them saying they believe global economic growth will improve over the next 12 months. In addition, 83% are very or somewhat confident in their own companies' prospects for

growth over the next 12 months. Nearly half of CEOs – 48% – say they expect the headcount at their organisation to increase, compared with only 12% who expect headcounts to shrink. The survey findings also reveal that oil & gas companies are beginning to extend their technological capabilities, especially digital capabilities, to the rest of their operations. But some things haven't changed. CEOs continue to cite what they see as over-regulation as a leading threat to their businesses, along with changes in tax regimes, the geopolitical environment and cyber threats. Strategic alliances have also emerged as an important lever, with 60% of CEOs saying that strategic alliances will be critical in delivering growth, compared with 39% who say mergers and acquisitions (M&A) will

Indeed, we have seen positive signs of growth in Africa as well. Eni's Floating Liquefied Natural Gas (LNG) project, Coral, in Mozambique has achieved a final investment decision (FID) which is surely a positive sign for industry growth on the continent. Additionally, Anadarko's land-based LNG project in Mozambique has progressed with key milestones being reached recently. These are both good signs of growth in a time of uncertainty. We don't expect the uncertainty to go away, but we do expect to see companies get better and better at dealing with it. If governments follow suit, Africa should soon see a booming and profitable oil & gas business that benefits locals and international players alike.

Contributor's Profile

Derek Boulware has over 12 years of experience in the oil & gas industry and has delivered projects in 21 countries. He joined the PwC Energy Advisory Operations team based in Cape Town, South Africa in 2013 where he leads the team and has delivered several large-scale strategy projects for local and national oil company clients across the continent. In addition, Derek regularly produces industry Thought Leadership including the annual PwC Africa Oil & Gas Review and most recently a piece on the future national oil company of Africa entitled "The New Nation Builders." In addition to client-facing work, Derek leads the business development initiatives for the Energy practice across Africa. Countries of focus include: South Africa, Namibia, Mozambique, Uganda, Tanzania, Ghana and Nigeria. Before joining the firm, Derek was with Wood Mackenzie based in Houston, Texas for over five years working both as a Senior Petroleum Economist as well as a Client Training Consultant functioning across all aspects of the energy value chain.

¹ 21st CEO Survey – PwC <https://www.pwc.com/gx/en/ceo-survey/2018/pwc-ceo-survey-report-2018.pdf>

ANGOLA'S OIL AND GAS SECTOR: REGULATION & LAW INSIGHT



By **Irina Neves Ferreira**, Partner, ALC ADVOGADOS Angola
Alukeny Neínda, Lawyer, ALC ADVOGADOS Angola
Liliana Canudo Cruz, Associate, MLGTS Legal Circle Portugal

Angolan Oil and Gas sector in numbers

Angola holds almost 9.5 billion barrels of proved crude oil reserves and 308.1 billion cubic meters of natural gas reserves, according to the latest estimates from the 2017 Annual Statistical Bulletin of the Organisation of the Petroleum Exporting Countries. Angola is the second-largest oil producer in Sub-Saharan Africa, behind Nigeria. In the oil and natural gas industry, the focus is on inter alia ensuring the “Angolanisation” of upstream activities; implementing the liberalisation of the market and creating a new legal and regulatory framework; enacting a natural gas regulatory framework; reinforcing existing refining capacity; finishing short-term projects such as pipelines and railways; and defining a new tariff model and removing fuel price subsidies.

Oil / Minerals' ownership and access restrictions / Angolan State ownership of national resources

Under the Angolan Constitution and the Land Law, the land and its natural resources within the Angolan jurisdiction are original property of the State. As such, the Angolan State shall determine the access conditions for concession of prospection and exploration rights of its mineral resources. The Act 10/04 of 12 November (“Petroleum Act”) provides that all oil fields and gas in the onshore and offshore areas of the territory; internal waters; territorial sea; exclusive economic zone; and on the continental shelf, belong to the public domain of the State, as well as the oil deposits.

In this context, the Angolan State granted exclusive mining rights to the National Concessionaire, Sonangol – Sociedade Nacional de Combustíveis de Angola, E.P. (“Sonangol”), which cannot, under any circumstances, sell, in total or part, the mining rights, under penalty of such acts being considered null and void.

Forms of association with Sonangol and New rules for public tenders for associates and procurement of services in the oil sector

In order to share its technical knowledge and financial capability, Sonangol may associate with Angolan or foreign entities of recognised capacity as follows:

- a) Corporation;
- b) Consortium;
- c) Production Sharing Agreements (which is the most common type of association);
- d) Risk services agreements.

The selection of Sonangol's associates, irrespective of being block operators or not, shall be preceded by a public tender procedure, under the terms of the recently approved Presidential Decree 86/18, of 2 April 2018 (in force since this date) which replaced a diploma from 2006. This legal instrument does not substantially differ from previous 2006 Decree 48 and aims for the most part to speed up certain selection procedures in order to bring more efficiency to the oil and gas sector.

In 2016, this concern about efficiency has been also demonstrated by the Angolan Executive with the approval of the New Readjustment Model for the Organisation of the Sector (Presidential Decree 109/16, of 26 May) with the creation of a new regulatory agency and a new high council, the reallocation of Sonangol's current responsibilities and focus on Sonangol's role as National Concessionaire and the transfer of its ownership stakes to other State-owned entities.

One of the most significant changes arising from this legal instrument relates to public tenders for the acquisition of services by the block operators. Operators are not required to launch a public tender or to request the Concessionaire's approval (as long as Sonangol is informed, on a quarterly basis, that those service contracts have been entered into) for the acquisition of services up to USD 1 million, or the equivalent amount in Kwanzas (under Decree 48/06 the limit was only USD 250,000).

“The Angolan State granted exclusive mining rights to the National Concessionaire, Sonangol - Sociedade Nacional de Combustíveis de Angola, E.P.”

Operations licensing requirements

According to the Petroleum Act and Decree 1/09 of 27 January (“Angolan Petroleum Operations Regulation”), petroleum operations (i.e. prospecting, exploration, appraisal, development and production of crude oil and natural gas) can only be exercised under a prospecting licence, issued by the Ministry of Petroleum (“MinPet”), or pursuant to an oil concession awarded by the Government.

The concession covers an exploration period comprising prospecting, drilling, well-test activities and evaluation and a period for development and production. However, the concession may cover just the development and production period and the Government may assign a concession directly to Sonangol, should it wish to carry out petroleum operations in a particular area without having to associate with other entities.

Prospection

As for the prospecting licence, any upstanding domestic or foreign company with the necessary technical and financial capacity may apply to the MinPet for the issuance of a three-year prospecting licence (exceptionally renewable upon request of the licensee) to determine the petroleum potential of a given area.

The prospecting licence includes geological, geochemical and geophysical research and the processing, analysis and interpretation of the acquired data, as well as regional studies and mapping, for the purpose of locating oil and natural gas fields.

These prospecting rights are not exclusive to the licensee, nor is the licensee granted any pre-emption right with respect to oil production in the area to which the licence relates. The data arising from the license is considered State property and may be used by the licensee and Sonangol. The MinPet may authorise the sale of the data by the licensee, the proceeds of which is to be shared between the licensee and Sonangol. Prospecting licenses may extinguish by termination, resignation or expiration.

Exploration and Production

Exploration and production activities can only be performed by private sector companies if they join up with Sonangol under one of the aforementioned four possible types of association.

An associate of Sonangol shall meet the following requirements:

- a) Expertise and experience in managing and performing petroleum activities;
- b) Technical and operational expertise;
- c) Efficient organisational structure;
- d) Disclosure of information regarding safety, environmental protection, prevention of pollution events and employment, integration and training of Angolan staff.

Transportation and Distribution

Under the Law for the Transport and Storage of Oil and Natural Gas, the transportation of oil and gas must be performed by a company or a consortium, at its/their own risk, under the authorisation of the MinPet.

The award of the licence is based on the credibility, experience and expertise of the applicant, as well as its financial management and technical capacity for the construction and operation of pipeline facilities in Angola.

Operators of oil and gas pipelines have an exclusive right to explore the infrastructures for the transportation of oil and natural gas. The licensee is authorised to occupy the necessary areas for the implementation of the activities arising from the licence. Whilst these assets are owned by the operator during the validity time of the licence, once the licence expires the assets which have been used for transportation purposes become the property of the State.

Brief overview of the Competition Act (Lei da Concorrência)

The Angolan Parliament unanimously approved the New Competition Act on 19 April, which establishes the legal framework for competition in Angola and creates the Autoridade Reguladora da Concorrência (Competition Regulatory Authority or “ARC”).

This legal instrument, which is inspired by the laws in force in most European countries, comes as a result of the efforts made recently by the Angolan Government to promote growth and economic development.

The new law has a wide scope, as it applies to both private companies and State-owned companies, and covers all economic activities which produce effects in Angolan territory.

Moreover, this statutory instrument prohibits agreements and practices which restrict competition, both between competitors (“horizontal” practices) and between companies and their suppliers or customers (“vertical” practices).

The law also prohibits abusive practices by dominant undertakings, as well as the abuse by one or more companies of the state of economic dependence of their suppliers or customers.

The new law will also introduce merger control in Angola. All concentrations which meet the market share or annual turnover criteria, to be defined in regulations to be approved, will be subject to mandatory notification to the ARC, and cannot be implemented before clearance.

Prohibited practices and the implementation of concentrations without clearance are punishable with heavy sanctions, which may go up to 10% of the annual turnover of the companies involved.

While a number of important provisions for the practical application of the law will still depend upon the approval of further regulations, the New Competition Act will constitute an important milestone for the Angolan economy and may contribute for the promotion of corporate efficiency and the functioning of the national economy.

“Angola holds almost 9.5 billion barrels of proved crude oil reserves and 308.1 billion cubic meters of natural gas reserves, ... Angola is the second-largest oil producer in Sub-Saharan Africa, behind Nigeria.”

Contributors' Profiles

Irina Neves Ferreira joined ALC ADVOGADOS in 2013. She is a lawyer with considerable international experience, especially in the Angolan jurisdiction. In this market she has been involved in operations concerning private investment, insurance law, real estate (including the support to the negotiation of lease contracts for petrol compa-

nies), tax law, foreign exchange law and customs. She is also highly experienced in corporate compliance attained throughout her experience as counsel for the EMEA (Europe, Middle East and Africa) region in the international compliance team of a multinational company in the IT area.

In the area of corporate and commercial law she has acted as legal advisor in several mergers, acquisitions and disposals of companies, including the acquisition and disposal of companies with head offices in Portugal and Angola, on behalf of domestic and foreign clients in various sectors, such as the oil sector, construction, information technologies and communications. Irina also provides general legal advice to numerous national and foreign companies in the areas of commercial and corporate law.

She holds a Law Degree (Law Faculty of Nova University of Lisbon, 2003). Postgraduate Studies in Information Society Law (Law Faculty of the University of Lisbon, 2007). Specialization course: "Introduction to the common law" (ISCTE and Law Faculty of Nova University of Lisbon, 2008).

Alukeny Neínda joined ALC ADVOGADOS in December 2017. Alukeny Neínda has assisted several national and international companies in a wide range of legal practice mainly in corporate and commercial law, private investment, real state and migration. She holds a Law Degree (Catholic University of Angola, 2014). Post Graduate studies in Corporate Law, Tax Law and Corporate Accounting (IDET, Law Faculty of the University of Coimbra, 2017).

Liliana Canudo Cruz joined MLGTS Legal Circle in November 2015. Liliana is an Associate focusing on cross border aspects of corporate, finance, insurance, foreign investment, telecommunications, energy (in particular mining and Oil & Gas) matters in the Portuguese, Angolan and Mozambican jurisdictions. She holds a Law Degree (Law Faculty of the University of Lisbon, 2012). Master's Degree in Forensics (Law Faculty of the Portuguese Catholic University, 2014).

GABON 2018 HYDROCARBONS LAW REFORM: APPETITE FOR NEW INCENTIVE

By **Jean-Pierre BOZEC**, Managing Partner, Project Lawyers Gabon



Gabon is a Central African country based in the Gulf of Guinea, located on the Atlantic side of the African continent and crossed by the equator. Gabon became independent in 1960 and has since developed a stable and peaceful environment attracting major international investors for, in particular, oil and gas, mines, forests, agro-industry which remain the main sources of revenue for Gabon.

Gabon is among the top five crude oil producers in Sub-Saharan Africa, has been a crude oil producer for more than 50 years and had its peak oil production in 1997 when crude oil production reached 370,000 barrels per day. Since 1997, oil production has been declining. It is still around 200,000 barrels a day, with a total production estimated at around 10 million tonnes. Since July 2016, Gabon has returned to OPEC membership, which the country was not part of for several years. According to OPEC’s World Proven Crude Oil Reserves by country, there were a total of two billions barrels of proven offshore and onshore reserves, with most of them being located in the south west of Gabon in the Port-Gentil area. To face the natural decline of mature fields, the government has oriented its policy to the exploitation of its offshore reserves (offshore is about 70% of the entire reserves).

Natural gas production is not yet very important in Gabon, but several gas discoveries have been

announced notably by ENI in 2014 in shallow water and by Shell and CNOOC in a deep pre-salt reservoir offshore.

Natural gas has been used for several decades for the production of electricity in Port-Gentil and Libreville which are the largest towns in Gabon.

With the new gas discoveries, the objectives of the State are to create a master plan to determine the most relevant use of the gas potential and to promote the exploration and production of natural gas, excluding associated gas reserves. Gabon has indeed the ambition to develop the production and domestic use and export of this sustainable energy source.

Due to the decline of oil price since Gabon enacted its hydrocarbons law no. 011/2014 of 28 August 2014 which strengthened conditions of negotiation of oil contracts in Gabon, few new oil contracts have been signed. Gabonese O&G sector has remained however active but with farm-ins / farm-outs or changes of control of oil operators dealing mainly with onshore or shallow waters and ante 2014 PSCs involving notably Perenco, Total, Mitsubishi, Shell, Assala Energy, Maurel & Prom, Pertamina, Woodside, BW Offshore...

The main 2014 PSCs economic terms for the 2013 licensing round were based on below main characteristics:

Issues	Past 2014 PSC Terms
Work commitments during exploration phase	Volume, budgets and phases negotiable provided they do not exceed six years, subject to possible limited extensions.
Exploitation period	10 + 5 + 5 years
State participation	20% during development and exploitation
State-owned oil company (GOC)	15% maximum at market value
Superficiary royalty	Exploration: XAF 50 per hectare Exploitation: XAF 5,000 per hectare
Cost stop	65% for conventional domains 75% for deep and ultra-deep waters
Signature bonus	Negotiable
Production bonus	Negotiable
Proportional mining royalty	Negotiable between 13% and 17%
Production sharing	Conventional: 1st tranche: 30.77% minimum for the State Deep waters: 1st tranche: 23.08% minimum for the State
Corporate tax	35% on the contractor’s oil profits

Issues	Past 2014 PSC Terms
Support fund(s)	Negotiable
Dismantling fund	Fund domiciled in an agreed Gabonese bank
Domestic market	15% discount on fixed price
Provision for diversified investments (PID)	1% of the turnover, 75% of which is cost recoverable
Provision for hydrocarbons investments (PIH)	2% of the turnover, 75% of which is cost recoverable

In addition to the above economics, ring fencing was strengthened from 1st discovery so that continuing exploration works after 1st discovery on remaining exploration area was not promoted.

Those characteristics of PSC signed in 2014 were no longer attractive enough in a period of reduction of oil price and indeed few transfers of interests for building partnerships on such deep and ultra deep blocks governed by the 2014 PSCs occur during that period. In view of economic recession, the State decided to re-develop exploration works, to increase production and to attract new investors by launching, in March 2018, works for the reform of the 2014 hydrocarbons law.

Following a local forum organized by the Gabonese Hydrocarbons Administration in Libreville (Gabon) from 26 to 28 March 2018 under the Head of State patronage, discussions on seven (7) issues between the Gabonese Administration, local and international O&G operators or experts and NGOs lead to some recommendations about the updating of the 2014 hydrocarbons law. The recommendations below should preclude future changes of the Gabonese hydrocarbons law which could occur quickly if Parliament is keen to vote the changes before June 2018 in order to allow probably the launching of a new international tender process.

Here below are some of the recommendations proposed by the State as heard by the author and does not, of course, commit anybody, a fortiori the State, in such a predictive exercise of guessing the future of a hopefully attracting and flexible Gabonese hydrocarbons law to be voted soon by the Gabonese Parliament.

Session 1 – Recommendations on taxation

- Include corporate income tax in the State profit oil
- Apply withholding tax vis-à-vis third party foreign services companies, only
- Exemption of VAT for oil companies on import
- Creation of a commission between Hydrocarbons, Customs Administrations and

- Gabonese union for O&G operators (UPEGA) to up-date the list of equipment exempted from customs duties
- Proposal of a specific regulations and model of PSC for marginal fields
- Marginal fields to be granted in priority to Gabonese

Session 2 – Recommendations on pricing

- Increase of transparency for lifting and trading crude oil
- Increase of the national company (GOC) in the conduct of hydrocarbons activities

Session 3 - Recommendations on economic modelling and optimization of O&G revenues

- Strengthening the State powers and creation of the national hydrocarbons regulator
- Optimisation of mechanism for the determination of official price
- Using specific tools for anticipating State hydrocarbons revenues whether in high or low price periods
- Profit sharing should accommodate specific risks of certain oil productions (onshore, offshore, deep and ultra deep waters, marginal fields, ...)
- Increase of human resources skills
- Use of R or similar factors to accommodate change of oil price and other economic conditions
- Fights against tax dumping between countries of the same CEMAC economic and monetary union

Session 4 – Recommendations on gas development

- Developing the use of flared gas for electricity production
- Gas flaring regulations (including penalties) to put in place
- Downstream and upstream gas infrastructures to develop
- Use of Floating LNG facilities for small gas fields
- Needs for specific incentive for gas
- Needs for stability for long term gas invest-

ments

- Simplification of administrative procedure for gas production
- Creation of a national gas aggregation entity to be able to monetize gas and develop important gas projects

Session 5 – Recommendations on biofuels

- Definition of a legal framework for biofuels in the hydrocarbons law in compliance with RSB principles for sustainable biofuels

Session 6 – Recommendations on efficiency of State audits

- Intensification of technical controls
- Automatic transmission of data by counters
- Increase of budget for control in downstream sector
- Annual planning of audit to put in place and limitation of non planned audit when exceptional circumstances only required
- Joint audits and more cooperation with other competent Gabonese administrations
- Hydrocarbons accounting plan to elaborate
- Training of auditors on SAP and other new technologies systems

Session 7- Recommendations on local content

- Development of procedure for more involvement of local communities
- Increase of involvement of local population in communities programs to develop local employment
- Development of pairing in O&G companies
- Local insurance subscriptions
- Requirement to comply with local content obligations provided in oil contracts
- Support local participations in O&G companies
- Support for creation of a national incubator for companies working in the hydrocarbons industry
- Increase the involvement of NGOs and local population in local content
- Facilitating financing and securitization of local O&G companies
- Creation of an independent observatory against ecological crimes

As interests on Gabon basin is back following notably Petronas' announcement in early March 2018 of a discovery in ultra deep offshore in its Likuale block in Gabon, the above recommendations, if heard by the Parliament, should help continuing attracting investors and moving out of fixed 2014 terms (as summarized above) to more flexibility in negotiation of PSCs. It is indeed likely that PSCs should be kept as the main type of oil

contracts to be signed in Gabon, but with various negotiable economic terms depending notably on the type of assets and hydrocarbons in question, risks involved, possible implementation of R factor to adapt to fluctuation of economic conditions, more involvement of the national oil company GOC, possible derogation to ring fencing principle for certain projects (in particular for marginal fields), gas flaring penalties, procedure for sharing of facilities, different oil price provisions, all of them aiming at attracting new investors, promoting new exploration and putting on production existing old discoveries thanks to favourable terms and new technologies.

“Gabon is among the top five crude oil producers in Sub-Saharan Africa, has been a crude oil producer for more than 50 years and had its peak oil production in 1997 when crude oil production reached 370,000 barrels per day.”

Contributor's Profile

Jean-Pierre Bozec Jean-Pierre Bozec is the managing partner of Project Lawyers, an independent leading business law firm in Gabon. He has more than 23 years of experience in O&G projects and project financings throughout North, West and Central Africa. The course of his career, he has developed a strong expertise in negotiation and drafting State contracts for international investors (production sharing contracts, establishment convention, mining conventions, BOT and concession agreements), in legal and tax structuring of projects in Africa, in particular for oil and gas, utilities, transportation infrastructures and mines. He graduated from Exeter University (UK) with an LL.M. in international business transactions and from Rennes University (France) with a postgraduate degree in business law.

MOZAMBIQUE OIL & GAS: REGULATIONS AND OPPORTUNITIES

By **Paulo Rage**, Partner, T&C Mayer Brown, Brazil



Market

Mozambique has been recently placed among the global major players in the oil & gas sector. This new position is due to significant natural gas discoveries in the country's northern Rovuma Basin. Despite having activity in the hydrocarbons sector for many decades, just in 2012 these massive offshore started to transform Mozambique's reality. They added ambitious expectations to the country to become a key player in the LNG global market. Some optimistic reports project that Mozambique will emerge as the third-largest exporter of LNG within the next decade, holding one of two largest natural gas reserves in Africa and one of the seven largest in the globe, with estimated 200tcf.

Currently, the natural gas production is concentrated in onshore fields of Pande/Temane in the country's center-southern region. The produced natural gas has South Africa as major destination through a pipeline. Delivery points within the Mozambican portion of the pipeline also feed gas-to-power projects. In the Rovuma Basin region, Areas 1 and 4 are being developed to accommodate large-scale LNG projects destined to the international market. Additionally, a share of the produced natural gas will be allocated to boost the domestic industrial sector, including gas-to-liquids, gas-to-power and fertilizing projects.

In addition to the natural gas reservoirs, it is worth to highlight that Mozambique has shown over the last two decades an impressive economic growth of 7,5% on average; and, is expected to be one of the African countries with the highest GDP growth in the following years with the taking off of the natural gas projects.

Regulations

Mozambique recently enacted its new Hydrocarbons Regime by a set of new statutes, published since 2014. The major one is the Hydrocarbons Law No. 21/2014, with its Regulation (Decree No. 34/2015); accompanied by the Hydrocarbons Tax Law No. 27/2014, with its Regulation (Decree No. 32/2015); and the Rovuma Special Regime

(Decree-Law No. 2/2014), among other ancillary statutes. These new Regulations maintained major principles and aspects already in effect in the country; and, aimed to improve the legal framework and to provide legal stability for international investors seeking to foment the country's potential.

In summary, the Regulations conserved the State ownership of prospecting, research, production, transport, trading, refining and transformation of liquid and gaseous hydrocarbons and their products. The State is granted the opportunity to develop complementary or secondary activities involved and to gradually participate in hydrocarbons projects, as agreed in the Concession Agreements. The State must also ensure national interests in relation to: defense, labor, navigation, conservation of marine ecosystems and other natural resources, existing economic activities and security of the affected communities.

Mozambique's NoC, Empresa Nacional de Hidrocarbonetos - ENH, remains the State's exclusive representative in all hydrocarbons operations in the country and the National Petroleum Institute - INP also remains responsible for the sector's regulation and promotion. The Regulations determine the Concession regime through which the State will partner with the private sector and codified the production sharing mechanism between the State and the Concessionaires.

The Regulations allow either Mozambican entities or foreign entities registered in Mozambique to hold rights to conduct hydrocarbons operations. But holding companies of foreign Concessionaires shall be established in transparent jurisdictions, where the State can verify the ownership and tax status of such foreign entities. The Regulations also provided a pre-emptive rights of concession to Mozambican entities (entities with at least 50% of the shares belonging to Mozambicans) or foreign entities in "association" with Mozambican entities. This "association" (joint venture - JV) is not detailed and could generally fill the forms of: i) holding interests of the same incorporated JV (e.g. specific purposes entities), or ii) agreeing to an unincorporated JV (e.g. consortium). Also, any

investor that has an interest in hydrocarbons exploration in Mozambique shall make a “partnership” with ENH. This “partnership” normally means ENH shall hold interests in the Concessionaire’s JV. ENH shall also assume the leadership of marketing and trading of hydrocarbons products.

The Concession Agreements could be granted by: public tender, simultaneous negotiation or direct negotiation. The types of Concession Agreements under the new Law are: a) recognition; b) research and production; c) construction and operation of pipeline systems; and, d) construction and operation of infrastructure. Security and legal protection of property rights are guaranteed to investors. Expropriation may take place only exceptionally and with a public interest justification, being such cases subject to the payment of just compensation. Other requirements include: the State’s property of data obtained; the registration of all activities; and, the provision of financial performance guarantee. Concessionaires are also required to publish their results, taxes and corporate social responsibility actions. The transmission of rights and obligations granted under a Concession Agreement and unitization of areas must be made according to Mozambican laws and is subject to the State’s approval. The right to explore hydrocarbons is separate from the use of land rights and if resettlement of local communities is needed, fair indemnification must be paid to local communities, having the State involved in this negotiation. The areas surrounding the projects are considered zones of partial protection and if the Concessionaires shall comply with the applicable environmental and safety laws.

Legal entities conducting hydrocarbons operations in Mozambique are subject to the payment of general taxes in addition to the specific taxes include : a) Income Tax (32% on net profits and capital gains); b) Value Added Tax (17% on sales, as debt rate being a creditable tax and exempt on exports); c) local taxes when applied (not significant); and, d) specific taxes as the Hydrocarbons Production Tax (similar to a royalty, in cash or in kind - 10% for crude oil and 6% for natural gas). The tax base is the amount of hydrocarbons produced and the value is determined on the basis of international prices of major international hydrocarbons export centers and rates could be reduced if destined to domestic market. The general rules as set in ordinary tax law shall apply regarding the Income Tax (e.g. amortizations, tax on capital gains in farm-in/farm-out operations, among others), but

other specific rules apply for hydrocarbons operations. Tax benefits were also granted on import duties for operation equipment and fiscal stability could be granted for a certain period, without affecting the assumptions of feasibility and profitability.

As a local content requirement, foreign entities that provide services to hydrocarbons operations are required to be in “association” (also not defined) with Mozambican individuals or entities. Also, the acquisition of goods or services above a certain value must be made by a tender, which must be published and preference should be given to local products and services since prices do not exceed 10% percent. In addition, Concessionaires should be gradually listed on the Mozambique Stock Exchange and a quota of no less than 25% of hydrocarbons produced shall be dedicated to the domestic market. Concessionaires are required to ensure participation of local communities and to provide technical-professional training for Mozambicans. General labor legislation in Mozambique and specific labor laws for hydrocarbons sector establish a quota regime limiting the number of expatriates (5% to 10%). Any disputes in connection with a Concession Agreements can be submitted to arbitration or to competent judicial authorities, as agreed in the Concession Agreement. The arbitration between the State and foreign investors shall comply with Mozambican law and could select rules of international arbitration bodies widely recognized (as ICSID).

Trends and Opportunities

These natural gas discoveries have positioned Mozambique as an outstanding investment opportunity in Africa. Recent progress on reforming the Hydrocarbons Legislation paved the way for a possible outstanding economic growth forecasted for the next decade in Mozambique - way above the expected global average growth. Mozambique presents several opportunities for the hydrocarbons sector, since upstream projects aiming to explore the country’s unveiled potential (as the new areas recently awarded in the 5th bid round), passing through transportation opportunities that will be necessary to allocate the gas to the domestic market and to abroad (as pipelines within the country and LNG liquefaction facilities for exports), until industrial and power projects fed by the natural gas.

Projects of LNG facilities are currently being undertaken both onshore and offshore and could

start producing in the next years. These LNG projects are expected to add USD 3 billion yearly in the economy for the next decade, requiring total investments of more than USD 30 billion. This trend represents significant opportunities for the entire hydrocarbons value chain. In addition, transportation and distribution networks shall be developed, adding opportunities to storage facilities and commercialization of natural gas. Furthermore, several projects for electricity and fuel generation are also expected.

Thus, in brief, the economic boom trend related to the development of the natural gas will certainly have positive impacts on Mozambique's economy as a whole and be an opportunity to stimulate other economic sectors. Additionally, the vast possibilities for investments and the natural strategic advantages of Mozambique will help to consoli-

date expectations around the discoveries of natural gas in the country and to promote its sustainable development.

Contributor's Profile

Paulo Rage is a Partner of of T&C Mayer Brown and Director of the Brazil-Mozambique Chamber of Commerce. He has significant experience in legal planning and structuring for complex cross-border projects, involving the following sectors: infrastructure (construction & engineering), energy (oil & gas and power), mining and heavy industries. He represented several multinational companies in transactions thru different jurisdictions in MEA markets, especially in Sub-Saharan and Lusophone African countries, such as: Mozambique, Angola and South Africa.

NEWS: MOZAMBIQUE LIQUEFIED NATURAL GAS PROJECT

Anadarko Lines Up Enough LNG Buyers for Mozambique Project

Anadarko Petroleum Corp. said that "in principle" it has enough customers to proceed with its liquefied natural gas project in Mozambique, eight years after making a major deepwater discovery there.

The development of Mozambique's LNG potential by Anadarko, Eni SpA and Exxon Mobil Corp. is key to stimulating growth in one of the world's poorest countries.

Anadarko signed a 15-year supply deal with Electricite de France SA in February and now needs to finalize contracts with other potential clients, said Steven Wilson, vice president and country manager in Mozambique for the Woodlands, Texas-based explorer.

"We effectively have agreement in principle for the volumes we need," Wilson said in an interview in Mozambique's capital, Maputo. "Now the intention is to follow the EDF transaction to be able to convert all those" into binding sales and purchase agreements.

Anadarko has also received government approvals for onshore facilities needed to export the gas. The project, estimated to require investment of \$20 billion, will start with two so-called trains with a capacity of more than 12 million tons a year, with a view of increasing to as many as eight trains producing 50 million tons. While Wilson is optimistic about project financing, he said the resumption of the

International Monetary Fund's program in Mozambique would further boost investor sentiment toward the southern African nation. Some of the biggest natural gas discoveries in a decade off Mozambique's northern coast has been overshadowed by the disclosure of hidden government debt in 2016, which prompted the IMF to halt funding.

"We're confident that the project will be able to raise financing in the current environment," Wilson said. "That being said, we believe that the resumption of an IMF program would be a very powerful signal to the global markets that Mozambique is committed to transparent governance; it would encourage foreign direct investment and obviously would benefit the Mozambique economy."

Mozambique Gas Company ENH Hires Lazard to Raise \$2 Billion

Mozambique's national oil company appointed Lazard Frères SAS and Lion's Head Global Partners as advisers to help raise as much as \$2 billion to refinance its portions of two gas-development projects.

Empresa Nacional de Hidrocarbonetos EP will begin a roadshow next month to regions including Asia, the Middle East and South Africa, Chairman Omar Mitha said in an interview. Lazard will advise ENH on refinancing its portion of the project Anadarko Petroleum Corp. is developing, and Lion's Head for the project Eni SpA is

building, he said. It will engage Societe Generale SA to assist with refinancing for the Anadarko portion, he said.

"We need to put that in place," Mitha, who is also chief executive officer of ENH, said in Maputo, Mozambique's capital. "It's extremely urgent."

Mozambique is seeking to restructure \$2 billion of commercial external debt, which it hasn't made payments on since October 2016. The country is counting on large gas projects that Anadarko and Eni are building to help it repay the loans, and started talks with creditors last month in London. ENH has a 10 percent stake in Eni's Area 4 project and 15 percent of Anadarko's Area 1.

Lazard is also the government's financial adviser on the debt restructuring, and the company's role advising ENH will be complementary as it will give the firm "a clear sight of what's happening at the projects," said Mitha.

"It also helps make a case for the other financial institutions so that Mozambique can go back to the market," he said. "There is a line of sight of how much money we will get in the coming future."

ENH received World Bank support to hire the financial advisers as part of the lender's Mozambique Mining and Gas Technical Assistance Project, Mitha said.

OIL AND GAS M & A IN AFRICA: KEY TRENDS AND PROSPECTS

By **Adam Blythe**, Partner, Bracewell (UK) LLP



This article explores some of the significant trends that have emerged from recent oil and gas upstream deal activity in Africa following in the aftermath of 2015's oil price crash, as well as considering the outlook for future transactions and the dynamics in play that influence acquisitions and disposals in the industry.

Africa feels the benefits of oil price stability

Looking from a macro perspective, 2017 saw welcome stability and growth in the oil price, as the global oil and gas industry emerged from the effects of the 2015 downturn. This improvement runs alongside the concerted efforts made generally throughout the sector to reduce costs. As a result, the short to medium term outlook is that price volatility is reduced (but has not disappeared) and the industry is calibrating itself to operate in a world where a \$50 per barrel floor is the "new normal".

But what does this mean for oil and gas deals in Africa? Fundamentally, the continent enjoys the same benefits as those felt by other regions: the gap in value perception between buyers and sellers is reducing and parties now feel sufficiently confident in the prevailing price environment to transact, with an increased willingness to explore innovative commercial structures to bridge valuation or risk allocation concerns. Deals are being done once again. While one should always be cautious in making any generalisations across a continent as diverse as Africa, there are some clear trends we have seen that have widespread applicability to deals in the region.

Significant deal volume and value

The majors have been busy in their portfolio management in the continent and remain active in relation to world class assets. Eni has shown great success in marketing its significant gas discoveries in the region: in Egypt, it has farmed down an aggregate 40% interest to Rosneft and BP in the Shorouk concession, which contains the super-giant Zohr gas field and has agreed to sell a further 10% to Mubadala Petroleum. Eni also sold down a

25% interest in its interest in Area 4 Mozambique to ExxonMobil for \$2.8 billion. BP has moved to take a \$1 billion majority stake from Kosmos in its gas discoveries offshore Mauritania, including the Tortue complex straddling Mauritania and Senegal, with a final investment decision on the project expected by the end of 2018. These deals indicate the continued interest of the majors in regard to significant assets and projects in the region, and their ability to attract sizeable price tickets.

Other IOCs, independents and NOCs have been involved in various deals across the continent. Major oil jurisdictions like Nigeria, where M&A deals had all but dried up following the 2015 downturn, have begun to show signs of life, with big transactions reportedly underway such as the Petrobras / BTG Pactual disposal of interests in OMLs 127 and 130 deep offshore Nigeria (containing some of the country's biggest investment projects).

New buyers and sources of finance

Chinese state investment in African upstream resources through M&A activity seems to have stalled from its pre-cash peak. However, new classes of buyers and funders are making their presence felt. Globally, there has been much fanfare about the increased participation of private equity into the upstream industry. While its involvement has been principally confined to the US and other more mature basins (such as the huge transactions recently seen in the North Sea), there have been signs that PE funds may be prepared to dip their toes in African waters. In Gabon, Assala Energy, backed by the Carlyle Group, acquired producing assets from Shell for \$628 million. It remains to be seen whether this indicates of a wider interest in the continent and whether the PE model and investor appetite can successfully co-exist alongside the demands of the African upstream industry.

There still remain challenges in funding deals. The traditional sources of capital to buyers requiring financing still appear largely closed: the capital

markets of the leading international financial centres have not seen new African oil and gas related listings, and international commercial banks also remain cautious. In more mature local lending environments, there still exists a continuing retrenchment from the sector, particularly in Nigeria where its banks are recovering from the effects of non-performing loans and restructurings with the new cadre of Nigerian champions created in the wake of the major's divestiture programmes from 2008 onwards.

Other new sources of funding have emerged. International oil traders have become a key component of the financing mix for the acquisition of producing assets, in return for exclusive offtake rights (the recent Shoreline \$536 million financing in Nigeria arranged by Vitol gives a good indication of the scale of funding now available). Providers of services to upstream companies have shown an interest in becoming upstream asset holders, shown by BW Offshore's upstream acquisitions in Gabon and Namibia, in return for resultant upstream services work. This follows the increased willingness of service providers to participate in the equity side of projects and other means to put their balance sheet to use to make projects economically viable, such as contractor financing and deferred payments terms.

Looking ahead

2018 has already seen strong activity levels for African M&A deals (at least from anecdotal evidence) and continues the trends apparent from 2017. Peering into the crystal ball, we see both opportunities and challenges for the African sector, including:

New frontiers: there were a number of notable discoveries in Africa in 2017, with countries like Senegal and Mauritania becoming the forefront of exploration activity, and oil found in Kenya. This in turn will lead to an increased footprint for resultant M&A deals on the back of these opportunities.

Gas, gas and more gas: sizable gas discoveries have been made in Africa over the past few years and these are increasingly proceeding to development. Projects that deliver gas to power remain the prime option for commercialisation of the reserves and are high priorities for African governments and development bank and multilateral financing. The emergence of floating LNG technology offers a new route to develop smaller gas reserves and can

avoid some of the funding, logistical and political issues that have arisen in developing more expensive onshore LNG plants. Africa has been an early adopter of the technology and floating LNG projects are now being considered in Mozambique, Cameroon, Equatorial Guinea and Senegal. It remains to be seen whether this will only feed an LNG "glut" or whether the increased global demand for gas (particularly from China) and development of re-gasification facilities can match the supply.

Regulatory uncertainty: 2017 saw a return of the perennial concern of international investors in the continent: uncertainty in the governing regulatory petroleum regime, with inhibitive effects on deal valuation and sanctioning of new investment. Notable recent examples include new laws passed in Tanzania that introduce powers for the government to renegotiate contracts made in the natural resources sectors. While the prime focus of this legislation was the mining sector, it also has relevance for the upstream petroleum industry (particularly for production sharing contracts). Nigeria continues to ponder its long awaited reforms to the industry but has begun to break this task into more digestible chunks. The first tranche being the Petroleum Industry Governance Bill which covers the Nigerian institutions that administer, regulate and participate in the industry. However, the more significant contemplated changes to the legal and fiscal regime promised by the Petroleum Industry Bill remain to be settled, while the industry watches and waits.

"There still remain challenges in funding deals. The traditional sources of capital to buyers requiring financing still appear largely closed."

Contributor's Profile

Adam Blythe is a partner in Bracewell's London office. Adam specialises in oil and gas related transactions, working on acquisitions and disposals, project development, joint ventures and other commercial arrangements across the upstream, midstream and downstream sectors. He has deep experience of African related transactions, particularly in Nigeria, Egypt and Tanzania.

MUFG'S VIEW: US HARD EXIT FROM JCPOA IS BULLISH FOR OIL AS GEOPOLITICAL TENSION RISE

Over the past week, heightened geopolitical tensions have remained front and centre as energy and FX markets braced for US President Trump's announcement on the Iranian nuclear deal. As widely expected and broadly telegraphed, President Trump announced the US withdrawal from the Joint Comprehensive Plan of Action (JCPOA), by declining to sign the nuclear waiver extension and ordered the restoration of all pre-JCPOA sanctions. This clearly heightens geopolitical tensions across the board, even if there is still a distant probability of a new agreement coming to fruition.

Re-imposition of sanctions

President Trump's order that all US sanctions that were eased in order to implement the nuclear agreement would now be re-imposed. Dependent on the sanction area in question, entities will have a grace period of 90 days (starting 7 August) or 180 days (starting 5 November) to curtail their exposures to Iran. Sanctions related to Iran's purchases of US banknotes, trading in precious metals, as well as engagement with its automotive sector come into force after 90 days. Meanwhile, the most significant secondary sanctions return after 180 days, including oil sanctions that require significant reductions in the purchase of Iranian crude; sanctions related to investment in the energy sector; sanctions on insurance and reinsurance; and the designation of previously de-listed individuals and entities. The latter includes Iran's major banks, meaning that foreign financial institutions doing business with those banks are exposed to penalties in case of non-compliance.

Hard exit Trump rhetoric

This "hard exit Trump" rhetoric fits with the President's broad animosity of the Iranian regime. By declaring that not only is the US leaving the JCPOA with the reimposition of all statutory sanctions, but in fact the US will also be instituting the highest level of sanctions against Iran (adding that any country that aids Iran will also be sanctioned), President Trump is clearly articulating that he has minimal desire in an alternative agreement with Iran. We consider that President Trump may, in essence, be striving to establish an ambiguous operating environment concerning Iran, which he might view as having, in fact, more of an impact than sanctions, per se. All in all, President Trump has repeatedly criticised the JCPOA in his election

campaign, dubbing it the "worst deal ever" and pledged to scrap it. He has kept to his manifesto and abided by his words, and with Mike Pompeo as the new Secretary of State, and John Bolton as the new National Security Adviser, this has deeply entrenched a more hawkish US policy towards Iran.

250-350k b/d of Iranian crude is at risk

To put the precise size and magnitude of Iranian crude that is likely to be impacted into context, we foresee that it would not likely be the near 1m b/d of lost supply seen over 2012-2016 during the wave of nuclear related sanctions in place on Iran, but more in the region of 250-350k b/d, given the US is expected to go it alone in relation to the resumption of Iranian sanctions and thus, the EU may not deem it necessary to reinstate sanctions on shipping insurance, which were critical in disrupting Iranian crude exports between 2012-16. Meanwhile, we view that Russia, China, Turkey and India will likely all oppose the sanctions and keep their current levels of Iranian crude purchases, whilst, on the other hand, certain US allies, including Japan and South Korea, may comply with the proposed US reimposition of Iranian sanctions on the concern of losing the US security umbrella vis-à-vis North Korea.

Upside risks of Brent rising above USD80/b

From an oil pricing perspective, while there could be some scope for profit-taking given crude prices are now at a near four year high, this continues to be overshadowed by geopolitical uncertainty over how hard the sanctions will hit global energy markets throughout this year. As such, we view that there are upside risks of Brent rising above USD80/b and WTI above USD75/b in the near term, given that markets haven't fully priced in yet how the "hard exit" Trump stance will channel through into the willingness of Iran's crude importing countries to comply with the US restrictions. Indeed, we view that whilst the unilateral US reimposition on Iranian crude will reduce its exports, the size and scope still hinges on Iran's importing countries' adherence to conform with the sanctions. This comes on top of further upside price risks due to potential supply losses from geopolitical uncertainty stemming from Venezuela (Presidential elections on 20 May), as well as in Iraq (Parliamentary elections on 12 May).

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NIGERIAN OIL AND GAS SECTOR: REGULATIONS AND INCENTIVES

By **Ona Okwesa**, Associate, Ukiri Lijadu Nigeria
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Nigeria is currently facing significant challenges in its petroleum industry because of the volatility of oil prices¹, pipeline vandalism and illegal refining. It is clear that the country must reduce its reliance on crude oil income by developing its midstream and downstream sectors and leveraging on its natural gas reserves². The existing petroleum regulatory framework however discourages investment in the sector and has proved to lack the requisite comprehensiveness to enable Nigeria achieve these outcomes. Moreover, the backbone of this framework³, the Petroleum Act of 1969⁴, failed to provide for the sustained development of Nigeria's gas resources. These factors necessitated an overhaul of the petroleum regulatory framework and the advancement of incentives to promote investment and operations in the industry.

The National Gas⁵ and Petroleum⁶ Policies were formulated in conjunction with new legislation to overhaul the Nigerian petroleum industry and initiate multi-sector economic growth, by addressing a broad range of issues such as sector governance, institutional framework, the fiscal regime, the need for a separate gas industry, the corporate structure of state-owned enterprises, transparency, accountability and environmental issues.

It is however important to note, when considering the emergence of new regulations in the Nigerian petroleum industry, that regulatory advancement in that sector is decidedly sluggish. This is evidenced by the fact that the Petroleum Industry Bill ('PIB'), an omnibus law meant to regulate the entire sphere of the oil and gas industry by consolidating and repealing all extant petroleum legislation in Nigeria,

has remained stagnant since its initial proposal before the National Assembly in 2008. It was eventually fragmented into the Petroleum Industry Governance Bill ('Governance Bill')⁷, the Petroleum Industry Fiscal Bill ('Fiscal Bill')⁸, the Petroleum Host Community Bill ('Host Community Bill')⁹ and the Petroleum Industry Administration Bill ('Administration Bill').

Although the Governance Bill was recently passed into law by the Nigerian legislature and is currently awaiting Presidential assent, the other three bills have stalled at the Nigerian National Assembly¹⁰. Nonetheless, their enactment into law would generate much needed changes in the Nigerian petroleum industry.

Each bill seeks to address a key aspect of the challenges faced in the Nigerian petroleum industry. The Governance Bill is intended to outline a strategy for the creation of commercially viable petroleum entities, through the creation of efficient governing institutions with clear and distinct roles. The Fiscal Bill proposes the new fiscal package for the oil and gas industry with an exhaustive royalty regime and new tax arrangements, and also provides incentives for petroleum processing. The Host Community Bill is intended to enable host communities benefit directly from the operations taking place in their communities, while the Administration Bill seeks to address the new licensing and regulatory arrangements across the value chain in the oil and gas sector.

Although the provisions of these bills appear to be diluted versions of the reforms proposed in the

¹ Federal Republic of Nigeria (2017), *National Petroleum Policy*, Ministry of Petroleum Resources. Available at: <http://www.petroleumindustrybill.com/wp-content/uploads/2017/07/National-Petroleum-Policy-Approved-by-FEC-in-July-2017.pdf> (Accessed: 13 April, 2018)

² *Ibid* at Page 14

³ There are other laws bordering on Petroleum administration in Nigeria such as the Petroleum Profits Tax Act, Cap P13, Laws of the Federation of Nigeria 2004, the Companies Income Tax Act, Cap C2, Laws of the Federation of Nigeria, 2004, the Deep Offshore and inland Basin Production Sharing Contracts Act, Cap D3, Laws of the Federation of Nigeria, 2004 etc.

⁴ Cap P7, Laws of the Federation of Nigeria, 2004.

⁵ Federal Republic of Nigeria (2017) *National Gas Policy*, Ministry of Petroleum Resources. Available at: <http://www.petroleumindustrybill.com/wp-content/uploads/2017/06/National-Gas-Policy-Approved-By-FEC-in-June-2017.pdf> (Accessed: 13 April, 2018)

⁶ The National Gas policy and the National Petroleum Policy were approved by the Federal Executive Council on 28th of June 2017 and the 19th of July 2017 respectively.

⁷ A Bill for An Act to Provide for The Governance and Institutional Framework for The Petroleum Industry and Other Related Matters

⁸ A Bill for An Act to Establish A Fiscal Framework That Encourages Further Investment in The Petroleum Industry Whilst Increasing Accruable Revenues to The Federal Government of Nigeria

⁹ A Bill for An Act to Provide for A Framework Relating to Petroleum Host Community's Participation, Cost and Benefit Sharing Among the Government, Petroleum Exploration Companies and Petroleum Host Communities and For Related Matters

¹⁰ Adefelu A., (2018). House of Reps announces Public Hearings on three petroleum industry reform bills (Online) Available at: <http://www.petroleumindustrybill.com/2018/04/06/house-of-reps-announces-public-hearings-on-three-petroleum-industry-reform-bills/#.WtXNCojwaM9> (Accessed: 13 April, 2018).

original PIB, these emerging regulations collectively seek to create a stable framework that encourages investment in the industry and in order to achieve this, they provide for several institutional reforms and incentives, which are further discussed below.

Notably, the Nigerian government intends to incentivise increased participation in its petroleum industry by adopting different restructuring measures such as the unbundling and vesting of the Nigerian National Petroleum Corporation (NNPC) assets into a new profit-oriented, state-owned enterprise¹¹ and the establishment of a single regulatory body¹², to govern all segments of the industry. The proposed consolidation of existing regulatory authorities¹³ could eliminate regulatory overlaps, which hinder effective operation in the industry. The proposition that these new entities will be largely independent might however only be a fallacy as they will remain under the supervision of the Minister¹⁴.

Although the separation of NNPC's corporate and regulatory interests would have an impact on transparency and accountability in the industry, this could be ineffective if its corporate governance challenges and other bureaucratic inefficiencies are not addressed in the new entity. The regulations also commendably seek to incentivise investors through the creation of a network code rooted in competition and anti-trust regulation, which would provide non - discriminatory access to all infrastructure within the oil and gas supply chain¹⁵.

Another prospective incentive for investment in the industry is the establishment of the National Petroleum Policy Directorate to provide technical support to the Ministry of Petroleum Resources¹⁶ and create specialist centres¹⁷, which will operate in collaboration with the Nigerian Investment Promotion Council to provide trustworthy information to potential investors¹⁸. Although this would

improve the ease of information dissemination in the industry, it is the authors' opinion that in order for this reform to be effective, it must leverage extensively on the digital age and information technology.

Additionally, the existing fiscal framework¹⁹ for the petroleum industry has proved to be complex and outdated²⁰ and in response, the national policies seek to introduce a new regime, to attract investors while ensuring the accrual of government revenue. The purpose underlying this new framework is the promotion of a fiscally sustainable industry that will foster the socio-economic development of Nigeria. This will be contained in a single legislation for easy access as opposed to the current disparate regime²¹. Another significant incentive proposed in the emerging regulations, is the assessment of gas as a separate product based on its own economics, not dependent or consolidated with crude oil income²². An investor who operates solely in the gas sector could be attracted to this introduction of a gas regulatory framework.

The emerging regulations are also intended to promote indigenous participation²³ in the sector through the allocation of marginal fields in the upstream sector²⁴. The new framework also proposes the implementation of measures to resolve the rampant insecurity in the Niger Delta region and the creation of small equity holdings in oil operations as means of nurturing partnerships with host communities. These measures would attract investors if they are successful in eliminating the risks of vandalism, kidnapping and other safety concerns associated with operating in indigenous communities. Participation in the upstream sector however requires significant capital expenditure which might prove difficult to secure for indigenous companies. Thus, without specialist financial intervention for these companies, this incentive may be ineffective in attracting

¹¹ This company will operate on an equal footing with companies in the private sector.

¹² The suggested name is the Nigerian Petroleum Regulatory Commission (NPRC)

¹³ Ministry of Petroleum Resources, Department of Petroleum Resources (DPR), Nigerian National Petroleum Corporation (NNPC), Nigerian Content Division, Petroleum Products Pricing Regulatory Agency (PPPRA), Petroleum Technology Development Fund (PTDF), Petroleum Equalisation Fund.

¹⁴ Minister of Petroleum.

¹⁵ See Supra Note 1, Page 51.

¹⁶ See Supra Note 1, Page 52.

¹⁷ Strategic Planning and Policy Research Centre and Investment Promotion Centre.

¹⁸ See Supra Note 1, Page 54.

¹⁹ Petroleum Profits Tax Act Cap P13 Laws of the Federation of Nigeria, 2004; Petroleum Act Cap 7, Laws of the Federation of Nigeria 2004; Deep Offshore and inland Basin Production Sharing Contracts Act, Cap D3, Laws of the Federation of Nigeria, 2004; the first Memorandum of Understanding signed between industry operators and the Federal Government in 1986; Companies Income Tax Act, Cap C21, Laws of the Federation of Nigeria, 2004; Finance (Miscellaneous Taxations Provisions) Decrees No. 30 of 1996, No. 31 of 1996, No. 18 of 1998

²⁰ For instance, different rates apply to different players with the same product base; incidences of dual taxation; High petroleum profits tax (85%) with absence of incentives for cost reduction; difficulties and uncertainties of tax assessment and collections between the Federal Inland Revenue Service and the NNPC; Need for the review of the Associated Gas Framework Agreement etc.

²¹ See Supra Note 19.

²² The Associated Gas Framework Agreement (codified in Sections 11 and 12 of the Petroleum Profits Tax Act) allows associated gas and non-associated gas costs to be recovered from oil income. This has led to several distortions including discrimination against non-oil investors; incentivizing oil companies to build gas infrastructure for fiscal reasons (to evade taxes) and discouraging infrastructural development in the gas sphere.

²³ A key objective of the policy is the enforcement of the Nigerian Oil and Gas Content Development Act Cap N124, Laws of the Federation, 2004 ('the Local Content Act') through the development of competent Nigerian workers across the petroleum industry. See Supra Note 1, at Pages 99 to 100

²⁴ A marginal field is any field that has produceable reserves booked of less than 10,000 bbls/d and has remained unproduced for over 10 years.

local investors or encouraging indigenous participation.

Furthermore, in order to offset the significant deficit of midstream and downstream assets, the new regulations intend to create an environment in which investors are invited to construct pipelines, refining and storage facilities, by introducing commercially attractive provisions. Each of the refineries will be given commercial autonomy, thus enabling them to obtain crude oil from whichever sources they choose. The new regulations also stipulate that state-owned refineries will operate on the same market terms as private-owned refineries²⁵.

The emerging regulations also recognise that large-scale petroleum projects require financing and as such, they aim to encourage all types of project financing²⁶. The new policy framework however also stipulates that direct involvement of the Nigerian government in project-financing will be minimal. Instead, the main sources of project finance in the industry will be appropriations, owners' equity injection or commercial loans. This may disincentivise investors who would be forced to raise the requisite capital and bear financial risks alone, while sharing profits with the Nigerian government.

The emerging regulations also intend to promote the upstream sector by encouraging the discovery and production of resources in geologically prospective terrains, including the inland and offshore basins²⁷. As an incentive, the new regulatory framework provides for the favourable review of the commercial terms upon which titles to inland basins would be allocated. The emerging regulations further provide that license renewals or extensions will be based on the success or the degree of progress of license holders in meeting their exploration or production targets. Under this approach, the industry will be more accessible to effective operators and those who do not meet license conditions, including oil production, gas flaring, and gas supply obligations, will be held accountable.

The primary objective underpinning the proposed regulatory changes and incentives discussed in this article is a shift from the current reality that hydrocarbons are merely a fleeting source of

income in Nigeria, to a future in which these resources promote long-lasting economic growth, driven by targeted investments. In order for the nation to achieve its desired outcome however, strong political will of the government would be necessary for the implementation of these proposed regulations and incentives to establish and govern a competition driven hydrocarbon market.

“The Nigerian government intends to incentivise increased participation in its petroleum industry by adopting different restructuring measures such as the unbundling and vesting of the Nigerian National Petroleum Corporation (NNPC) assets into a new profit-oriented, state-owned enterprise”

Contributors' Profiles

Ona Okwesa is an Associate at Ukiri Lijadu with extensive experience in providing the firm's clients with innovative solutions and advice on various aspects of corporate and commercial law, including oil and gas law, power and energy law, regulatory compliance issues and commercial dispute resolution. She has a law degree from the University of Nottingham and a master's degree in Oil and Gas law from the Aberdeen Business School, RGU. She is also an active member of the Association of International Petroleum Negotiators and the Chartered Institute of Arbitrators.

Obaro Obukohwo is a lawyer, who graduated from University of Lagos in 2015. He was called to the Nigerian Bar in 2016 and joined the Law Firm of Ukiri Lijadu in 2018. He is experienced in civil litigation and procedure and is currently gaining experience in corporate and commercial law.

²⁵ *Supra* at Note 1, Pages 92 to 93. It further adds that non-performing state-owned refineries will be divested to private developers.

²⁶ *Supra* at Note 1, Pages 60 to 61

²⁷ *Supra* at Note 1, Page 83

MRPDA AMENDMENT BILL: KEY AMENDMENTS FOR THE SOUTH AFRICAN OIL AND GAS INDUSTRY

By **Lizel Oberholzer**, Director, Norton Rose Fulbright South Africa



The principal South African upstream oil and gas legislation, the Mineral and Petroleum Resources Development Act, 28 of 2002 (**MPRDA**), has been in flux since 2013 when the first draft the Mineral and Petroleum Resources Development Amendment Bill, 15 of 2015 (**the Bill**) was published.

On 16 December 2015, following the Bill's passage through the South African National Assembly (the lower house of Parliament), the President exercised the power conferred upon him by section 79 of the Constitution to refer the Bill back to the National Assembly due to reservations as to its constitutionality.

The reservations identified by the President were both substantive, relating to certain contentious provisions included in the Bill, as well as procedural, due to an alleged failure by Parliament to facilitate adequate public participation in the process. Accordingly, and in order to remedy the defects identified by the President, the National Council of Provinces' Select Committee on Land and Mineral Resources (**the Select Committee**) conducted an extensive public participation process in 2017, in all nine provinces. The process allowed for written submissions by members of the public in respect of the Bill. The final deadline for written public submissions was 28 June 2017.

Following the public participation process, the Select Committee collated the comments received from the public to date. Consolidated amendments were then provided to the provincial legislatures of each Province. Each provincial legislature also considered the public comments which were submitted directly in each province.

In the latter half of 2017, each provincial legislature was afforded the opportunity to consider proposed amendments to the Bill, and were mandated to present a 'negotiating mandate' to the Select Committee indicating which amendments that province would like to see included in the Bill. Before the end of the parliamentary term in November 2017, the Select Committee received negotiating mandates from 8 of the 9 provinces

(the Western Cape delaying their response).

The negotiating mandates received must now be voted on by the Select Committee to form a final draft of the Bill, which will then be ultimately voted on in the National Assembly. The industry is hoping for finalisation before the end of the second quarter of 2018.

While it will not be clear what the final draft of the Bill will look like until the full voting process has been completed, public comments made during the extensive public participation process, and the negotiating mandates submitted by the various provincial legislatures, give us some indication of the amendments that might be made to the Bill.

The amendments submitted in the public participation process address a wide variety of issues. The proposals included increased protection for mining affected communities and the environment, greater clarity in relation to the State's right to participate in mineral rights, and amendments aimed at facilitating international investment. We outlined before some of the key proposals relating to the oil and gas industry in South Africa.

State Option

In South Africa, all mineral and petroleum resources are held in trust by the State for the benefit of all South Africans, regardless of who has title to the land under which such resources are found. Oil and gas exploration companies are instead granted limited real rights over a specified area to explore and eventually produce and sell mineral resources for a profit - subject to conditions and levies imposed by the Department of Mineral Resources on behalf of the State.

Currently the State does not have a statutory right to directly participate in oil and gas exploration and production operations. However in practice it is typical for the Minister of Mineral Resources to grant exploration and production rights subject to the condition that the State be provided with an option to acquire a participating interest in the relevant production right, within a certain period of

time. The Bill formalises these terms by providing for a State option to acquire a 20% participating interest in exploration rights.

A key amendment to the Bill that has been proposed is that, at the time an exploration right is converted to a production right, the Minister may adjust the state's interest in a right downwards (to a minimum of 10%) on request of the holders. This is because certain oil and gas projects will not be financially viable in the event that the states free carried interest is at a level of 20%. This amendment will ensure that South Africans benefit from oil and gas discoveries, without unduly discouraging the risk and capital intensive investment required in making and developing such discoveries in the first place.

Free Carried Interest

The Bill grants the State a Free Carried Interest in exploration and production rights, which is defined as an "interest allocated to the State in exploration or production operations without any financial obligation on the State". In practice, this means that an oil and gas rights holder will be required to cover the full costs of the exploration and development of a petroleum interest (which costs easily run into billions of dollars). This has been a significant impediment to international investment.

An important proposed amendment is to change the State's Free Carried Interest to "Carried Interest". This change allows production right holders to recover the development costs of the States Carried Interest, from the proceeds generated from the production right.

Transformation

Black economic transformation is of national importance in the South Africa, and recent developments in relation to the Broad-Based Socio-Economic Empowerment Mining Charter (although not applicable to the petroleum industry) has brought attention to the need to address transformation issues in the sector. This charter was, however, drafted with the mining industry in mind, which is distinct from the oil and gas industry.

It is therefore welcome that the Bill requires the Minister to develop an empowerment Charter for the Upstream Petroleum Industry, which would set out the framework, targets and time frames affecting the entrance of black persons into the industry, and provide much needed certainty for all parties.

Certainty of terms

On application for a petroleum exploration or production right, the Minister of Mineral Resources is empowered to impose terms and conditions on the granting of the right. The upfront capital costs of oil and gas production are incredibly expensive (upwards of a billion dollars for a project), and international investors require some degree of certainty as to the terms which will be imposed on a production right if granted. A significant amendment proposed to address this issue is for the Bill to provide for the Minister of Mineral Resources to determine the terms and conditions of a corresponding production right (in terms of section 84 of the Act) at the time of granting of the preceding exploration right.

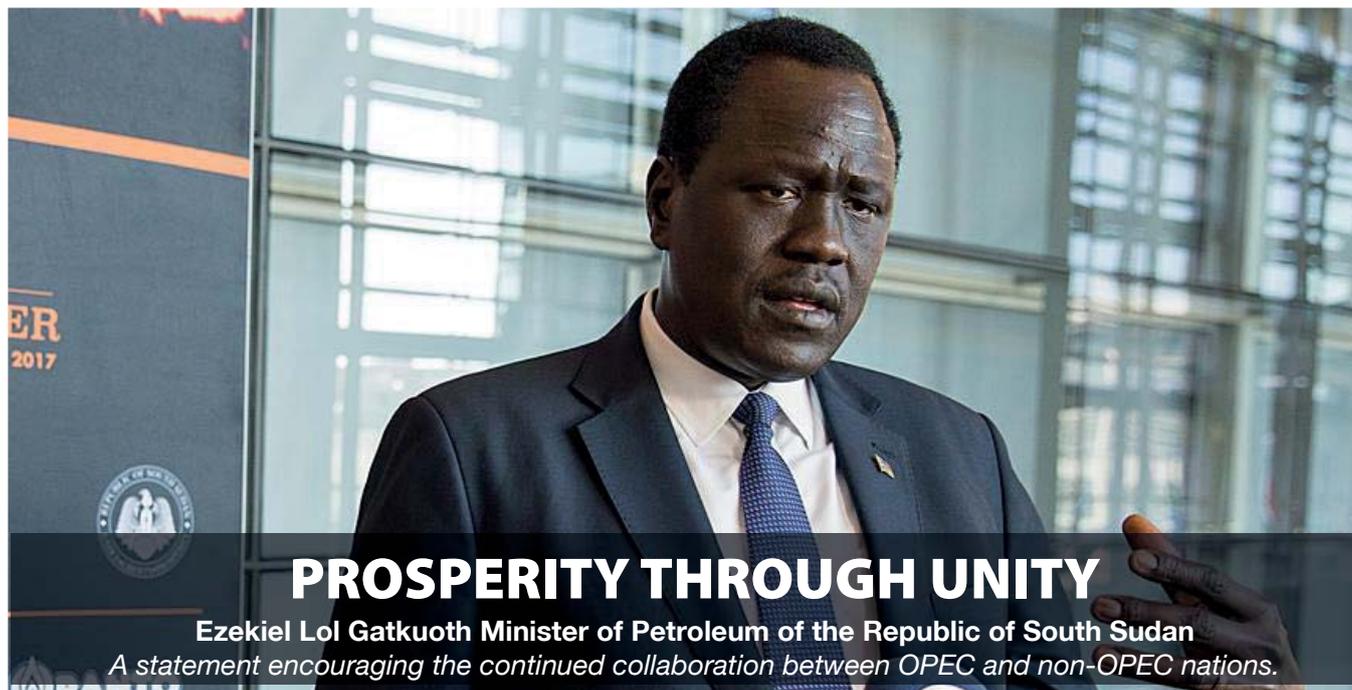
Certainty regarding the commencement of rights and permits

Following recent court proceedings between the Minister of Mineral Resources and Others v Mawetse (SA) Mining Corporation (Pty) Ltd (Mawetse case) the duration of the right or permit granted under the MPRDA is calculated from the date that the decision is communicated to the applicant. This has caused inconsistencies in the interpretation of the MPRDA. The commencement date of a right or permit is important as there are strict time limits applicable to exploration and production rights. Holders are required to complete their work programmes within these prescribed periods, and failure to do so could impact adversely their exclusive right to move into the next renewal or production period. Accordingly, the proposed amendment is significant in that it would enable the Bill to address the longstanding ambiguity caused by the Mawetse case, and cement the fact that the commencement date of a right or permit granted in terms of the MPRDA must be aligned with the date of execution of the relevant deed.

Conclusion

While the development of a South African oil and gas industry has the potential to facilitate significant economic growth, job creation and generation of tax revenue, regulatory certainty is a prerequisite for attracting the necessary foreign direct investment.

With global supermajors poised to invest significant capital sums, the Bill, if suitably promulgated and amended soon, would represent a vital step towards unlocking the potential of this industry in South Africa.



PROSPERITY THROUGH UNITY

Ezekiel Lol Gatkuoth Minister of Petroleum of the Republic of South Sudan

A statement encouraging the continued collaboration between OPEC and non-OPEC nations.

The stability of markets and global oil prices, and therefore the prosperity of our own country, are the priorities of the Transitional Government of National Unity of the Republic of South Sudan and the Ministry of Petroleum. There is no better demonstration of this than our collaboration with OPEC and non-OPEC members to arrest the decline of oil prices and bring new hope to oil producing countries in Africa. Through multi-lateral cooperation with partners, all with the same goal, we are proud to have made a positive impact on the oil and gas market for our own country, for our African neighbours, and for global producers.

In December 2016, for the first time since 2001, 24 OPEC and non-OPEC countries came together to manage oil output and reduce the oversupply in the market. This historic collaboration relied upon African countries, who showed great unity in the face of the oil oversupply challenge. The Republic of South Sudan joined other non-OPEC producers Sudan and Equatorial Guinea and OPEC producers Nigeria, Angola and Gabon to reduce production. Equatorial Guinea subsequently joined OPEC. In the 2016 deal we agreed to reduce our own production by 8,000 barrels per day. In total, the group pledged to remove 1.76 million barrels per day from the market. This was faithfully implemented since the beginning of 2017.

It is our conviction that the 2016 Declaration of Cooperation not only helped bring prices back to a more sustainable level; it rescued the oil and gas industry from imminent collapse.

Prospects are now good for the global industry in 2018. The Brent Crude Oil Price is at \$75 per barrel.

South Sudan is in a position to consolidate its security gains and begin operations in previously shutdown areas. For our oil industry to be the engine for growth it needs to be, collaboration is key. Making our plans alone, and committing only to the good of our country and not the good of the community of oil producers worldwide are not viable options. Greater cooperation is our agenda as we bring new investment to South Sudan.

To this end, we urge our fellow African producers to join us at the table. I was encouraged to see our neighbor Uganda next to me at the 173rd OPEC meeting at the end of 2017, along with other non-member African states Chad, Congo-Brazzaville, Ghana, Egypt and Sudan. At that meeting we agreed to extend the production cuts to the end of 2018

We hope to work with these African partners to bring mutual gains to our oil and gas industries through the transfer of technology and expertise. As a group, we can represent Africa on the global stage and make a positive impact on global markets. This is a new movement. We can succeed if we stand tall together.

South Sudan's prosperity depends on our collaboration and unity with countries that share our aims and values. We believe that we have a long-term agenda for economic growth and market stability that we can achieve together with OPEC and non-OPEC nations. That historic moment in 2016 was the beginning of a new era of cooperation. South Sudan is committed to deepening its partnership with OPEC and its alliance with other producers and continuing to work together for the common good of our nations.

FINANCING AND STRUCTURING LNG PROJECTS IN AFRICA

By **Paul Eardley-Taylor**, Oil & Gas Southern Africa, Standard Bank
Dezlyn Makhetha, Oil & Gas Southern Africa, Standard Bank



Introduction

Standard Bank is one of Africa's leading banks, with an on the ground presence in 20 African countries. The bank has an established Oil & Gas practice which serves relationships and executes transactions across the upstream, midstream and downstream sectors.

Africa's Current LNG Position

Africa started early in LNG, with Algeria exporting its first cargo to the UK as far back as 1964. Subsequently, until 2017, despite its established position in upstream Oil & Gas, Africa had operational plants in only four (4) countries: Algeria, Angola, Equatorial Guinea and Nigeria, with two plants in Egypt idle due to insufficient gas supplies. It is this article's argument that this position is soon to rapidly change, with multiple onshore and Floating LNG ("FLNG") projects under development, with FSRUs in operation and under development.

Africa's Future LNG Position

Africa's LNG export position is primarily changing due to:

- Several FLNG projects under development: Hilli Episeyo FLNG (Cameroon) has recently started-up; Ophir's Fortuna FLNG (Equatorial Guinea) is under advanced development; Coral FLNG (Mozambique), see below case study, recently achieved FID and Tortue FLNG (Senegal / Mauritania) is also under development;
- Several onshore LNG projects (more traditional in the industry) are under development: an additional train at Africa's largest plant, Nigeria LNG, is planned; multiple onshore trains are planned by two separate developers at Palma (Mozambique). In addition, the operation of the transformational Zohr field in Egypt, may lead to sufficient feedstock to facilitate the restart of the Idku and SEGAS projects. Tanzania is also a potential LNG exporter, but has made slower progress; and
- Lagging a little behind except in Egypt, several LNG import projects are under development.
- Utility scale import projects have been

proposed in Morocco and South Africa, with smaller FSRU-driven projects proposed in Benin, Ghana, Ivory Coast, Mauritius and Namibia,

Underlying Drivers

The drivers behind the likely changes in Africa's LNG position are due to the following:

- Globally, LNG is expected to be one of the world's fastest growing energy sources. LNG trade has increased from 244 Million Tonnes Per Annum ("MTPA") in 2015 to 293 MTPA in 2017 and over the period to 2035 is expected to increase to 575 MTPA in 2035;
- Material offshore gas discoveries have been made in each of Mozambique (c 200 Tcf) and each of Tanzania and Senegal / Mauritania. In each case, Africa's geographical position allows it to plausibly export LNG to each of Europe, Latin America, SE Asia as well as China and Japan;
- On the export side, FLNG technology has been developed, which facilitates mid-sized projects (1-3 MTPA sized) of high demand in a more commodified market that can accommodate a single offtaker. Interestingly, FLNG can technically be formed of two alternatives: new build ships (e.g. Coral FLNG) or conversions of existing vessels (e.g. HilliEpiseyo)
- On the import side, FSRU technology broke through in S.E. Asia and Latin America and is now gradually penetrating other global markets. In contrast to traditional land based import terminals (c 3 MTPA and above), FSRUs offer flexibility, portability (excluding some dedicated marine infrastructure) and a smaller entry point (c 1MTPA).

Case Study: Mozambique

As case study we address the ongoing Mozambique example. Mozambique is acknowledged as one of the world's poorer countries with current sovereign ratings of SD (S&P), Caa3 (Moody's) and CC (Fitch). However, national growth potential has changed since multiple gas discoveries in the offshore Rovuma Basin since 2010 amounting to c 200 Tcf. The resources are broadly equally divided

between Area 1 (Anadarko operated) and Area 4 (offshore ENI operated, onshore ExxonMobil). The resources are of such scale and located proximate to shore that Palma could become the world's second largest LNG export site (after Ras Laffan, Qatar). At time of drafting, it is plausible that Mozambique could have USD 60 bn of LNG projects under development within the next 18 months – Mozambique's 2016 GDP was USD 11bn.

Coral FLNG

Coral FLNG, with a debt size of USD 4.7bn, marks Africa's largest-ever project financing and the world's first FLNG project financing. The project is led by ENI (25%, also Operator). ExxonMobil farmed into Area 4 block last year (25%, all taken from ENI). Remaining stakes are held by CNPC (20%), Kogas (10%), Galp Energia (10%) and ENH (10%).

Within the transaction financing, Standard Bank was: the largest single commercial lender; Onshore Account Bank and Security Trustee; and was the only African lender to the project. The bulk of the financing was contributed by export credit agencies ("ECA's") including: BPI, KEXIM, Ksure, Sace and Sinasure (ECAs being a mainstay of global LNG financing).

Project Description

Coral South is a field located within Area 4, which also includes the Coral North and Mamba fields. Coral South is separate from the other fields and furthest from the shore. This distance is a key reason why the relatively new FLNG technology was chosen for development. Coral FLNG is only the fourth FLNG project globally after Petronas's Satu, Shell's Prelude and Cameroon's Hilli Episeyo (none project financed). A consortium consisting of TechnipFMC, JGC and Samsung Heavy Industries was selected as EPCIC contractors. The FLNG ship is under construction in South Korean and scheduled to reach the Mozambican shores around 2021 to ensure commissioning in 2022. Coral FLNG will produce 3.4 MTPA output to be exclusively sold to BP.

Financing & Structuring

The upstream part of the project is 100% equity funded and the liquefaction part project financed through USD 4.7bn on a 60:40 debt equity ratio. The project used multi-sourced project financing from 5 export credit agencies and 16 banks. Due to the scale of LNG projects (and their multi-sourced participation), project financing is typically used to fund LNG liquefaction projects. Due to the

ring-fenced nature of project financing, a very secure offtake is required to ensure the project can service its debt. For Coral FLNG, BP Plc will take 100% of output, but noting the project (and therefore the Lenders) will naturally take the performance risk of the Coral South field. The Area 4 shareholders are generally seen as strong entities, able to provide the customary completion support seen in LNG debt financings.

From its perspective, the Government of Mozambique showed commitment to the project by establishing the necessary regulatory regimes and timely project approvals. Underlying all of the Rovuma Basin's current and future LNG export projects is the 2014 Decree Law, which was passed following the completion and public dissemination of a Macroeconomic Study for Area 1 prepared by Standard Bank. It is a great achievement for Mozambique that it was able to execute the Coral FLNG project even in the midst of an ongoing sovereign default.

Mozambique LNG

At drafting, Mozambique LNG is a 12 MTPA onshore LNG plant being developed by Area 1, fed by the new, standalone Golfinho field. In the last 12 months, the project has made material progress: Marine Concessions Agreements have been executed; 5.1 MTPA of Offtake Agreements have been concluded with buyers; the resettlement of local villagers has commenced and, crucially, the Field Development Plan was formally approved by the Government of Mozambique. As part of the project, Area 1 has also agreed to provide domestic gas to Mozambique (in addition to contractual royalties).

Mozambique LNG is being developed on an integrated basis (i.e. the new Golfinho field will also be third party funded as well as the onshore LNG plant). Reference project costs are around USD 25bn, with a potential debt amount of USD 15bn (which would make it one of the world's largest LNG debt financings). FID could occur in 1st Half 2019.

Mamba LNG

At drafting, Mozambique LNG is a [10] MTPA onshore LNG plant being developed by Area 4, fed by the new Mamba field (which is contiguous with Area 1's Prosperidade field). Since ExxonMobil farmed-in to Area 4 in November 2017, we understand the Sponsors are considering a range of project development options. Mamba LNG will benefit from a number of the underlying contractual documents as Golfinho, for example, the Marine

Concessions Agreement and the resettlement of local villagers, which should give a number of development benefits. Few other details on structure or financing are available at date of drafting, but we expect FID could occur between 2nd Half 2019 and 1st Half 2020.

Conclusion

Based on recent developments, Africa is likely to be running at a rate of slightly over 1 LNG export project FID per annum over the period 2015 – 2020, of which more than half by number will be FLNG. This represents a material increase upon historical activity and reflects Africa's potential to supply the future global LNG market. An accompanying challenge will be to ensure Africa can achieve similar progress in terms of LNG imports (where possible).

Contributors' Profiles

Paul Eardley-Taylor is responsible for Standard Bank's Oil & Gas sector coverage activities for Southern Africa (11 countries), across upstream, midstream, downstream, services and process industry clients. Paul has 20 years of energy corporate and investment banking experience, covering the Oil & Gas, Power & Utilities and Renewables & Carbon sub-sectors, and has been based in Africa for 10 years. Paul has extensive

experience of the SA/Southern African energy environment, as adviser, banker and financier. Prior to joining Standard Bank in 2009, Paul worked for HSBC for over 10 years and gained extensive experience of transactions across EMEA and select global markets in Asia/Australasia. Paul holds degrees from Birmingham University; London University and a MBA from Henley Management College. Paul is a Fellow of the Securities & Investment Institute, a member of the Energy Institute and has completed Harvard Business School's Global Energy Seminar.

Dezlyn Makhetha, 9 Years experience in Banking (including Corporate Finance and Project Finance Advisory: Renewables). 5 Years of experience in Oil & Gas. Responsible for Standard Bank's Oil & Gas sector coverage activities in the following SADC countries: Botswana, Malawi, Mauritius, Mozambique, Zambia and Zimbabwe across upstream, midstream, downstream, services and process industry clients. Other responsibilities include origination for Corporate and Investment Banking (Investment Banking, Global Markets and Transactional Products and Services). Dezlyn is a CA(SA) registered with the South African Institute of Chartered Accountants and holds a Bachelors of Accounting and Bachelors of Accounting (Honours) degrees from the University of Stellenbosch.

UGANDA GOVERNMENT SELECTS CONSORTIUM TO DEVELOP, FINANCE, CONSTRUCT AND OPERATE A GREENFIELD OIL REFINERY IN HOIMA DISTRICT, UGANDA

Following the favourable evaluation of its private sector-led offer by the Uganda Government, the Albertine Graben Refinery Consortium (AGRC) comprised of YAATRA Ventures (www.YAATRAVentures.com), Baker Hughes, a GE company (www.BHGE.com), LionWorks Group (<http://LionWorksCapital.com>) and Saipem (www.Saipem.com), signed a project framework agreement confirming its selection for the realization of a 60,000 barrels per day capacity refinery with a project estimated value of around \$3 billion.

YAATRA Africa is an infrastructure development and financing company which provides innovative infrastructure solutions on the continent. LionWorks is a private equity company focused exclusively on pan-African infrastructure opportunities. Other companies involved are Saipem, a global leader in engineering, procurement, construction and installation, as well as drilling, in the oil and gas market that will act as services provider to the project investors, and BHGE, the only global Fullstream company, which will provide a comprehensive portfolio of equipment, technical and financial services.

The refinery, to be located in Hoima district, will process crude oil from fields developed by

Total, Tullow and China's CNOOC and future upstream operators. The Ugandan government has included in the project scope a refined-product pipeline to Kampala for transporting finished products from the facility as well as the distribution of refined products

"The Ugandan Government's commitment to fully realize its oil and gas sector and acceptance of the innovative solution provided by AGRC is driven by its strategic goals, leading to achieving middle income status. We look forward to the execution phase and delivering a world class facility that represents a unique opportunity for investors. The Project will deliver a broad, significant economic development impact for Uganda and the East

Africa region." Rajakumari Jandhyala, President & CEO, YAATRA Ventures, said.

"The Government's selection of our Consortium as preferred bidder is a testament to the collaborative efforts of these best-in-class enterprises leveraging each other's strengths to produce a solutions-focused proposal. When executed, this will help develop the industry infrastructure and provide livelihood for the Ugandan people and, by extension, other East African countries" said Ado Oseragbaje,

BHGE's Vice President, Sub-Saharan Africa.

Ronald Mincy, CEO & Managing Partner of LionWorks, commented "This is a unique opportunity to work with Uganda on a transformational project that will provide jobs and skills to the country through improved access to substantially cleaner refined products for Uganda and the East Africa region."

Maurizio Coratella, Saipem E&C Onshore Division Chief Operating Officer said, "The selection of AGRC will allow the development of a robust proposal leveraging both financial capabilities of YAATRA Africa and LionWorks and the technical resources and expertise of Saipem and BHGE, addressing the Government's expectations for the growth of the energy sector. We are pleased to have been selected to help Uganda delivering this Project."

Today's announcement follows the formal announcement of the Ministry of Energy regarding the conclusion of the PFA agreement. The Albertine Graben Refinery Consortium will have each member undertake a specific role during Pre-Final Investment Decision (Pre-FID) Activities and Engineering, Procurement and Construction (EPC) of the refinery.

LOCAL CONTENT: OIL LESSONS FOR THE FUTURE

By **NJ Ayuk**, Chief Executive Officer, Centurion Law Firm



If any two words have dominated the debate about oil and gas in Africa over the last few years, they have been “local content”. The term encapsulates the idea that oil revenue can be used to develop the wider economy by making it local. The term has until recently been narrowly coined in reference to the nationalisation of industry, but more recently it has been used in the wider pan - African sense of driving not only national interests, but regional and continent-wide interests more generally, before extending opportunities to international actors. This is a welcome development. African nations would do well to incorporate this approach into their own local content regulations, a consequence of which is likely to be increased intra-African trade and co-operation.

After all, despite decades of continued oil and gas exploration and production, it is generally understood that some of Africa’s wealthier oil producers have failed to not only integrate their own people in this dominant industry, but also to provide their general population with a better standard of living. The reasons for these failures are multiple: lack of infrastructure, lack of trained personnel, ill-designed policies, corruption, Western bias against local companies, etc.

Solutions to these problems have been deployed, with higher and lower degrees of success. However, after sixty years of oil and gas industry in Nigeria, for instance, the debate on local content continues, with the most common conclusion being that not enough is being done to make the industry more native and beneficial to local citizens.

Past failures

Nigeria, with its long career as Africa’s biggest oil producer, represents the best example of what to do and in equal measures, what not to do when it comes to developing and enforcing local content policies.

Up until the 1990s, Nigeria’s efforts to localize its oil and gas industry were focused on ownership

and local participation. The general understanding was that if international oil and gas companies (IOCs) were at least partially owned by Nigerians and employed Nigerian workers, the capital would eventually drip down to the rest of society.

Over the years, legislation was created to demand that IOCs employed higher and higher quotas of Nigerians in their workforce, sometimes as high as 90%. As the country lacked trained human resources, training programs had to be created across the country. Thousands of Nigerians were trained as engineers and technicians and integrated the oil and gas industry. Despite this, the economic benefits the industry was supposed to bring to the rest of the economy failed to appear.

This happened because the oil industry is a capital-intense employment-light industry. The sector that supplies over 70% of Nigeria’s revenue employs less than 0.2% of the population. At the same time, this capital influx causes inflationary pressures, making the cost of living higher and other economic sectors less competitive. Ownership did not solve issues either, as the capital remained concentrated on the hands of the very few. The industry that supplied the country with all its money was making its people poorer and society more divided.

Nigeria’s example, in this regard, is hardly unique. This approach to local content can be seen, in one way or the other, in places like Angola, South Africa, or Gabon. After decades of oil and gas production, it became clear that little was achieved with these approaches.

Paradigm shift

Fast forward to 2001 and a new concept emerges in the debate, capital domiciliation. This new vision understood that the real economic value of the oil and gas industry for wide economic development was not in direct employment but in the extensive associated industries that could be developed around this industry.

Following this idea, the government tried to import the work that these companies were forced to do abroad because Nigeria had no internal production capacity to produce the products and services they needed. As a point of reference, by 2002, 95% of all capital expenditure made by IOCs, which amounted to USD\$8 billion, was made outside of Nigeria. This was a turning point for Nigerian local content. Since then, authorities have imposed minimum quotas to IOCs to procure equipment, materials and services in Nigeria, 45% by 2005 and 70% by 2010. Many other regulations were imposed over the years, including minimum quotas for the use of Nigerian banks for project funding and mandatory first consideration to Nigerian companies when awarding contracts.

However, there is little the law can do if local capacity does not exist. Through the work of the National Committee on Local Content Development, authorities evaluated the existing production and service capacity in the country. The conclusion was that production capacity was evidently insufficient.

A number of initiatives were put in place to help fund capacity building in the country, all the while demanding that oil companies submit local content plans for the domiciliation of manufacturing and services within each contract proposal. In this way, the government was forcing private companies to finance manufacturing capacity building themselves.

This approach of the last two decades had concrete results. Today, Nigerdock in Lagos produces FPSO topsides worth billions with Nigerian workers and Nigerian materials. It is Africa's biggest shipyard and strikes deals with some of the industry's biggest operators. Just last year, Nigerdock successfully concluded many of the top side structures for Total's USD\$3.3 billion Engina FPSO. Lagos Deep Offshore Logistics Base (LADOL) is today one of the most advanced oil and gas logistics and engineering hubs in the whole continent, and it is a fully Nigerian privately owned operation. Pipe mills, shipyards, support vessel fleets and many other services now employ dozens of thousands of people and pump billions into the economy. These services have thrived because they had the means to build their own capacity and the assurance that IOCs in Nigeria would be mandated to work with them.

Learning by example

The Nigerian story is hardly an example to follow blindly. After all, in 2018, local content targets set for 2010 are far from achieved.

A lot is left to do from all sides, from the government, to the IOCs to the Nigerian companies themselves, which many times fail to take advantage of the protection the law offers.

Political will and transparency remain crucial, as much as coordination with all parties to be able to adapt to the demands of the industry.

In January 2018, the Nigerian lower house of parliament passed the Petroleum Industry Governance Bill (PIGB), after the same document was reviewed by the senate. The bill had been under discussion for 17 years, and the PIGB is just one of many sections of the overarching Petroleum Industry Bill. While a welcome development that should bring stability and development to the industry, by most standards, it is too little too late.

Nigeria is not the only country from which to take lessons. In 2014, Equatorial Guinea showed leadership in pushing not only its own interests but those of intra-African trade and energy cooperation. It instilled in its local content laws that if services, products or workers are not available in the country preference must be given to neighbours. First, IOCs must give preference to the citizens or companies of the neighbouring Economic and Monetary Community of Central Africa, and if no adequate resources can be found there, they must first give preference to African companies and citizens, before resorting to other regions of the world. This and other local content measures are coupled with another fundamental element for the success of these policies, institutional power. Today, the Ministry of Mines and Hydrocarbons of Equatorial Guinea under the leadership of H.E. Gabriel Mbagha Obiang Lima, has the power to revoke oil contracts if companies do not comply with local content rules.

By following Equatorial Guinea's precedent, it is submitted that African nations should endeavour to promote not only their individual national interests but to extend the notion to regional and pan-African development. In so doing, this will create a much needed sense of solidarity and community amongst neighbouring African

countries, with the long term goal of promoting intra-regional trade and co-operation.

Under the light of the emergence of Tanzania, Uganda, Kenya, South Sudan, Mozambique, Senegal and other African nations as oil and gas producers, learning from these examples becomes ever more pertinent. Old and new hydrocarbon producers have the opportunity to create wealth for their economies and use the proceedings from the industry to create jobs, build infrastructure, promote social development and ultimately raise the standards of living of their citizens, but only if they learn with the mistakes of the past.

Today, capital domiciliation through investment in associated industries, training programs, local employment quotas, development funds, preferential choice for local and regional companies and the demand of strong local content and domiciliation programs from IOCs, overseen by well-funded

and well-informed national institutions with the power to enforce legislation on oil operators, are a must. These are not foolproof solutions for the success of local content policies in Africa, but they are the very least that the citizens of these nations deserve from those that are reaping the benefits of exploiting their countries' natural resources.

Contributor's Profile

NJ Ayuk JD/MBA is a leading energy lawyer and a strong advocate for African entrepreneurs, he is recognised as one of the foremost figures in African business today. A Global Shaper with the World Economic Forum, one of Forbes' Top 10 Most Influential Men in Africa in 2015, and a well-known dealmaker in the petroleum and power sectors. He is the author of "Big Barrels" Africa Oil and Gas and Its quest to prosperity. He is the founder and CEO of Centurion Law Group and the Africa Energy Chamber of Commerce.

SNAPSHOT: CRUDE OIL HITS US\$70 IN APRIL, OPEC OUTPUT DECREASES,

Oil prices rise on expectations of tightening market

ICE Brent crude oil front-month prices continued to increase and have traded above US\$70 per barrel (p/b) so far in April 2018, supported by persistent geopolitical tensions in the Middle East region, a decline in output in Venezuela, as well as ongoing strong demand, mainly from China. Oil prices increased by 10.7% from the end of 2017 to close at US\$74 p/b on April 25, 2018. Also, crude oil prices were driven by expectations of a tightening market amid sustained OPEC and non-OPEC oil production cuts, and by other supply risks related to U.S. strict measures on Iran, Russia and Venezuela. In contrast, oil prices are still constrained by rising U.S. oil output, which is benefiting from the OPEC cuts to gain market share, mainly in Europe. In fact, U.S. exports to Europe are expected to reach an all-time high of about 550,000 b/d in April. In this context, the Brent-WTI spread reached its highest level so far in 2018 at US\$7.1 p/b on April 23. Overall, upward pressures on oil prices are expected to last until May 12, as traders remain focused on possible U.S. sanctions on Iran. Overall, Brent oil prices are expected to average US\$65 p/b in the second quarter of 2018, US\$63 p/b in the third quarter and US\$62 p/b in the fourth quarter of the year, while WTI prices are

projected to average US\$61 p/b in the second quarter, US\$59 p/b in the third quarter and US\$58 p/b in the fourth quarter of 2018.

OPEC's oil output decreases in March 2018

Crude oil production of the Organization of Petroleum Exporting Countries (OPEC), based on secondary sources, averaged 31.96 million barrels per day (b/d) in March 2018, consisting a marginal decrease of 0.6% from 32.16 million b/d in the preceding month. Saudi Arabia produced 9.9 million b/d in March 2018, equivalent to 31.1% of OPEC's total oil production, followed by Iraq with 4.4 million b/d (13.8%), Iran with 3.8 million b/d (11.9%) and the UAE with 2.8 million b/d (9%).

Egypt to attract US\$10bn in FDI to oil & gas sector in FY2018/19

Egypt expects foreign direct investments (FDI) in its oil & gas sector to reach US\$10bn in the fiscal year that ends in June 2018, which would constitute a rise of 25% from FY2016/17, driven by investments in major gas projects in the Mediterranean. Also, the country seeks to attract another US\$10bn in FDI in FY2018/19, driven by efforts to increase hydrocarbon supply from newly discovered fields, which include the Zohr field that Italian company Eni S.p.A discovered in 2015. Egypt plans to halt

hydrocarbon imports in 2019 once it becomes a gas-exporter.

Nigeria's oil output up 9% in fourth quarter

Nigeria's oil production averaged 1.91 million barrels per day (b/d) in the fourth quarter of 2017, up by 8.5% from 1.76 million b/d in the same period of 2016. Nigeria has been exempted from oil output cuts stipulated by the OPEC agreement since November 2016, given the frequent disruption to its oil production because of attacks on pipelines and oil facilities in the Niger Delta. However, increased stability in the Nigeria Delta throughout 2017 reduced output disruptions and helped output recover.

Angola's oil production at 1.63 million b/d in 2017

Oil production in Angola reached 1.63 million barrels per day (b/d) in 2017 relative to 1.72 million b/d in 2016. Angola, which is the second largest oil producer in Africa, has been constrained by the production limits set under the OPEC agreement. Angola expects oil production to average about 1.6 million b/d this year. In parallel, Angola's state owned oil company, Sonangol, announced profits of US\$224m for 2017, up from US\$81m in 2016.



IS CRYPTO FUNDRAISING BRINGING NEW OPPORTUNITIES TO AFRICA?

Investing in any of the top digital currencies is well above the means of most Africans. For example, one bitcoin in Nigeria values at more than three million naira. This is in a country where around half its population survives on less than 800 naira (just over \$2) a day. The minimum wage in Nigeria currently stands at 18,000 naira (around \$60) per month. This situation is reflective of several other countries in Africa.

While the prices of cryptocurrencies such as bitcoin remain out of reach for most Africans, there is a growing urge among many Africans to join the quickly expanding crypto ecosystem. Several are now looking at Initial Coin Offerings (ICOs) as their way into the crypto landscape. Simply put, an ICO gives people from the world over, Africa included, an opportunity to invest in projects with international appeal that are typically less expensive than bitcoin.

ICOs, the world over, have become an unconventional yet popular way of raising funds for startups. In 2017, ICOs managed to rake in more than \$3.5 billion. In the African context, where most banks are not forthcoming with loans in cases where founders of startups have little to no capital, ICOs present unparalleled opportunities.

African ICOs

While founders from different countries are turning to ICOs for raising capital, blockchain-based African startups are also joining the bandwagon. African startups such as Humaniq and Cryptogene have already concluded their ICOs successfully and are now in the deployment stage. Here are a few others that are in the limelight now:

- **Africunia.** Africunia aims to become the first completely digital blockchain-based open bank. Other than offering regular banking solutions, it

aims to integrate crypto startups with conventional banks and carry out bank-to-bank transactions. Tokens issued for its ICO are called AFCASH, and one may use them to avail of the company's crypto services. Over a period of 10 years, it plans to create 10 billion AFCASH, releasing one billion into circulation annually.

- **SureRemit.** SureRemit aims to do away with the typically high costs that come with carrying out cross border transfers using traditional companies such as MoneyGram and Western Union. With SureRemit, users can look forward to reduced fees, and it also plans to monitor the spending of funds to do away with mismanagement. It successfully raised around \$7 million through its ICO.
- **AgreCoin.** AgreCoin offers a unique solution for people who want to combine their top performing crypto coins under a single portfolio. It also lets users invest in less-than-popular coins that have seemingly good prospects. A total of 50 million tokens were to be issued for its ICO that launched in December 2017.
- **Nurucoin.** Nurucoin is designed to serve as a pan-African cryptocurrency that will foster trade within different parts of the continent. It aims to do away with the typical problem of steep fees charged by middle men when it comes to exchange of currencies within Africa. While Nurucoin has stiff competition, what sets it apart is its distinctly continental approach. Its ICO is now closed.

Conclusion

Crypto fundraising in the form of ICOs has given a number of startups in Africa the ability to put their plans in action. While their numbers pale in comparison to ICOs from Europe or North America, it is only a matter of time that more Africans look at ICOs, not just as a way of raising funds, but also as a means of investment.

COMMODITIES OUTLOOK: BASE METALS AND PRECIOUS METALS PROJECTIONS FOR 2018

Base Metals: Zinc prices to drop throughout 2018

The LME zinc cash price have recovered from a four-month low of \$3,087 per ton on April 12, 2018 to reach \$3,129 per ton on April 25. Zinc prices have been on a downward trend since Mid-February on news of a rise in inventories, amid subdued growth in the construction sector as well as a stronger US dollar. Zinc mine supply is forecast to rebound by 3.6% from 13 million tons in 2017 to 13.5 million tons in 2018, due primarily to a pick-up in production at existing mines and new projects coming online outside China. Also, refined output is expected to increase by 3.5% from 13.7 million tons in 2017 to 14.2 million tons in 2018. In comparison, refined consumption growth is projected at 1.8% in 2018 and demand is expected to reach 14.7 million tons this year, up from 14.4 million ton in 2017. As such, the market deficit is expected to narrow from 720,000 tons in 2017 to 490,000 tons in 2018. Overall, zinc prices are expected to decline throughout 2018, from an average of \$3,411 per ton in the first quarter of the year to an average of \$3,200 per ton in the second quarter, \$3,000 per ton in the third quarter, and to \$2,800 per ton in the fourth quarter of 2018. .

Base Metals: Aluminium prices reach seven-year high on U.S. measures

The LME aluminium 3-month future averaged \$2,159 per ton in the first quarter of 2018, constituting an increase of 16.4% from an average of \$1,856 per ton in the first quarter of 2017 and a growth of 1.7% from an average of \$2,124 per ton in the fourth quarter of 2017. Prices reached a seven-year high to close at \$2,537 per ton on April 18, 2018 amid concerns over subdued global supply following news that the U.S. Administration will impose new sanctions on several Russian entities, including Russian aluminium producers. In fact, the imposition of U.S. sanctions on the Russian company Rusal, the world's second largest aluminium producer, would lead to a significant deficit in the aluminum market and support the metal's price. Also, the 10% increase in tariffs on imported aluminum to the U.S. supported aluminum prices so far this year. Further, China's environmental initiatives in tackling pollution constitute a key upside risk to power costs for the smelting industry. As such, aluminum prices are forecast to average \$2,075 per ton in the second quarter of 2018, \$2,150 per ton in the third quarter and \$2,200 per ton in the fourth quarter of the year. Source: Deutsche Bank

Precious Metals: Production surplus in platinum market to widen in 2018

Platinum prices averaged \$976.4 per troy ounce in the first quarter of 2018, nearly unchanged from the same quarter of 2017. Also, the metal's price declined from an average of \$988 an ounce in January and February 2018 to \$953 an ounce in March, reflecting lower autocatalyst demand for the metal following Germany's ban of diesel-powered cars at end-February. Further, global platinum demand is projected to reach 7.2 million ounces in 2018, which would constitute a decrease of 2% from 7.3 million ounces in 2017, mainly due to lower autocatalyst demand, according to Deutsche Bank Research. The global autocatalyst sector is projected to account for 46% of total demand in 2018, followed by the jewellery industry (21.6%), the chemicals sector (8.3%) and the glass industry (5%). While the global platinum production is projected to reach 7.4 million ounces in 2018, which would reflect a marginal decrease of 0.4% from 2017, as the drop in Russian and South African supply would be mostly offset by a rise in North American output. Still, prices are projected to increase from an average of \$950 an ounce in 2017 to \$1,008 an ounce in 2018.

Precious Metals: Palladium prices to peak in 2018 and to decline thereafter

Palladium prices averaged \$1,021 per troy ounce year-to-April 25, 2018, constituting an increase of 32% from \$773 an ounce in the first four months of 2017, mainly driven by strong autocatalyst demand. However, the metal's prices declined by 6.6% week-on-week on April 25, 2018, due to easing concerns that the U.S. Administration will impose sanctions on Russian entities that include Nornickel, the world's largest palladium producer. The global palladium demand is projected to reach 9.5 million ounces in 2018, which would constitute an increase of 0.6% from 9.4 million ounces in 2017 by Deutsche Bank. The global autocatalyst sector is projected to account for 85.7% of demand for palladium in 2018, followed by the chemicals and electronics sectors (4.7% each), the dental industry (4.5%) and the jewelry sector (1.4%). Also, global palladium production is projected to reach 8.9 million ounces in 2018, nearly unchanged from 2017, as an expected rise in North American supply would be offset by an anticipated decline in South African output. In turn, palladium prices are projected to increase from an average of \$871 an ounce in 2017 to a peak of \$1,106 an ounce in 2018.

WHAT ANALYSTS ARE SAYING ABOUT AFRICA'S CREDIT AND ECONOMIC OUTLOOK

AFRICA: Medium-term growth outlook subject to significant downside risks

The International Monetary Fund projected real GDP growth in the economies of the West African Economic & Monetary Union (WAEMU), which consist of Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo, at 6.4% in 2018 and to average 6.3% annually during the 2019-22 period. It noted that the region's economic growth has been supported by strong domestic demand, despite lower terms of trade, social tensions and security challenges within the region. Further, it projected growth in 2018 to be the highest in Côte d'Ivoire at 7.4% and the lowest in each of Guinea-Bissau, Mali and Togo at 5%. It expected the inflation rate to average 1.7% in 2018 and to remain subdued at about 2% in the 2019-22 period. The Fund indicated that the region's medium-term growth outlook is subject to significant downside risks that include persistent regional security issues, delays in implementing fiscal consolidation and structural reforms, higher global oil prices, a slowdown in global economic activity and tighter international financing conditions.

ANGOLA: Outlook revised to 'stable' on policy adjustments

Fitch Ratings affirmed at 'B' Angola's long-term foreign-currency issuer default rating, and revised the outlook on the rating from 'negative' to 'stable'. It attributed the outlook revision to monetary, fiscal, structural and exchange rate adjustments that aim to support Angola's external position and public finances. It forecast real GDP growth to accelerate from 1.4% in 2017 to 2.3% in 2018, due to higher oil export receipts and a more favourable operating environment in the non-oil sector. Still, it expected Angola's medium-term growth to underperform its growth rate of 10.2% during the 2005-15 periods. Further, it noted that the spread between the parallel and official exchange rates, which stood at 150% in 2017, narrowed to around 90% as at April 2018 but remains wide, which indicates that the Angolan kwanza would continue to depreciate. As such, it projected the kwanza to depreciate from AOA219 against the US dollar on April 22, 2018 to AOA230 against the dollar at end-2018.

MOROCCO: Rating Agencies Affirm Sovereign Ratings

S&P Global Ratings affirmed Morocco's short- and long-term sovereign ratings at 'BBB-/A-3', with a 'stable' outlook. It said that the ratings are supported by the country's manageable fiscal deficits, ongoing

fiscal consolidation, moderate public debt levels and narrowing current account deficit. But it said that the ratings are constrained by Morocco's low GDP per capita, high reliance on the volatile agricultural sector and high social needs. It projected real GDP growth to average 4% annually during the 2018-21 periods, in case of sustained growth in agricultural production and a gradual pick up in non-agricultural output. In parallel, Fitch Ratings affirmed Morocco's long-term Issuer Default Rating at 'BBB-', with a 'stable' outlook. It expected Moroccan authorities to gradually broaden the Moroccan dirham's floating bands in coming years. Further, Moody's Investors Service indicated that Morocco's 'Ba1' rating is supported by the country's improved fiscal balance and structural shift towards industries that have higher value-added exports, which could lead to higher non-agricultural growth and a gradual decline in the public debt level.

ETHIOPIA: Ratings affirmed on moderate fiscal deficits and strong growth prospects

S&P Global Ratings affirmed Ethiopia's foreign and local currency sovereign ratings at 'B', with a 'stable' outlook. It indicated that the ratings balance the country's moderate fiscal deficits and stronger-than-peers growth prospects, with its low GDP per capita, weak external liquidity position and limited monetary policy flexibility. It forecast real GDP growth to average 8.6% annually during the 2018-21 period, supported by large-scale public investments and returns from key infrastructure projects that are completed or near completion. Further, S&P projected the budget deficit to narrow marginally from 3% of GDP in 2017 to an average of 2.7% of GDP annually during the 2018-21 periods, supported by tax reforms and the rationalization of public investments.

COTE D'IVOIRE: Favourable outlook amid robust growth

The International Monetary Fund indicated that Côte d'Ivoire's real GDP grew by 7.8% in 2017 despite lower cocoa prices. It added that the country's economic performance under the IMF-supported program was satisfactory in 2017. Further, it said that the growth outlook is favourable, as it projected economic activity to remain strong in the medium term. It expected the inflation rate to remain subdued and the fiscal deficit to be contained at 3.8% of GDP this year, in line with the program's objectives. It considered that continued fiscal consolidation, solid debt management and supply-side reforms will support high growth.

AFRICAN EQUITY MARKET INDICATORS AS AT 30-APRIL-2018

Country Name	Index Name	Index at 30-April	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Botswana	BSE DCI	8,446	-1.67	-4.67	-9.56	8,419	9,379	2.689
BRVM	IC Comp	236	-2.77	-2.97	-13.93	214	278	9.025
Egypt	EGX 30	18,296	4.84	21.82	47.15	12,345	18,414	13.342
Ghana	GSE ALSI	3,489	3.63	35.26	84.02	1,883	3,536	4.210
Kenya	FTSE NSE15	179	-6.14	4.84	34.66	133	197	13.309
Malawi	MSE ALSI	27,092	7.14	25.44	78.19	15,204	27,092	14.520
Mauritius	SEMDEX	2,287	-0.06	3.83	13.37	2,015	2,310	3.317
Morocco	MORALSI	13,028	-0.26	5.16	11.94	11,481	13,388	7.038
Namibia	Local	1,403	1.19	7.97	31.13	12	1,461	22.819
Nigeria	NIG ALSI	41,269	-0.57	7.91	60.16	25,639	45,322	10.224
Rwanda	RSEASI	133	-0.04	-0.31	4.32	124	133	0.347
South Africa	JSE ALSI	58,252	3.93	-2.10	8.52	50,750	61,777	16.260
Swaziland	SSX ALSI	414	0.00	1.77	7.21	386	414	2.420
Tanzania	DAR ALSI	2,429	2.44	1.38	4.94	404	2,490	19.266
Tunisia	TUNIS	7,125	-0.25	13.41	26.14	5,633	7,195	7.962
Uganda	USE ALSI	2,172	-1.41	8.55	38.05	1,556	2,270	11.752
Zambia	LuSE ALSI	5,582	0.61	4.78	22.14	4,422	5,608	4.557
Zimbabwe	IDX (USD)	330.66	13.63	2.06	130.91	25	534	10.173

SELECTED AFRICAN CURRENCY EXCHANGE Vs. US DOLLAR AS AT 30-APRIL-2018

Country Name	Currency Name	Index at 30-April	1-month % Δ	YTD % Δ	1-Year % Δ	1-Year Low	1-Year High	30 Days Volatility %
Algeria	Dinar	114.95	-0.64	-0.17	-4.94	107.60	115.80	2.527
Angola	Kwanza	226.08	-5.24	-25.69	-26.09	164.88	226.08	10.237
Botswana	Pula	0.10	-2.39	0.39	6.36	0.09	0.11	6.628
CFA Franc	CFA Franc	555.92	-2.04	1.49	8.58	527.24	608.76	12.361
Egypt	Pounds	17.65	-0.03	0.71	2.66	17.57	18.17	3.245
Ethiopia	Birr	27.45	0.26	0.49	-15.80	22.53	27.61	3.905
Ghana	Cedi	4.47	-1.23	1.16	-5.51	4.16	4.64	3.679
Kenya	Shillings	100.35	0.78	2.82	2.74	99.91	104.18	1.670
Malawi	Kwacha	738.91	-1.90	-1.81	-1.70	717.67	738.93	9.008
Mauritius	Rupee	34.10	-1.66	-1.54	2.03	31.74	35.66	11.311
Morocco	Dirham	9.29	-0.85	0.40	6.75	9.09	11.87	3.981
Mozambique	Metical	59.69	2.88	-1.78	8.90	57.57	65.55	9.158
Nigeria	Naira	360.04	-0.01	-0.01	-14.04	305.30	369.50	0.795
Rwanda	Franc	862.50	-0.87	-0.98	-4.23	425.00	872.96	5.523
South Africa	Rand	12.46	-4.90	-0.61	7.65	11.51	14.57	11.936
Tanzania	Shilling	2,270.16	-0.74	-1.57	-1.49	2,137.00	2,284.31	3.221
Tunisia	Dinar	2.44	-0.35	0.84	1.17	2.35	2.56	11.012
Uganda	Shilling	3,713.90	-0.65	-1.90	-2.19	3,552.25	3,716.74	1.996
Zambia	Kwacha	9,925	-1.6816	0.5108	-6.05	8,766	10,388	16.021

SELECTED AFRICAN GOVERNMENT INTERNATIONAL BONDS AS AT 30-APRIL-2018

Country Name	Maturity	Price at 30-April	Mid-Yield at 30-April	1-month Yield Chg (%)	YTD Price Change (%)	Price 1-Year Low	Price 1-Year High	Amount Outstanding (US\$ M)
Angola	12-Nov-25	112.821	7.259	0.072	-2.455	102.261	118.576	USD
Cameroon	19-Nov-25	115.259	6.874	-0.051	-4.233	114.221	122.002	USD
Congo	30-Jun-29	88.071	7.603	-1.003	-0.428	65.758	89.100	USD
Cameroon	19-Nov-25	115.259	6.874	-0.051	-4.233	114.221	122.002	USD
Egypt	30-Apr-40	95.618	7.277	0.215	-5.598	91.804	103.215	USD
Ethiopia	11-Dec-24	101.309	6.377	0.360	-3.574	96.463	107.070	USD
Gabon	16-Jun-25	99.925	6.962	0.328	-4.045	95.680	106.780	USD
Ghana	14-Oct-30	129.696	7.114	0.116	-5.967	120.412	141.231	USD
Kenya	24-Jun-22	103.844	6.113	0.160	-2.694	98.766	108.350	USD
Ivory Coast	31-Dec-32	95.997	6.420	0.060	-4.213	93.015	101.626	USD
Morocco	11-Dec-42	104.306	5.188	0.173	-8.341	104.229	116.038	USD
Namibia	29-Oct-25	98.579	5.484	0.154	-3.576	98.159	105.604	USD
Nigeria	12-Jul-23	104.435	5.383	0.191	-1.839	100.110	107.418	USD
Rwanda	02-May-23	102.799	5.969	0.177	-2.103	101.801	106.237	USD
Senegal	30-Jul-24	102.917	5.686	0.267	-5.057	102.501	109.777	USD
South Africa	24-Jul-44	93.655	5.850	0.183	-6.811	90.553	103.430	USD
Tanzania	09-Mar-20	103.560	6.432	3.985	-1.528	103.513	106.272	USD
Tunisia	19-Sep-27	109.906	6.802	-0.022	-0.596	108.880	111.481	USD
Zambia	30-Jul-27	100.696	8.854	0.810	-10.601	100.681	114.654	USD

Compiled by Capital Markets In Arica



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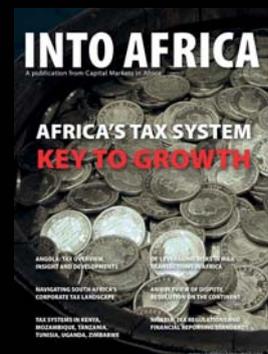
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