

## Wind of Change in the Gabonese Hydrocarbons Sector?

**G**abon is a central African country rich in natural resources. It is bordered by Cameroon and Equatorial Guinea to the north, the Republic of Congo to the east, and by the Atlantic Ocean to the west. With a population of and a surface area of around 268,000 sq km, Gabon is a sparsely populated country with forests covering 85% of the territory.

Gabon also possesses one of the highest urbanization rates in Africa, with more than four in five Gabonese citizens living in urban areas. The capital Libreville and the economic capital of the country Port-Gentil are home to 59% of the population. One in two Gabonese citizens is under the age of 20, and the fertility rate in urban areas stands at almost four children per woman, against six in rural areas, according to the 2012 Second Demographic and Health Survey conducted in Gabon.

Oil remains the lifeblood of Gabon's economy, representing half of the State's revenues and around 80% of its export earnings in 2014. The country benefits from relatively light, sweet crude from accessible onshore deposits, and has potential in deep offshore blocks. However, the absence of any recent major oil discoveries, declining production at mature fields and, above all, the halving of international oil prices over the past years have dampened the short-term outlook, leading to a push to aggressively increase enhanced oil recovery techniques and new exploration.

### The 2014 Hydrocarbons Law at a Glance

Gabon introduced a new Hydrocarbons Law in 2014 (Law no. 011/2014 of August 28). Under discussion since 2010, the law codified current contractual practice in the industry, with a move from royalty-based concessions to PSCs, and its main goal was to provide greater transparency in the industry. According to stakeholders, the new law provided a more structured framework for oil operators and was generally welcomed. However, some actors believed that setting a minimum threshold for fiscal terms would prove to be detrimental by making the oil and gas industry less attractive. In addition, promoting competition among financially and technologically capable operators would be, in their opinion, the best way to ensure balanced economic terms.

Compared to the 1962 and 1980s legislation, the new law created a far clearer legal framework for the oil and gas industry, while at the same time providing for new environmental protection standards, such as stricter limits on natural gas flaring. The law most notably defined five different types of contracts – exploration agreements, contracts for production and sharing of production, those for exploration and sharing of production, service contracts, and technical evaluation agreements – setting out the rights and obligations of the parties under each type of contract. In anticipation of the new legislation coming into force, many new PSCs were signed prior to the promulgation of the law for blocks awarded in the 2013 licensing round, as well as for existing producers. Subsequently, seven companies were awarded PSCs for nine blocks in autumn 2014, while numerous others were able to secure renewals of their agreements and licenses.

The new law also underlined Gabon's intent for the State to play a more direct role in the industry, expanding the scope of activity for the Gabon Oil Company (GOC). The State is now entitled to take up to 55% in any new production field, while also having the right to a free carry of 20% in every new PSC. GOC also has the right to purchase up to an additional 15% in a PSC at market rates, and the ability to acquire at market rates a maximum participating interest of 20% in the equity of any company applying for or holding an exploitation title.

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In addition to carving out a larger share of operations, the State can now see increased benefits from a new

fiscal and revenue-sharing regime applicable to PSCs laid out in the 2014 law. Corporate tax remained at 35%, in line with the general tax rate, though it is no longer included in the State's share of profit oil, thus affecting project profitability for the IOCs. However, the law also incorporated a measure of flexibility: four of the seven fiscal rules were open to negotiation and were determined at the time of PSC signing, including signature and renewal bonuses, cost recovery and profit oil, and calculation of proportional royalties. Profit oil is shared on a sliding scale basis, with a minimum share for the State in the first tranche of no less than 55% in conventional oil and 50% in deep offshore, on par with other regional oil producers. Cost recovery petroleum has now also been limited to 65% for conventional fields and 75% for deep offshore.

## The Current Local Content Requirements

As governments look for ways to elevate local capacity and bolster economic development, finding the right balance in local content policies and programs can incentivize financial investment and technical and technological transfers that will benefit countries competing to attract the best companies, as well as companies searching for the most attractive markets to maximize efficiencies and manage costs. Pressure to use local content (e.g. local workers, companies, goods, and services) in large or mega-projects continues to increase throughout the developing world. For growing markets, particularly in Africa, if adequately managed it can be a catalyst for rapid development.

As is the case in many of Africa's hydrocarbons producers, the Gabonese government is also seeking to support the development of local small- and medium-sized enterprises providing services to multinationals in the oil and gas industry, as well as increasing the employment and training of nationals. The 2014 Hydrocarbons Law reasserts principles of existing national labor legislation in terms of priority employment for nationals with equivalent skills and qualifications, as well as the prioritization of local subcontractors. As a result, the government and foreign oil operators have a common interest in ensuring that there is a qualified local workforce if they are to meet local hiring quotas. The truth is that while currently oil firms' workforces should be at least 90% made up of locals, this quota can rarely be met due to a lack of qualified or specialized workers.

Due to this difference between policy and statutory requirements and local workforce availability, there has been a push to increase training and education capacity. Foreign oil producers such as Total, Shell and Perenco joined forces with the government to create the Oil and Gas Institute, located in Port-Gentil, which received formal recognition in June 2014. A course in petroleum engineering by France's IFP Training, including five-month internships, was also launched in March 2014. In addition, Total also provided funding to the "École Polytechnique de Masuku" in Franceville, to offer a Master's degree in petroleum engineering, while Addax sponsored engineering students and provided funding for equipment at the same school under a partnership formed in May 2014.

## The Need of a New Legal Framework for the Gabonese Oil Sector

Gabon is among the top five oil producers in sub-Saharan Africa and has been an oil producer for more than 50 years. It reached its peak 12 years ago when oil production hit 370,000 barrels per day (bpd) and has been declining since to its current level of 200,000 bpd. To combat the natural decline of mature fields, the government has focused on offshore resources, which account for more than 70% of the reserves. Like other oil-dominated economies of the Economic Community of Central African States' single-currency zone, Gabon has struggled due to the decline in crude oil prices, forcing it to seek support from the International Monetary Fund in 2017.

In an effort to stimulate its petroleum industry, Gabon announced it will soon complete a new comprehensive revision of its Hydrocarbons Code. In a special event hosted by the Ministry of Petroleum and Hydrocarbons in Libreville in March this year, Gabon declared its willingness to create a more competitive and flexible environment for oil and gas investment. Among other discrepancies with the current business climate, the existing fiscal regime was designed for an oil barrel price of over \$100 and should now be amended to reflect realistic market conditions. According to Mr. Pascal Houangni Ambouroué, the current Minister of Petroleum and Hydrocarbons, the government's short term political strategy is to bring Gabon to global standards of excellence for operating in the oil and gas industry.

During the event, the Ministry also had the opportunity to hold several seminars to gather input from industry stakeholders on how to optimize the impact of the Hydrocarbons Code revision. The event also included the participation of OPEC and government delegations from Equatorial Guinea and the Republic of Congo. The Gabonese government expressly emphasized the need to create a new investment framework enabling immediate increases in production and new oil and gas exploration. Additionally, one of the key revisions to the code is expected to establish highly anticipated regulations for gas industrialization and monetization. For the first time, natural gas will also be recognized as a resource equal to oil, with provisions on the exploitation of discovered reserves and a reduction of gas flaring to the bare minimum.

## Conclusion

Efforts to renew Gabon's flagging hydrocarbons code began four years ago, spurred by a climate of plummeting oil prices and dwindling exploration activity. A sustained industry downturn prompted heavy consolidation among industry players, with Perenco, for instance, acquiring several producing legacy assets from Total in 2017, for \$350 million. Not long after, Shell sold all of its onshore acreage in Gabon to Carlyle Group, which spun off the acquisition into Assala Energy. This consolidation may help to revamp the sector.

The revitalization of the sector is being welcomed by well-established oil and gas companies in the country, which had previously mentioned that a decline in commodity prices had rendered Gabon's fiscal regime outdated and perhaps hindered the country's new investment prospects. The new code is expected to make Gabon more competitive in the international investment domain and to also create the necessary conditions to replace oil production through new discoveries while at the same time sustaining current production levels. 

### About the Author

*Luis Miranda is currently the Head of Miranda Alliance's Houston Liaison Office. Prior to moving to Houston, Luis gained significant experience advising oil companies and living in West Africa, including in Gabon, where he was based at Miranda's local office. Luis may be contacted at Luis.Miranda@mirandalawfirm.com.*