


|                         |                  |             |  |
|-------------------------|------------------|-------------|--|
| <b>CLIPPING MIRANDA</b> |                  |             | <br>Miranda & Associados Sociedade de Advogados, SP, RL |
| <b>MEIO</b>             | Petroleum Africa |             |  |
| <b>Nº PAG.</b>          | 2                | <b>DATA</b> |  |

## African Focus

By Ricardo Silva and Sara Frazão  
Miranda & Associados



# ANGOLA'S

## New Licensing Round – Drill Long and Prosper

Past are the days when Angola would dispute the “top sub-Saharan Africa producer” title with Nigeria. Angolan oil production has been dropping and is expected to continue to decline in the years to come. This is confirmed in the last OPEC Monthly Oil Market Report, according to which Angola’s daily oil production in October 2019 fell 43,000 barrels, from 1,399 million barrels in September 2019 to 1,356 million barrels in October 2019 corroborating the recent trend. Among others, the sharp drop in oil prices in 2014, together with the no-longer-so-attractive economic terms applicable to upstream activities (e.g. lack of incentives to develop marginal fields or the lack of a legal framework applicable to development of gas projects), and the non-existence of opportunities for access to acreage, contributed to a freeze in new exploration activities that in turn led to an absence of significant reserves being discovered to replace production from mature fields.

Shaken by the oil price crisis, Angola is currently in the process of attempting to relaunch and revamp its economy. Special attention has been given to its oil and gas sector in this process as a way to lead the country towards better days. In the last 3 years (2016, 2017 and 2018), Angola faced three consecutive economic recessions, with the lack of hard currency and the extensive devaluation of the Kwanza, the unemployment rate of about 30%, and the general increase of the price of essential goods, causing a decrease in purchasing power, thus affecting not only the man on the street but also companies (local and foreign) and their investment strategies.

In this scenario, the Angolan Executive rushed ahead with the implementation of the petroleum sector reform, by means of the enactment of a set of new statutes, which sought to address the major demands of the industry and replaced Sonangol EP (the national oil company) by the National Agency for Petroleum, Gas and Biofuels (*Agência Nacional do Petróleo, Gás e Biocombustíveis*, “ANPG”) as the national concessionaire for the petroleum sector.

The Angolan Executive also approved the General Strategy for the Awarding of Petroleum Concessions for the 2019-2025 period, making public its intention to award 55 petroleum concessions during the next six years. For the first time, the Executive disclosed the concession awarding strategy to be adopted to try and increase the country’s oil and gas production and ensure the replacement of reserves to overcome the recent production decline. The General Strategy has been perceived

by Angolans as a promising approach and by analysts as an ambitious plan and an opportunity to shape the industry’s upcoming investments. The world, however, was expectant to see the industry’s reaction to the launching of the 2019 licensing round following the petroleum sector reform.

### The 2019 Licensing Round

The 2019 licensing round was officially launched last October by the ANPG. In line with the General Strategy, the public tender put out to offer 10 blocks, one in the Benguela Basin and nine in the Namibe Basin. This licensing round may be seen by some as the most important tender so far for a variety of reasons, of which we highlight three.

The first reason is the fact that this is the first time in nine years that Angola is putting blocks out to offer, since the limited pre-salt licensing round in 2010-2011, which was restricted to the world’s major oil and gas companies.

Angola held its first open licensing round for the concession of oil exploration and production blocks in 2005-2006. Prior to this licensing round, blocks had been mostly awarded on a case-by-case basis, through direct negotiation with the interested oil companies or limited bidding rounds. The 2005-2006 bidding round was followed by the 2007-2008 tender which was later cancelled after the pre-qualification stage, some would say due to the drop in oil prices. The same happened with the onshore licensing round launched in 2013 and cancelled in 2017, which proved to be less attractive than initially expected.

Therefore, despite having achieved the status of sub-Saharan Africa’s second largest oil producer, the country never had regular bidding rounds, let alone a bidding round schedule, for access to acreage.



All images are courtesy of ANPG

|                         |                  |             |                           |
|-------------------------|------------------|-------------|---------------------------|
| <b>CLIPPING MIRANDA</b> |                  |             |                           |
| <b>MEIO</b>             | Petroleum Africa |             |                           |
| <b>Nº PAG.</b>          | 2                | <b>DATA</b> | novembro/dezembro de 2019 |

**MIRANDA**  
Miranda & Associados Sociedade de Advogados, SP, RL



The second reason is that this is the first licensing round since the enactment of a series of statutes aimed at improving the country's upstream opportunities and which completely changed the industry paradigm in Angola. In order to address the industry's long-lasting concerns, new rules and procedures on operational aspects of petroleum operations have been published. These include new statutes on (i) public tenders for the selection of oil companies that will enter into petroleum contracts, and the procurement of goods and services for petroleum operations, (ii) abandonment of wells and decommissioning of upstream facilities, (iii) possibility of exploration activities within existing development areas, (iv) contractual and fiscal incentives for the development of marginal fields, and (v) natural gas legal framework. The 2019 licensing round was seen as a test to whether the legislative changes of the 'petroleum reform' would be able to attract additional investment.

The third reason is that this would be the first licensing round since the appointment of the ANPG as the new concessionaire (i.e., regulator) for the petroleum sector, thus replacing the role previously held by Sonangol EP since the late 1970s. This change was viewed as an attempt to prevent *inter alia* conflict of interest situations and contribute to the refocusing of Sonangol EP on its primary function of being the State oil and gas company.

Additionally, a new model Production Sharing Contract was disclosed by the ANPG for this purpose, with the vast majority of the amendments made thereto being a result of the new rules set forth in the statutes enacted in 2018 and 2019 within the context of the 'Angolan petroleum sector reform.' As usual in Angola, submission of proposals would imply the acceptance by the bidder of the terms of the model Production Sharing Agreement.

In line with the prior practice, the terms of reference for assessment of the bids covered bidding items (signature bonuses contributions for social projects and minimum work program), fixed items (cost oil limit, uplift and profit oil sharing), variable items (duration of the initial and the optional exploration phase) and other aspects (financial guarantee for the minimum work program and carry of Sonangol P&P's exploration expenses).

The bid opening ceremony gave everyone the opportunity to preliminarily assess the results of the great effort made to accommodate the different expectations from the Executive, the oil companies, the service providers,

the Angolan people and the remaining stakeholders in between (including the IMF). The 10 blocks received 12 valid proposals, only two of which were from International Oil Companies already active in the country. Sonangol EP, the country's NOC, bid for the 10 blocks, and for the role of operator in three of them.

### What Next?

The bidding round is still ongoing and at this moment it is still early to conclude how it will end, but the indicators provided so far are that the bidding round was not as attractive as initially planned. Some voices point to the fact that the terms may have been too favorable to the State for the frontier acreage on offer.

The law sets forth that if only the operator is selected for a given block, a second public tendering procedure to select the other contractor group members could be launched. As an alternative, ANPG may also carry out direct negotiation with any company interested in the E&P concessions that were not awarded in the licensing round. ANPG may resort to direct negotiations immediately following an open tender procedure which has not resulted in the awarding of the status of associate of the national concessionaire due to lack of bids; and immediately following an open tender procedure which has not resulted in the awarding of the status of associate of the national concessionaire due to the Ministry of Mineral Resources and Petroleum having considered the bids submitted unsatisfactory in view of the criteria adopted for the award.

### Conclusion

At a time when Angola's social indicators and economic numbers tend to leave no alternative for what's to come, the Executive continues to implement new policies and reforms to push the country forward. Policies and reforms *per se*, however, are not sufficient to restore confidence in the market and attract investment. Stability and maintenance of the applicable rules are crucial to reinstate confidence, together with transparent and speedy procedures and solid and serious institutions. As such, ANPG's big debut in leading a licensing round should be seen as a first test following the reform of the petroleum sector and not as a barometer for its failure or success. According to the General Strategy, a new licensing round will be coming soon, and if all players learn from this new experience, it may be a success similar to those that Angola has experienced in the past.

### About the Authors

*Ricardo Alves Silva and Sara Frazão are respectively a Partner and Co-Head, and a Senior Associate at Miranda's Energy and Natural Resources Practice and are involved in advising oil and gas companies in their operations in Africa and Asia. Ricardo and Sara may be contacted at Ricardo.Silva@mirandalawfirm.com and Sara.Frazao@mirandalawfirm.com.* 