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ANGOLA Downstream Developments

2017 brought noteworthy news to the Angolan oil industry. In the still dominating upstream sector, the overtaking of Nigeria as sub-Saharan Africa's largest oil producer during the first semester was at the forefront of the news, filling the nation with pride. From a downstream perspective, the new regulation of refining activities, much anticipated since the approval of the legal framework on crude oil refining by Presidential Decree No. 132/13, of September 5, 2013 (PD 132/13), was finally enacted.

Executive Decree No. 217/17(ED 217/17), published on April 10, 2017 established the technical and procedural rules applicable to the design, construction, operation and maintenance of refineries, and will hopefully represent a major step forward in the context of the Strategy for the Liberalization of the Angolan Fuel Sector enacted in 2009, and still not fully implemented.

Said Strategy focused on the construction, restructuring and rehabilitation of infrastructure for refining, storage, transport and distribution of fuels, with a view to reducing the country's dependence on imported petroleum products and gradually liberalizing the refined products' market, which is a crucial step for the development of the local economy. The fact is that Angola's downstream sector – refining of crude oil, and storage and distribution of products derived from crude oil – is still a very long way from achieving the efficiency, competition, transparency and lower production cost goals envisaged in the Liberalization Strategy, as well as meeting the country's domestic needs.

The only refinery operating in Angola to-date – the Luanda Refinery – satisfies a mere 20% of internal demand for medium and heavy fuels such as fuel oil, lubricating oils, diesel and asphalt, and although the country is a major crude oil exporter, it is paradoxically a huge refined product importer, which has had an extremely negative impact on its balance of trade and foreign exchange reserves.

The country's current infrastructure for refining, storage, transport and distribution requires major technical, technological and operational rehabilitation and modernization, involving a significant amount of investment. New infrastructure will also have to be built, and foreign investors are likely to see this as an opportunity to enter an interesting growth market.

With the recent enactment of ED 217/17, Angola finally sends the message that it is determined to attract the participation and investment of the private sector in the (re)organization of its downstream market.

New Regulation for Refining Activities

At the same time it created a special protective regime for the Luanda Refinery (100% owned by the National Concessionaire Sonangol, heavily subsidized, considered a strategic asset, and the only refinery operating in the country), PD 132/13, also aimed to create an organized, competitive market for refiners and, in the long run, attract foreign investment to the sector.

Source: Antonio Escrivão

Luanda refinery

Both PD 132/13 and Law No. 28/11, of September 1, 2011 (law on the refining of crude oil, and storage, transport, distribution and marketing of petroleum products), established that refining activities were subject to a simple licensing procedure.

With ED 217/17, the legislator has addressed in detail the procedures and documents required for approval, authorization and prior licensing (as applicable) of the (i) construction, (ii) relocation, (iii) and operation of refineries, and (iv) the addition of new units involving an increase of processing capacity or producing new refined products.

In order to fast-track development and attract new investment, the relevant project should be submitted by the developer to the Ministry of Petroleum, which should review the project and decide thereon within 60 days.

This being said, the new framework maintains certain restrictions in some of the segments of the downstream market (enacted with a view to promote and support the local industry and workforce), notably the need for foreign investors wishing to carry out crude oil refining activities, storage and/or transport of petroleum products to incorporate a local company with an Angolan partner, with the latter holding at

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least 51% of the share capital, half of the voting rights, the right to appoint over half of the members of the management bodies, and the power to define the company's operational and strategic policies. However, most of these restrictions may be adequately dealt with by the investors while structuring the investment vehicles and strategy, thus protecting their shareholding positions with robust legal and contractual mechanisms.

Opportunities in the Downstream Sector

The downstream sector in Angola remains to-date unable to meet internal demand. With an estimated capacity of 65,000 barrels per day (bpd), the Luanda Refinery is far from meeting domestic needs, and imported refined products still make up 80 percent of the market demand. Additionally, due to structural inefficiencies and the age of the Luanda Refinery, products refined by the country's only unit are reportedly more expensive than imported refined products.

The Angolan government's first attempt to overcome the lack of internal capacity was the projected construction of a refinery in the port city of Lobito, conceived to have a final capacity of 200,000 bpd and a production of about 10,000,000 tons per year of unleaded gasoline, diesel, jet fuel, kerosene and liquefied petroleum gas. The US$8 billion project was significantly delayed due to unsuccessful negotiations with several contractors and put on hold in mid-2016 due to the steep fall in oil prices and corresponding budgetary crisis.

A second refining facility is an ongoing project and is being constructed in the northern province of Soyo. Construction started in mid-2015 and is being undertaken by Chinese contractor China Tianchen Engineering Corp. Scheduled for completion later this year, the refinery is anticipated to have capacity to produce 5,000,000 tons per year of refined products and process 110,000 bpd when it becomes fully operational.

An investment of about US$12 billion for the construction of a refinery at Ambriz, in Bengo province, approximately 160 km north of Luanda, was also announced in 2015. With an estimated capacity of 400,000 bpd, the investment was expected to be shared between Sonangol, the Angolan company GPM International, and a Chinese group of companies.

Due to the prolonged economic crisis in the country, up-to-date information on the current status of the above refinery projects is not easy to come by. One thing is for sure, if the four refineries would become fully operational, Angola would be able to process around 800,000 bpd, reducing considerably the imports of refined products, and probably turning the country into a much needed regional exporter of refined products.

The legislative efforts of the Angolan Government towards the creation of a competitive and liberalized market for the refining sector and an attractive regime for private investors, on the one hand, and the growing interest shown by foreign investors to participate in major refining projects, on the other seem to be a sign of a rising sector in Angola.

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