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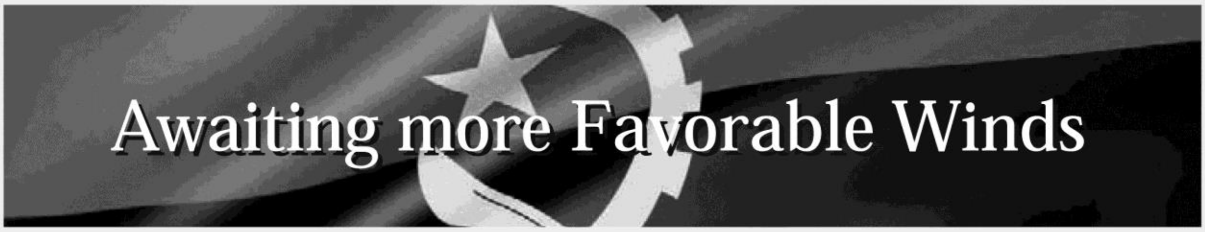

An update on Angola's petroleum regulatory reform

In 2016 Angola embarked on a petroleum regulatory reform, which caught the eye of the industry from its early days. The promise of more attractive and modern fiscal and economic terms for hydrocarbon exploration and production, coupled with the promising hydrocarbon discoveries offshore Angola in recent years, led to widespread industry enthusiasm in the reform, even with the fall in oil prices in international markets. The rapidly plateauing and decline of some of the country's older and more prolific oil fields was also seen as an incentive for a revamping of the sector capable of attracting new investment.

Despite the obvious signs given by the Angolan authorities throughout 2016 that something big was about to come out of the reform, so far no significant statutes have been published to-date. However, it is expected, considering the measures already announced, that the reform will have a major impact on the industry, and that the work will resume now that the country's presidential elections are over.

Upstream

In the upstream sector, Angola's petroleum reform started quickly, despite it having stalled during 2017.

In 2016, the Angolan Executive enacted the Model for Readjustment of the Petroleum Sector's Organization (Reorganization Model)[1]. Aimed at increasing efficiency and promoting the sustainable management of petroleum resources and transparency in the sector, and with a view to developing and diversifying the Angolan economy, the new Reorganization Model is based on the principles of stability, minimum intervention, transparency and careful management of public resources. The new organizational framework fundamentally entails: (i) maintaining Sonangol's role as the National Concessionaire, (ii) the creation of an Agency for the Petroleum Sector (Agency), (iii) the creation of the High Council for Monitoring the Petroleum Sector, (iv) maintaining the Ministry of Petroleum's regulatory powers and authority, and (v) maintaining the Ministry of Finance, the Ministry of the Environment and the Ministry of Public Administration, Labor and Social Security as supervising Ministries for sectorial matters. However, to date, none of the new bodies have been created, nor has any new information thereon or on how the future regulation of the sector will be conducted, been provided.

Another change brought about by the petroleum reform and also aimed at bringing efficiency and transparency to the sector was the amendment of Sonangol's by-laws, notably in terms of governance structure[2]. Sonangol's by-laws were amended to include a Board of Directors comprised of up to 11 members, seven being executive members and one of which shall be the CEO. Additionally, having acted for almost 40 years as both the National Oil Company and the National Concessionaire for the petroleum sector, one of the goals of the petroleum reform is the refocusing of Sonangol on its role as the National Concessionaire, with the new Agency taking over part of the former's traditional regulatory powers. This too has not yet materialized, and the oil sector has been more or less paralyzed over the last year awaiting conclusion of the reform. The much anticipated spinning-off of Sonangol's non-core businesses has also not been implemented, in great part, we suspect, due to the economic crisis that has rocked the country.

The petroleum reform also intended to review the basic terms and conditions applicable to the performance of exploration activities carried out inside existing development areas in the country in order to allow for the discovery of additional resources within an existing concession[3], thus fast-tracking the bringing on line of additional production at lower costs. The new rules included specific percentages and special time-frames for cost recovery of exploration expenses incurred prior to a commercial discovery. Although the new rules only apply to the development areas in Blocks 14 and 17 expressly identified therein, the possibility of other development areas (including from other Blocks) being subject to the new rules is also foreseen.

Marginal fields were also an area which was the focus of a new regulatory framework, with the approval of the procedures and incentives for the adjustment of contractual and fiscal terms applicable to concessions including marginal discoveries. With a view to motivate E&P companies to develop such discoveries, the Angolan State created a modern legal framework which in addition to defining "marginal discoveries," also sets forth indicators, based on which a discovery could be deemed marginal. In terms of fiscal incentives, the new rules cover, among others, special rates for Petroleum Production Tax and Petroleum Income Tax and Investment Allowance for PIT purposes and of Production Bonus, also addressing the amortization period, the

[1] *Presidential Decree No. 109/16, of 26 May 2016*
[2] *Presidential Decree No. 110/16, of 26 May 2016*
[3] *Presidential Decree No. 211/15, of 2 December 2015*

ANGOLA

E&P HIGHLIGHTS

By Cherie Adams, Correspondent

Highlights out of Angola's exploration and production scene have been sparse since we last covered the mega producer in October of last year. However, with an oil industry so massive, newsworthy developments are inevitable.

East Hub Development

Block 15/06 added more production to the country's totals with the startup of another development on the block in February. The ENI-operated East Hub Development Project was brought onstream ahead of development plan estimates and, according to ENI, it also had a time-to-market that was among the best in the sector.

Production from the East Hub Development flows from the Cabaca South East field to the *FPSO Olombendo.* The FPSO has a capacity of 80,000 bopd and 3.4 Mmcm/d of gas. The development includes nine wells and four manifolds at a water depth of 450 meters. This additional production will add to the flows from the existing West Hub Project in the Sangos, Cinguvu and Mpungi fields, where another vessel, the *FPSO N'Goma*, is operating. In total, Block 15/06 will reach a peak of 150,000 bpd of oil this year.

With the addition of the Cabaca South East field coming on line, Block 15/06 now has five producing fields. ENI intends to add production from two more fields from the block before the end of next year.

Topsides installation at Mafumeira Sul

The country also saw oil flow from the Mafumeira Sul field on Block 0. Partners in the project are Sonangol, Chevron, Total and ENI. The project includes a central processing facility, two wellhead platforms, approximately 75 miles (121 km) of subsea pipelines, 34 producing wells and 16 water injection wells. The facility has a design capacity of 150,000 barrels of liquids and 350 Mmcf/d of natural gas. Associated natural gas from the field will be commercialized through the onshore Angola LNG plant in Soyo.

Early production from the project began in October 2016 through a temporary production system. Ramp-up to full production is expected to continue through 2018. At start-up, the initial output from the Mafumeira Sul was 10,000 bpd. The $5.6-billion field was brought onstream using an early production system (EPS). The EPS allowed it to achieve crude flows while it is still being fully developed. Once complete, Angola should see about 110,000 bpd or more from this development.

period for recovery of development expenses, and customs charges and duties on petroleum exports. Unfortunately, and although the message sent by this change was positive for investors, the truth is that the less clear nature of some of the rules contained in the new legislation, together with the "lower for longer" oil price scenario has left these rules as of yet untested.

At first sight, 2017 has not been as prolific in respect of the enactment of new legislation or implementation of the general principles approved during 2016. However, one must highlight that in addition to certain new labor-related statutes, which have a significant impact on the country's petroleum industry, in 2017 two clear and interesting signs have been given by the Angolan authorities that the petroleum reform will truly be an operational and structural reform (as initially anticipated) and not simply some isolated touching up of limited areas of the country's framework.

The first sign was the approval of the inter-institutional agreement on Profit Oil, WIP-Block 0 and abandonment Funds between the Ministry of Finance (General Tax Authority), the Ministry of Petroleum and Sonangol[4], and the delegation of powers in the Chairman of the General Tax Authority[5] and in the National Director of Petroleum[6], respectively, to sign the settlement agreements regarding the tax litigation between the Angolan State and a number of oil companies. This agreement purportedly ended a conflict that had been dragged on for a number of years and strained the relationship between all stakeholders in the Angolan oil industry.

The second interesting sign was the approval of the registration forms for oilfield goods and services providers[7]. These new forms are to be used to register Angolan companies providing services to the petroleum industry on the Ministry of Petroleum's database, which is used for tenders of oilfield goods and services. Together with the increasing role of the *Centro de Apoio Empresarial* (CAE), the enactment of new forms for oilfield contractors may be interpreted as an indication that new local content rules on the hiring of oilfield goods and services will be approved soon.

With these two measures the Angolan authorities appear to be trying to send a sign to the industry that, on the one hand, it is committed to resolving ongoing disputes in such a way as to not scare of future investors in the country's oil sector; while on the other it is looking into streamlining and rationalizing another aspect that negatively affected the industry in the past: tenders for oilfield goods and services. This said, the industry is still holding its breath waiting for additional signs that may make Angola's prolific oilfields more competitive in the current low oil price scenario.

Downstream

One area where the country has been clearly becoming more competitive is the downstream sector. On this front, 2017 started with the creation of a multi-sectorial commission, headed by the Minister of Finance, with the purpose of preparing a study on the technical proposals regarding the viability of implementing the Soyo Refinery Development Project[8]. A Commission for the Evaluation of the Limited Tender Procedure for the conducting of the Complementary Consulting Services

[4] *Presidential Decree No. 142/17, of 23 June 2017*
[5] *Order No. 279/17, of 23 June 2017*
[6] *Order No. 306/17, of 12 July 2017*
[7] *Order No. 29/17, of 27 January 2017*
[8] *Presidential Order No. 9/17, of 2 February 2017*