



OIL AND GAS

Equatorial Guinea – Current State Assessment and future prospects of the business and regulatory environment

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Equatorial Guinea

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Introduction

Introduction

- Equatorial Guinea (EG) is situated in Central Africa, bordered by Cameroun, Gabon and Sao Tome and Principe
- It is a former Spanish Colony and is therefore the only Spanish speaking country in Africa
- EG is the third largest oil producer in sub-Saharan Africa. Large oil and gas deposits were discovered in the mid-1990s and their exploitation has driven much growth. EG has one of the world's fastest-growing economy.

Introduction

- Since 2003, EG has been the third biggest recipient of foreign direct investment from the United States in sub-Saharan Africa, after South Africa and Nigeria.
- EG has the fourth highest per capita income in the world, after Luxembourg, Bermuda, and Jersey (\$44,100 – 2007 estimate).

Business Environment

Business Environment- Current Assessment

- Oil is EG's most important export commodity, accounting for nearly 90% of the value of total exports in 2007.
- Discovery of oil has led to increased investments from Europe and the United States. EG is being viewed as a prime investor destination in Africa.
- The business environment in EG has opened up in the last decade. The usual business structure for investments in EG is the Limited Company.
- There are four main sectors of the economy, which attract interest:
 - oil and gas - construction (including real estate)
 - banking - telecoms

Business Environment- Current Assessment

- The government encourages inflow of foreign investment, however, this is subject to compliance with local regulations
- EG is a member of the Economic and Monetary Community of Central Africa (CEMAC), the Bank of Central African states (BEAC) and the World Trade Organisation (as an observer)
- There is free repatriation of business profits by investors from EG and minimum foreign exchange controls.

Business Environment- Current Assessment

- The currency in use in EG is the Franc CFA (FCfa). There are currently four Banks operating in EG:
 - Societe General de Banques en Guinea Equatoriale (SGBGE – French origin)
 - CCEI Bank (Afriland Group – Cameroonian origin)
 - BGFI Bank (Gabonese origin); and
 - the newly opened National Bank of Equatorial Guinea (BANGE)

Business Environment- Current Assessment

- Telecommunication services are provided by GETESA – the National Telecoms company, which is a joint venture between the EG government and France Telecom (recently re-branded – Orange GE)
- Electricity is provided by the National Power Company – Sociedad de Electricidad de Guinea Ecuatorial S.A. (SEGESA) . Power supply is generally stable. There is a move away from thermal and hydro-electric plants to gas powered plants
- There are two major airports in EG in Malabo and Bata, which run regular international flights to major European and African cities

Business Environment- Current Assessment

- EG operates an open investment regime. There are few restrictions on imports.
- Economic expansion is being aided by increased investment in infrastructural development in all sectors of the economy.

Business Environment- Current Assessment

- Some relevant statistics for EG are:
 - GDP (purchasing power parity): \$25.69 billion (2005 est.)
 - GDP (official exchange rate): \$10.4 billion (2005 est.)
 - GDP - real growth rate: 12.7% (2007 est.)
 - Investment (gross fixed): 39.2% of GDP (2007 est.)
 - Budget: Revenues: \$4.849 billion

*Source: CIA World Fact Book- www.cia.gov/library/publications/the-world-factbook/geos/ek.html

Business Environment- Current Assessment

- Expenditures: \$2.481billion (2007 est.)
- Inflation rate (consumer prices): Low and stable at 5.5%
- Foreign exchange reserves - \$3.928 billion (2007 est.)
- External debt- \$288 million (2007 est.)
- Exchange rate- 450 FCFA : US\$1

*Source: CIA World Fact Book- www.cia.gov/library/publications/the-world-factbook/geos/ek.html

Oil and Gas Environment

Oil and Gas Sector- Current Assessment

- Equatorial Guinea's total proven oil reserves are estimated at 1.1 billion barrels.
- Oil production from Equatorial Guinea is expanding rapidly and is believed to have averaged about 400,000 bbl/d in 2007
- Three fields - Zafiro, Ceiba, and Alba--currently account for the majority of the country's oil output
- The majority of the reserves are found in the Zafiro field, which is believed to hold reserves of over 400 million barrels, and is operated by a consortium of ExxonMobil (MEGI), Devon Louisiana and GEPetrol

Oil and Gas Sector- Current Assessment

The major oil and gas companies currently operating in EG are:

- GE Petrol – the National oil company through its joint venture;
 - Mobil EG (MEGI), Devon
 - Hess
 - Marathon
 - Chevron
 - Petronas
 - Atlas, Vanco Energy, Sasol, Repsol
 - China National Oil Company (CNOOC); and
 - Nigerian National Petroleum Company (NNPC), have obtained concessions
- There is a large market for indigenous oil and gas service companies

Oil and Gas Sector- Current Assessment

- EG's natural gas reserves are located primarily in the Alba and Zafiro oil and gas fields. Natural gas and condensate production has expanded rapidly in the last five years due to investments in the Alba field.
- EG proven reserves are estimated at about 1.3 trillion cubic feet (Tcf). Natural gas production is now estimated at about 46 billion cubic feet (bcf)
- EG LNG Train 1 completed by Marathon Corporation in 2007. The second train is being planned
- All LNG produced is to be sold to British Gas Marketing Limited under a 17 year purchase agreement. Expected yearly output is 3.4 million metric tons of LNG

Oil and Gas Sector- Current Assessment

- The following agreements are in place:
 - between EG and Nigeria for co-operation in regional gas supply and oil and gas development
 - between EG and Cameroun for exportation of natural gas from Cameroun to EG
 - between the EG Government and Gazprom (Russian state – owned oil and gas company)
- Fairly developed gas industry in EG, impressive developments in the last five years

Regulatory Environment

Regulatory Environment- Current Assessment

- *Key regulatory agencies are:*
 - Ministerio de Economia
 - Ministerio de Hacienda y Presupuestos
 - Ministry of Commerce
 - Ministry of Development and Planning (Ministerio de Desarrollo y Panificacion)
 - Ministry of Labour and Social Security
 - Public Treasury (Tesoreria Publico General del Estado)

Regulatory Environment- Current Assessment

- *Key legislation are:*

- Investment Law No 127 of 2004 – which imposes a minimum of 35% local shareholding on all EG companies
- Investment Law No 20 of 2002 – empowers Ministry of Development and Planning to regulate foreign investments in EG
- Labour Code (Law No 2 of 1990) - regulates the employment and working conditions of employees in the country
- Organization for the Harmonization of Business Law in Africa Treaty (OHADA) regulates establishment of business entities along with regulations issued by the Ministry of Commerce

Regulatory Environment- Current Assessment

- *Key legislation contd.*
 - Social Security Law Number 104 of 1984 - set up the Institute of Social Security (INSESO) and provides for the administration of the social security system in the country
 - The Tax Code, Law No. 4 of 2004 – regulates taxation of companies, individuals and services in EG

Regulatory Environment- Current Assessment

- *Applicable Taxes in EG include:*
 - **Tributacion De Las Rentas Del Sector De Hydrocarbon -Tax on petroleum (including gas) operations at 35%**
 - **Impuesto Sobre Sociedades (Corporate Tax) at 35% - applicable to non petroleum operations**
 - **Impuesto sobre el valor anadido y derecho especial- Value Added Tax (VAT) at 15% on specified goods and services**
 - **Impuesto sobre las rentas de las personas fisicas - Personal Income Tax at a maximum of 35% on a graduated scale**

Regulatory Environment- Current Assessment

- *Applicable Taxes in EG Contd.*

- **Withholding Tax (WHT) –**

- 10% on the gross income received by non-residents
- 5% on all mobilization, demobilization and transportation services performed in EG by non-residents); and
- 6.25% on income received by residents.

- **Minimum tax of 1% payable by companies annually**

Regulatory Environment- Current Assessment

- **Applicable Taxes in EG Contd.**
 - **Other taxes include; property taxes, fuel tax, Import and Export duties,**
 - **Royalties are also payable by oil and gas companies**
 - **Social Security – at 26% payable by all employers in EG**

Regulatory Environment- Oil and Gas

- *Key regulatory agencies in the industry are:*
 - Ministerio de Minas y Energia – oversees oil and gas industry
 - GE Petrol – National Oil Company – holds EG governments interest in oil and gas production through joint venture agreements with operators
 - Société Nationale de Gaz (Sonagas) - now the National Gas company – gas responsibilities transferred to Sonagas from GE Petrol

Regulatory Environment- Oil and Gas Contd.

- *Key oil and Gas Legislation*
 - Hydrocarbons Law No. 8/2006, which came into effect in November 2006. The Law
 - Oil and Gas Operations are governed by Joint Venture Agreements and Production Sharing Contracts
 - The PSC is for an initial term of 5 years followed by two terms of 3 and 2 years respectively (10 years in total)
 - Current Joint Venture agreements are being reviewed

Regulatory Environment- Dispute Resolution

- **Business disputes are usually resolved by agreement of the parties – by mediation or arbitration**
- **Commercial disputes may be taken to Court for resolution. The hierarchy of Courts are as follows:**
 - **Primex Instancia – Court of First Instance**
 - **Tribunal Apelacion – Appeal Court**
 - **Corte Supreme – Supreme Courts**
- **Disputes may further be taken to Parliament, where the parties are not satisfied with the decisions of the Courts**

Regulatory Environment- Local Content

- Investment Law imposes a minimum of 35% local shareholding in foreign owned companies operating in EG.
- Also, the Hydrocarbons Law has provisions on local content such as:
 - Contractors are required to contribute to operation and maintenance of the Hydrocarbon Technological Institute of Equatorial Guinea and the creation of training centers for Persons from EG working in Petroleum Operations
 - Contractors are required to train and integrate national personnel into all levels of their organizations.

Future Prospects

EG : Future Prospects

- There are plans to improve the downstream sector of the oil industry. GeTotal, owned by Total and EG is the only company in the downstream industry. The government is therefore considering local refining.
- Increased opportunities exist in gas utilisation projects, as the Hydrocarbons Law has made it illegal to flare gas. This has led to reduction in gas flared, which is now utilised in gas projects to generate electric power
- The government is also open to issuing additional oil and gas concessions to serious investors.

EG : Future Prospects

- Opportunities exist in methanol production. The Marathon plant is a success story and an additional source of hydrocarbon growth.
- The growing market for LNG, and the new EG LNG plant, put EG in a position to become an LNG hub, receiving inputs for transformation from the region (in particular, Nigeria and Cameroon) and exporting LNG to Europe and the U.S.
- Infrastructure is being improved daily and has led to reduction in the cost of doing business in EG
- Government institutions are being strengthened. Local manpower is being trained and improved.

EG : Future Prospects

- There is a stable democratic government in place and elections are scheduled later this year
- Favourable tax and royalty rates make EG a competitive investment destination
- EG is still a relatively untapped market where opportunities exist in all areas of the economy, such as:
 - hospitality
 - construction, property and real estate
 - airline industry; and
 - manufacturing (very few local manufacturing companies)

EG : Conclusion

- Challenges exist in doing business, however, these are being addressed by the Government and as new investments come in the business landscape would improve
- Shortage of experienced service providers (legal, business and tax consultants) contributes to limited external knowledge about EG. This can only be addressed internally
- The Government is eager to attract new investments and is creating a conducive atmosphere for this. EG therefore has the potential to become a real African success story and avoid mistakes made by the earlier oil producing countries in Africa

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