Congo Brazzaville in Profile

The geological features and legal framework of Congo Brazzaville (known formally as The Republic of the Congo) have made the country an attractive oil and gas province, despite its reduced oil output in recent years. Deepwater developments and new pre-salt finds are stimulating investment interest in this mature producer and promise to increase production over the medium and long term.

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MINISTRY OF HYDROCARBONS
Minister Jean-Marc Tchicaya

PETROLEUM LEGISLATION
Law no. 24-94 (August 23, 1994)

SOCIETE NATIONALE DES PETROLES DU CONGO
Director General Jerôme Koko

ENERGY FRONTIERS
Ultra-deepwater oil and gas production, pre-salt discovery and development, oil sands appraisal, investment in gas production and utilization.

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OVERVIEW AND BACKGROUND

Oil has dominated the economy of Congo Brazzaville since the entry of supermajors Total and Eni in 1969. The country's first oilfield, Point Indienne, was discovered in 1951 and production started in 1957. Following independence in August 1960, Congo Brazzaville suffered a series of revolts, coups and decades of political turmoil under Marxist government, and a brief period of turbulent democratic rule from 1992 to 1997, culminating in civil war in 1997 and 1998. Peace and stability has returned to Congo under the nominally democratic rule of Denis Sassou Nguesso over the last 16 years. According to a 2013 EITI report, oil now accounts for 80 percent of the government’s revenues and 90 percent of exports.

In 2014 Congo Brazzaville’s oil production was 281,000 barrels of oil per day, making it the joint sixth-largest African oil producer next to Equatorial Guinea. From 2006 to 2013, the country’s proven oil reserves remained steady at 1.6 billion barrels, according to the BP Statistical Review for 2015.

Congo Brazzaville is a mature petroleum province, and has been one of Africa’s largest oil producers since the 1970s. Although output fell during the 2000s, the entry of deepwater fields since 2008 provided a temporary production boost. New pre-salt discoveries could spur the development of mega-projects that would revive Congo Brazzaville’s flagging production, along with the continued development of deepwater projects that are coming onstream from 2015.

Gas is mostly re-injected at producing fields. According to Oil & Gas Journal and the Energy Information Administration (EIA), Congo Brazzaville has 3.2 trillion cubic feet of reserves, and of the 335.14 billion cubic feet produced in 2012, just 16 percent was used commercially or sold.

Congo Brazzaville’s main producers are Total and Eni, both operating in the country for almost five decades and accounting for the majority of oil production. Total produces almost 40 percent of Congo’s oil and Eni produces over 35 percent of its oil, and is the largest gas producer. Eni is also exploring the development of an oil sands pilot project in the south of the country at Tchikatanga and Tchikatanga-Makola. Also present are international firms Chevron, Maurel & Prom, Perenco, Murphy Oil, CNODC and SDCO International. The government has stated that it will offer 10 new blocks for bidding once new petroleum legislation is passed, although at present there is no stated timeline.
The Hydrocarbons Code (Law no. 24-94 of August 23, 1994) is Congo Brazzaville’s principal legislation for oil and gas activities. It is in the process of being reformed.

Laws governing the oil and gas sector in Congo Brazzaville include the following:

- Law no. 24-94 of August 23, 1994, the Hydrocarbons Code, governs the sector.
- Law no. 1-98 of April 23, 1998 established the national oil company, Société Nationale des Pétroles du Congo (SNPC).
- Law no. 4-98 of August 28, 1998 sets out decommissioning and rehabilitation responsibilities for oil companies.
- Law no. 6-2001 of October 19, 2001 (modified on March 1, 2002) sets out legislation that regulates the refining, import, export, transit, re-export, storage, bulk transport, distribution and marketing of hydrocarbons and by-products.
- Law no. 003/91 of April 23, 1991 concerning environmental protection.
- Law no. 6-2003 of January 18, 2003 (as well as ECCAS no. 17/99/CEMAC-20-CM-03 of December 17, 1999) that establishes the investment charter.

Congo Brazzaville, like its Francophone regional neighbors, adheres to OHADA law, meaning that companies working in the country are subject to a set of business-specific legislation that is common to member states.

Congolese officials have stated that the country’s petroleum code is under review and that new legislation will be passed – however, details have not been announced. Petroleum legislation that accounts for new industry and economic trends would likely be beneficial to the further development of ultra-deepwater and pre-salt resources and gas production and utilization, as well as more conventional forms of exploration, production and processing.
State regulation and actors

Congo Brazzaville’s Hydrocarbons Code states that all hydrocarbons present in the soil and sub-soil are the exclusive property of the state, with all permits granted by the Ministry of Hydrocarbons. The current minister is Jean-Marc Thystère-Tchicaya.

The national oil company is Société Nationale des Pétroles du Congo (SNPC), which plays a very active role across the oil and gas value chain through its five subsidiaries: SONAREP, SFP, ILOGS, CORAF, and SNPC-Distribution. In the upstream segment, SNPC holds non-operating interests in many of Congo Brazzaville’s oil and gas developments, including with operators Total, Eni, and Chevron. Five years ago the company began operating an asset for the first time: its exploration and production subsidiary Sonarep is now producing onshore at Mengo-Kundji-Bindi. CORAF is the group’s refining subsidiary and operates the Congolaise de Raffinage refinery in Pointe-Noire. SNPC was established in 1998 and its director general is Jérôme Koko.

With the Ministry of Hydrocarbons administering and regulating the petroleum industry, the SNPC acts as the state’s participating agent in oil and gas developments. Through its interests in producing assets the national oil company accounts for the majority of government revenues. Increasingly, as seen in neighbouring Gabon with the creation of the Gabon Oil Company and its entry into operating positions, the SNPC intends to build technical capacity and operate its own assets. Its central role in the oil and gas sector and the economy at large means that SNPC is an advisor to the government on petroleum policy.

Companies entering the Congolese upstream are granted permits for exploration and production activities following a call for tenders, under normal circumstances. Eligibility is determined by the Hydrocarbons Code and the Attribution Decree.

Contracts

Congo Brazzaville requires that all companies enter a production sharing contract (PSC) with the government prior to starting operations in the country (with the exception of a prospection authorization). These are generally signed by all the oil and gas companies in the contractor group, including SNPC where relevant.

The Ministry of Hydrocarbons has not publicized a PSC model contract, but does usually use a standardized version that sets out the rights and obligations defined by the Hydrocarbons Code. In addition to PSCs, companies can enter into a concession agreement, or mining title, that allows a company to exploit a title area for its own benefit. This type of agreement is much rarer than the PSC.

Permits for exploration and exploitation of hydrocarbons are granted by decree of the Council of Ministers. Valid for up to 10 years, exploration permits have an initial validity period of four years and can be renewed twice for periods of three years each time. Of the initial surface area defined by the exploration permit decree, up to 50 percent must be relinquished each time the permit is renewed. The decree also defines the work obligations of the contractor.

Contractors that can demonstrate commercial petroleum deposits in their block can apply for an exploration-permit, also granted by decree of the Council of Ministers. Development according to an approved work plan must begin within 12 months of its start date. The permit is valid for a maximum 20 years, renewable once for five years.

Once this time limit is reached, the contractor must apply for a new permit.

Contractors that wish to farm out assets, or make any form of transfer of assets, interests or obligations, must gain the prior approval of the Minister of Hydrocarbons for any new contract. In cases where there is a change of control of a company with assets, interests or obligations, the Minister of Hydrocarbons must also be informed beforehand.

Local content

The Hydrocarbons Code contains no provision for local employee quotas. However, minimum contributions to training locals and other obligations are defined in the exploration and exploitation permit decrees and/or in the PSC. Permit holders are obliged to train Congolese nationals, give them hiring priority, and give preference to local service and goods providers.

Corporate law in Congo Brazzaville specifies that within two years foreign company branches in the country should be incorporated locally. Recently, in the case of the petroleum industry, the government has occasionally requested that oil firms register as Congolese companies. This is not specified in the Hydrocarbons Code (it says that a local branch or subsidiary can be used) but could be a component of a new law.
Under the terms of PSCs signed in Congo Brazzaville, allocation of cost oil relative to the interest held by the contractor is limited to 60 percent of annual production and 70 percent in exceptional cases (deep water and high technology usage, for example). Profit oil share is calculated according to total production minus cost oil and mineral fees. If no hydrocarbons are discovered, the company assumes all costs. Accounting procedures are also specified in an appendix of the PSC.

The shares of profit oil assigned to the contractor and the state is determined by the contract, not the Hydrocarbons Code. Profit oil is determined by annual net production and is adjusted annually according to changes in production. Net profits (net asset value minus cost oil, recovery provisions and other costs) of oil companies are subject to income tax at 30 percent. Bonuses for exploration and exploitation permits are payable, and determined by the relevant decree. A pollution tax of 0.2 percent on producing companies, paid quarterly, is applied.

Annual surface rent of 3,000 XAF per square kilometer is payable for exploration permits, and 800 USD per square kilometer is payable for exploitation permits. There is no difference between royalty rates for onshore and offshore activity. A 15 percent mineral fee is due monthly on oil that is produced, stored and used for operations excluding reinjection.

The Hydrocarbons Code has provision for depreciation rates: exploration costs incurred at 100 percent and all other capital expenditure at a rate of 20 percent from first commercial production for five years.

Congo Brazzaville provides customs tax exemptions on goods and materials used for exploration and production that are listed under Act No. 2-92-UDEAC-596-CD-SE1 of April 1992 and VAT is exempt on goods and services for most segments of the petroleum industry, as detailed in Decree No. 2001/152 of October 2001 and Law No. 12-97 of May 1997.

Access to power is a major impediment to development for many areas in Congo Brazzaville. According to the World Bank, 12 percent of the rural population and 59 percent of the urban population have access to power.

To satisfy recent increases in demand for power, the country imports electricity from the Inga dam in the Democratic Republic of Congo. Most of Congo Brazzaville’s electricity (around 60 percent) is generated by the Imboulou, Bouenza, and Djoue hydroelectric plants.

The Imboulou dam exemplifies the increased Chinese investment in Congo – when it was inaugurated in 2011 the 120-MW facility almost doubled the nation’s generation capacity, according to the EIA. Imboulou was built by the China Machinery Engineering Company at a cost of $372.5 million.

Although Congo has large remaining hydropower potential and numerous projects in the pipeline, locally produced gas is increasingly providing power to the grid. Eni has been instrumental in supplying gas and building infrastructure and generating facilities. The 300-MW Centrale Electrique du Congo (CEC) is Congo’s largest power station and is owned 20 percent by Eni, 80 percent by the government of Congo. CEC is powered by natural gas from the M’Boundi fields.

Société Nationale d’Electricité (SNE) is Congo’s national electricity company, with responsibility for generation, transmission and distribution.


In addition to the Electricity Code, the following legislation applies: Law No 17-2003 of April 10, 2003 for development funds for the electricity sector; Law No 16-2003 of April 10, 2003 for the regulatory agency; Law No 15-2003 of April 10, 2003 for the national agency for rural electrification; and Law No 10-2003 of February 6, 2003 for transfer of powers to local communities.
Moho Bilondo
Out of the 23 producing fields in the country, Total operates 15, according to the operator. Moho Bilondo, commissioned in 2008, was Congo’s first deepwater field to enter production and had a revitalizing effect on the industry. In 2015, the Moho Nord field will enter production and ramp up to 140,000 barrels of oil equivalent per day (boepd) in 2017. In combination with the Moho Bilondo Phase 1bis project, Total’s most recent E&P investment in Congo will total $10 billion. The licence area is operated by Total E&P Congo (53.5 percent), with Chevron (31.5 percent) and SNPC (15 percent).

Nené Marine
Eni began production in December 2014 at the Nené field 16 months after discovering oil on the Marine XII permit. The field will be developed in stages, leading to plateau production of 140,000 boepd. Eni’s success bringing Nené to production is complemented by further discoveries on the block – all of which are located in the Djeno pre-salt formation 2.5 kilometers below ground. The Marine XII permit is in shallow water (28 meters for the Nené discovery).

Lianzi
The Chevron-led Lianzi project is the result of cooperation between Congo Brazzaville and Angola in the maritime border area between the two countries. In 2012 a utilization agreement was signed that will allow a consortium of Chevron (operator, 31.25 percent), Total (36.75 percent), Eni (10 percent), Sonangol (10 percent), SNPC (7.5 percent) and Galp Energia (4.5 percent) to develop the deepwater field. Lianzi will produce up to 46,000 boepd.

CORAF refinery
Congo Brazzaville’s sole crude oil refinery, owned 100 percent by SNPC since 2000, has a nominal capacity of 1 million tonnes per annum. Ground was broken in 1972 and the refinery began operations in 1976. CORAF produces gasoline, jet fuel, butane, diesel and fuel oil. In 2008, Saudi Arabia’s Rawabi Holding Group won a contract to quadruple production at the refinery.
Doing business in Congo Brazzaville is very challenging – it was ranked 178 out of 189 countries by the World Bank in 2014 – but the EITI has reported “significant improvements in the timeliness and overall quality” of its extractive industry transparency reports. In general the country is safe and stable following the civil war and unrest of previous decades. Despite the uncertainty surrounding revised petroleum legislation, the favorable regulatory conditions and possibilities for investment in gas, deepwater E&P, pre-salt developments and oil sands make this a highly interesting Central African energy market.

**CONCLUSION**

- **Eni** NENE MARINE
  - Situated in the Marine XII block operated by Eni
  - Contains 1.5 barrels oil equivalent
  - Began producing December 2014, 16 months after discovery
  - Producing from the Djeno pre-salt formation
  - Plateau production of 140,000 barrels oil equivalent per day expected

- **Total** MOHO BILONDO
  - Moho Nord and Moho Phase 1bis under development
  - First oil expected in 2015, projects operated by Total
  - 140,000 barrels oil equivalent per day expected in 2017
  - Water depths up to 1,200 meters, operator will use 45 wells
  - Combined project cost of $10 billion

**AFRICA ENERGY FRONTIERS**

- **THE 120-MW IMBOULOU HYDROELECTRIC DAM**
  - Almost doubled Congo Brazzaville’s generating capacity in 2011.

- **NATURAL GAS PRODUCTION in 2012 was 335.14 BILLION CUBIC FEET**

- **AVERAGE DAILY OIL PRODUCTION in 2014 was 281,000 barrels**
  - Down from a peak of 302,000 barrels in 2011.

- **Congo Brazzaville is set to become SUB-SAHARAN AFRICA’S NUMBER 3 OIL PRODUCER by 2017**
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