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DOWNSTREAM FOCUS

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EQUATORIAL GUINEA

Turns its Focus to Refining and Downstream Projects

Some years after the discovery of significant oil reserves offshore Bioko Island during the nineties, Equatorial Guinea became the third largest crude oil producer in sub-Saharan Africa, after Nigeria and Angola. However, replicating a story that is seen in many African oil producers, it does not refine its own crude production. Fuels consumed in the country are all imported and, since the eighties, the distribution of refined petroleum products is mainly secured by Total, which began its operations in 1984, enjoying a long-lasting monopoly currently shared with the National Oil Company GEPetrol, and operating almost all fuel filling stations in the country (approximately 30).

Refining Ambitions

For the past 10 years, the government has wavered as to whether or not to embark on diversifying into refining. In 2010, Gabriel Obiang Lima, then Minister of Mines, Industry and Energy, announced plans to construct a refinery with a capacity of 20,000 barrels per day (bpd) at Mbini on the mainland of Equatorial Guinea, to produce gasoline, diesel, jet A-1 and fuel oil, with the primary purpose to supply the domestic market. KBR was awarded a contract for the design and future operation of the refinery, but the project did not advance and, in 2015, the idea of a refinery had been abandoned. On the one hand, there was the fear that the quantities and qualities of crude feedstock available for in-country refining would not be sufficient to meet the domestic market demand for the various petroleum products. On the other hand, there was a concern with the high operating and maintenance costs of a refinery and a risk of excess production which could be difficult to market due to regional logistics challenges.

Gabriel Obiang Lima

However, Equatorial Guinea has been among the countries worst hit by the crisis that affected all members of the Central African Economic and Monetary Community (CEMAC), which started in 2014 and kept deteriorating with the oil price drop. To restore its external and fiscal imbalances, Equatorial Guinea has been forced to undertake reforms and enter into an International Monetary Fund Staff Monitored Program in 2018, having as one of its goals the reduction of the country's dependence on oil and gas exports, which generate almost 90% of the country's revenues. Minister Gabriel Obiang, who in 2016 became Minister of Mines and Hydrocarbons, losing authority over other energy sources and industry, joined the effort by seeking to diversify Equatorial Guinea's petroleum sector through the launch earlier this year of a campaign to attract foreign investors to downstream projects.

The "2020 Year of Investment" campaign was not abandoned due to the COVID-19 outbreak. On the contrary, the pandemic, coupled with the recent plunge in oil prices, led the Minister to allow the postponement of different upstream projects during March 2020, but also reinforced his belief that the priority of his Ministry for the hydrocarbon sector must be to build a downstream industry in the country with a key focus on refining to stimulate local job growth.

According to the latest news, during the second half of the year, the Ministry expects to receive a feasibility study which will include the engineering and design of a 5,000 bpd modular crude oil refinery in the Punta Europa area, located in Malabo, the capital of Equatorial Guinea. At Kogo, located South of Bata, the main city on the mainland, the Ministry wants to build a second modular refinery, with a 10,000 to 20,000 bpd capacity and, at the end of March, it shortlisted investors for this second project. Other planned projects include the construction of state-owned and managed storage tanks for refined products, a methanol-to-gasoline unit to meet domestic consumption, with the possibility of exporting to neighboring countries in the future, and an ammonia plant, among others.

Regulatory Framework

The 1981 Hydrocarbons Law, which was amended in 2000, did not cover downstream activities, but the Hydrocarbons Law adopted in 2006 dedicated a chapter to the refining, storage, marketing and

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transportation of hydrocarbons. Article 41 of the 2006 Law allows activities related to the distillation, purification and transformation of hydrocarbons, performed for the purposes of adding value and the commercialization of the products obtained, to be performed by the State or other entities either jointly or individually. However, projects for the installation and operation of refineries must be aligned with a national plan and linked with specific projects approved in advance by the Ministry responsible for the petroleum sector, and any companies wishing to perform refining and marketing activities must obtain a license from the Ministry. On the other hand, the right to store, transport and otherwise distribute refined products in the country is reserved for the State and any activities related to the storage, transportation and other distribution of hydrocarbons are also subject to licensing. The price of products for sale in the domestic market is established by the government, considering the price of the crude oil from which the products originate, their refining, storage and transportation costs, the depreciation of investments as well as the profit margins in force for each activity.

The procedure and requirements for the award of licenses for the performance of refining and related marketing activities that are not covered by a production sharing contract or equivalent agreement for the performance of hydrocarbons exploration and production were regulated in 2013 with the enactment of the Petroleum Regulations. Licenses are requested in writing to the Ministry of Mines and Hydrocarbons by applicants that must demonstrate having suitable technical and financial capability, as well as appropriate experience in the petroleum industry to perform the relevant activities. The information to be included in applications should cover the premises and facilities, the applicable technology, the destination of products, the economic resources to be used and, where appropriate, any benefits for the country. Applications must also indicate how applicants plan to source feed stocks and other products, and the Ministry, either before or after the grant of the license, may require that they are obtained from a specified source within Equatorial Guinea.

Each license granted shall set forth its duration, which cannot exceed 25 years, a term that can be renewed one or more times up to a maximum period of 10 years. Assignments or transfers of any license, right or obligations under a license are subject to the prior written authorization of the Ministry of Hydrocarbons.

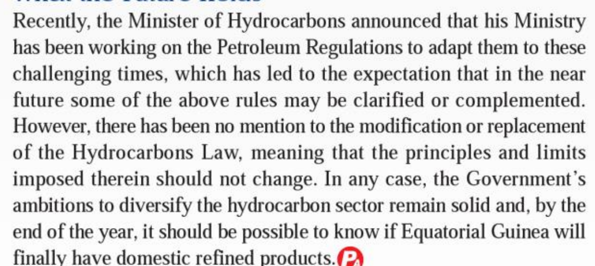
In addition to the license, anyone wishing to build or install a refinery will also have to seek the Ministry's approval for its location and design. The Ministry has not established technical standards applicable to the design of refineries, but the final detailed design must be submitted for review and approval by the Ministry, which may propose any required amendments or modifications.

Licensees with the right to store refined products can be required by the Ministry to maintain in storage a minimum level of a specific product, either in their license or through the service of a subsequent notice. Also, in the event of a national emergency, licensees may see all or part of their stored products requisitioned by means of a Presidential Decree, being paid for the requisitioned products in CFA Francs at the price prevailing in Equatorial Guinea at the date of the requisition.

The 2013 Petroleum Regulations expressly allow the Ministry to set forth and charge fees payable by licensees, with late payment or non-payment allowing the Ministry to withdraw the license, and to impose tariffs on any product manufactured in, imported into or exported from Equatorial Guinea, even though the 2006 Hydrocarbons Law is silent on these matters. Unfortunately, the Regulations contain no guidelines on how these charges will be fixed or changed, leading to some uncertainty for potential operators.

What the Future Holds

Recently, the Minister of Hydrocarbons announced that his Ministry has been working on the Petroleum Regulations to adapt them to these challenging times, which has led to the expectation that in the near future some of the above rules may be clarified or complemented. However, there has been no mention to the modification or replacement of the Hydrocarbons Law, meaning that the principles and limits imposed therein should not change. In any case, the Government's ambitions to diversify the hydrocarbon sector remain solid and, by the end of the year, it should be possible to know if Equatorial Guinea will finally have domestic refined products.



About the Author
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