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Business Opportunities in Angola's Refining Sector

Angola has been the second-largest oil producer in sub-Saharan Africa, behind Nigeria, with a steady increase of oil production since the end of the civil war in 2002. The country experienced a significant boom between 2002 and 2008, as production started at several deep-water fields. Oil revenues alone injected an estimated \$470 billion into the Angolan economy between 2002 and 2014. According to numbers provided by OPEC, the value of Angolan petroleum exports in 2015 represented nearly \$57.61 billion. Crude oil exports are currently around 1.6 million barrels per day (bpd). The recent drop in oil prices has put significant pressure on the country's finances. However, the economy still relies widely on the oil sector, which is made up of a long chain of activities.

While Angola is a significant exporter of oil the downstream sector, which comprises the refining of crude and the processing of natural gas, as well as the marketing and distribution of products derived from crude oil and natural gas, represents a small percentage of the country's oil industry.

Refining activities currently represent an output of approximately 44,000 barrels of oil equivalent per day. Despite being one of the largest oil producers in Africa, Angola still imports about 80% of its fuel needs. Since last January, the Angolan government cut the subsidies that were previously granted to cover most of the fuel costs. As a consequence, prices for these products increased up to Kz 160 (roughly \$1) per liter. Import of refined products represented in 2015 a cost of \$2.7 billion due to the lack of sufficient internal refining capacity. But this represents a great opportunity for investment.

Less State Intervention

Since the Strategy for Liberalization of the Downstream Sector was enacted in 2009, a number of changes have been made to the regulatory framework of the downstream sector. The strategy ultimately aims to bring competition to the sector. The weight of State intervention is therefore expected to decrease, thereby giving space to the private sector.

Licensing & Local Content Requirements

The legislation currently applicable to refining provides for specific rules and requirements for each segment of the value chain, allowing for different opportunities for private investors. The applicable rules are set forth in two main statutes:

(i) Law No. 28/11, of 1 September 2011, the Law on crude oil refining and storage, transportation, distribution and marketing of petroleum products ("Law No. 28/11"); and

(ii) Presidential Decree No. 132/13, of 5 September 2013, which approved the legal regime governing crude oil refining, storage and pipeline transportation of petroleum products, the Petroleum Derivatives System Logistics Supervisor, the operation of wholesale and retail markets, as well as the procedures and rules applicable to public service obligations, planning and licensing of Petroleum Derivatives System facilities in Angola (PD No. 132/13).

According to Law No. 28/11 crude oil refining activities are subject to licensing. Such licenses are granted by the Ministry of Petroleum in a two-phase process: a preliminary license and a subsequent definitive license.

International companies that intend to engage in refining activities and to obtain these licenses are required to incorporate a company in Angola jointly with an Angolan partner, which must hold the majority of the share capital and voting rights. The Angolan partner must in addition have the right to appoint more than half of the members of the company's board and the right to define the operational and strategic policy of the company. Thus, notwithstanding the ongoing liberalization process, the law is still relatively protective with regard to the participation of foreign investment in this segment of the industry.

Opportunities for Foreign Investors

Although these requirements seem to tighten the investment opportunities for foreign companies interested in engaging in refining activities, adequate commercial structures can still allow them to protect their

position within the joint venture and to open space for business. Both Law No. 28/11 and PD No. 132/13 foresee incentives to be granted for the purpose of carrying out downstream activities under the private investment laws or other applicable legislation. The President of the Republic may also grant, on a case-by-case basis, additional tax, foreign exchange or customs incentives deemed necessary to facilitate the development of these activities. Direct access to loans under more favorable conditions than those typically practiced in the market may also be granted.

Existing Market

Currently Angola´s refining industry is limited to one single refinery in Luanda. The Luanda refinery was built in 1955 and operates at only 70% of its capacity, processing about 16 million barrels of crude oil per year. This represents a small amount of the national needs. Therefore, there are plans to expand the capacity by adding three more refineries, which will be crucial to the goal of Angola being self-sufficient in gasoline and diesel by 2017-2018. According to the numbers published in the industry press, the four plants may together process approximately 700,000 bpd, which would allow the State to save more than $50 million/day by reducing imports of refined products.

Future Prospects

A refinery project in the northern town of Soyo has already been awarded to two Chinese companies, which intend to have a functioning plant within 26 months and be able to process approximately 110,000 bpd at full capacity.

At the same time, the state-owned oil company Sonangol has recently awarded to an Indian company a service contract for the front-end engineering design revalidation, licensor selection and basic design and engineering package review of the Lobito refinery. The Lobito refinery (also known as Sonaref) is expected to be finished by 2018 and have a processing capacity of around 200,000 bpd.

A fourth refinery project is expected to be built in Bengo (roughly 60 Km from Luanda), representing an estimated processing capacity of 400,000 bpd.

Although projects in this area represent significant investments and tend to be long-term, the country's independence from fuel imports will necessarily hinge on the construction of new refineries, and this means that foreign investors will continue to be called to participate in this sector. Additionally, any excess capacity can be easily placed within the sub-Saharan Africa region, which is heavily dependent on imports for its fuel needs. Overall, investment in Angola's refining sector can be an interesting and lucrative opportunity for companies looking to invest in the processing of crude oil.

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