



FISCAL MANAGEMENT OF MINING AND PRETROLEUM IN WEST AFRICA

Petroleum Revenue Administration issues faced by Sao Tome and Principe in the Exclusive Economic Zone (EEZ)

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The Country / General Information

Sao Tome and Principe is an island nation in the Gulf of Guinea. The distance between the 2 islands is 300kms.

Total Area :1001 Km²

Population: around 190 000

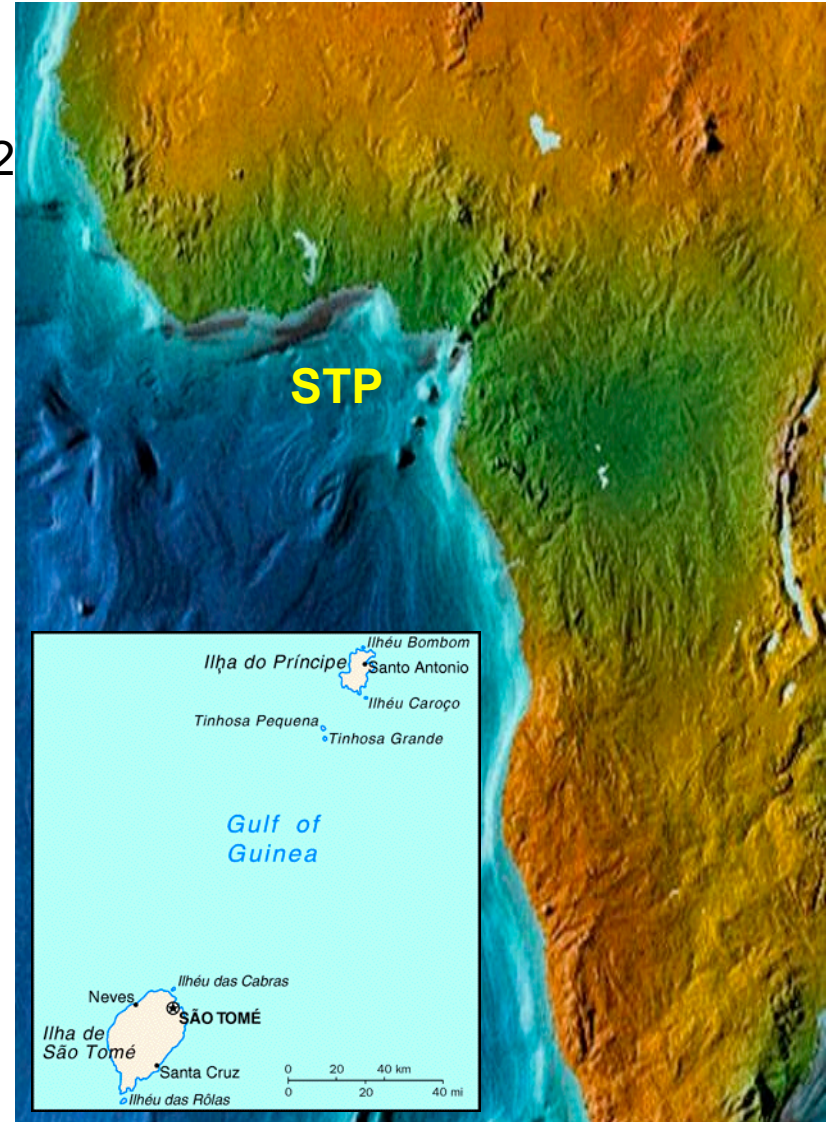
Young: +/- 53% (less than 30yr)

Capital: Sao Tome City

Climate: Tropical humid with two seasons; rainy (Sep.-Maio) dry (June-August)

Official Language: Portuguese

Independence day (12/07/1975)



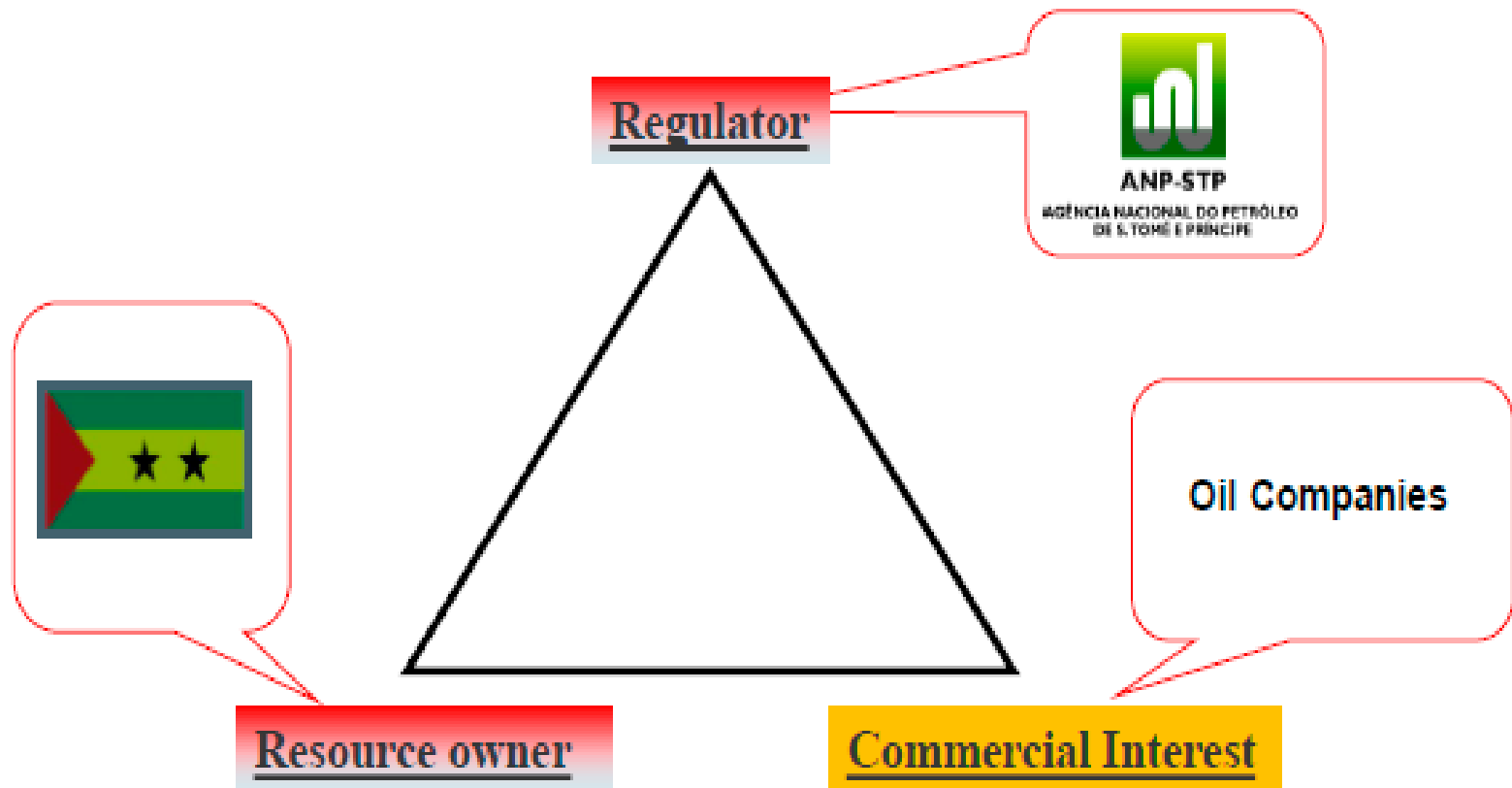


Main Economic Activities of the Country:

- Agriculture (Cocoa, pepper, coffee), 90% export revenue
- Fishery (fishing licenses..)
- Tourism
- Petroleum Resource ? Near future..!



Petroleum law provides the legal foundation for the governance structure of petroleum activities clarifying roles and interests:





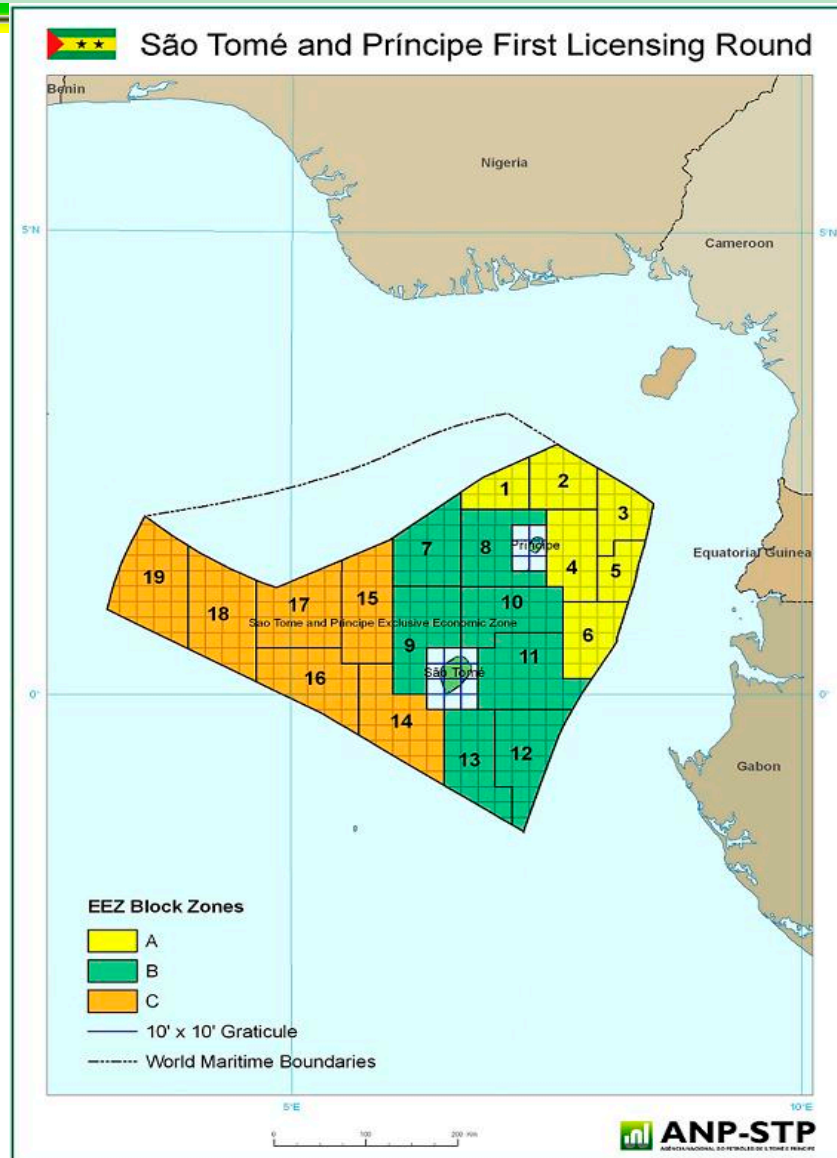
Political and Regulatory Bodies



- **National Assembly** (55 members with a mandate for 4 years).
- **Ministry of Infrastructures Natural Resources and Environment** – is the government body politically responsible for Infrastructure, energy, natural resources and environment management.
- **National Petroleum Agency** is a petroleum regulatory body having power to participate in the proposal of legislation and its implementation as well as applying the regulations and preparing licensing rounds;
Promote the exploration within EEZ and monitor the petroleum operations.



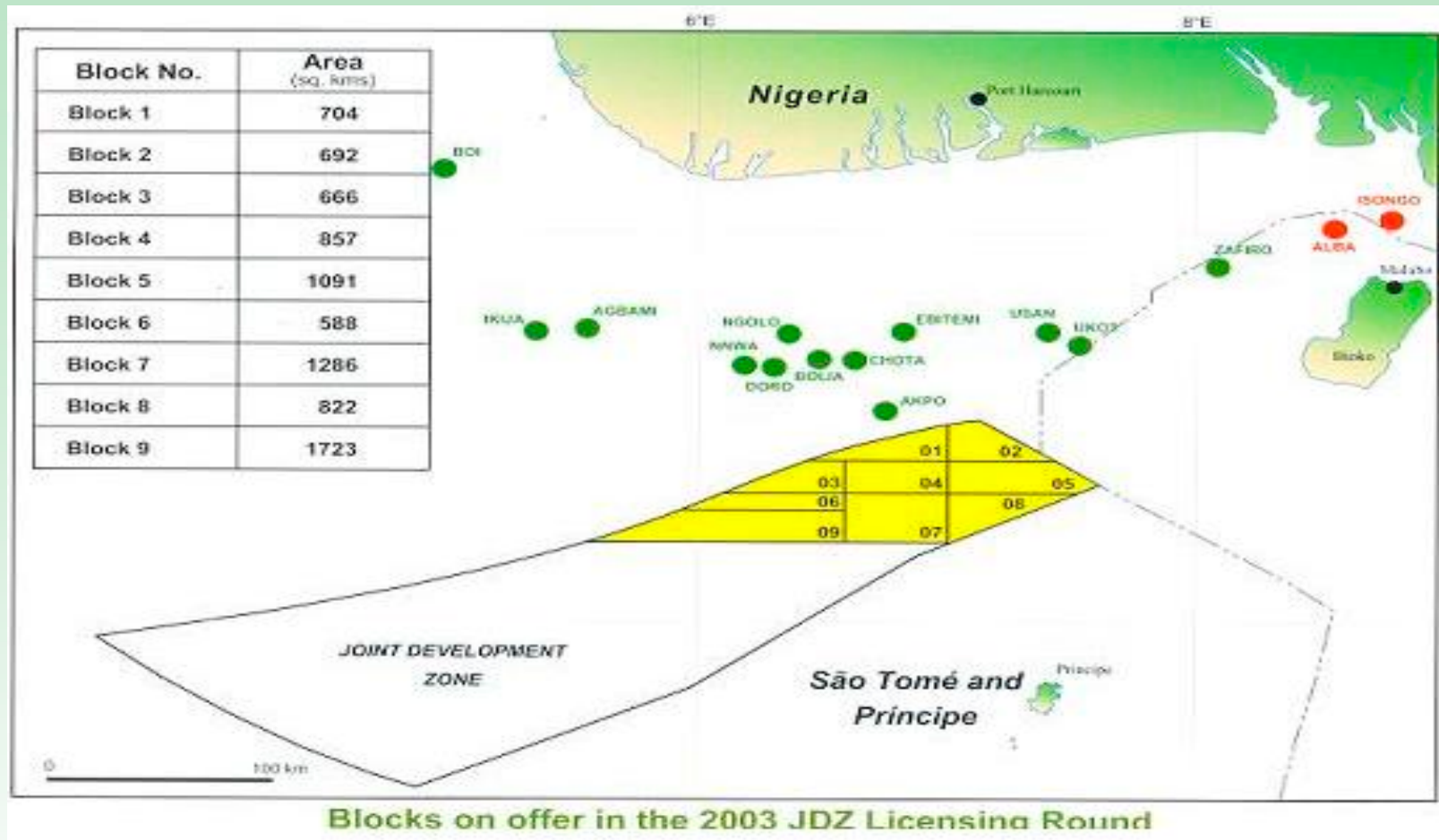
Blocks in EEZ





Existing Blocks in the JDZ

(Total Area: 35 000 Km²)





EEZ and JDZ



Economic Excluvise Zone (EEZ) - There are 19 oil blocks in the EEZ. Nine of these blocks have been awarded to different international oil & gas companies. There is no production yet and all 9 blocks awarded are under exploration phase.

Joint Development Zone (JDZ) - is a zone established on 21 February 2001 by the Abuja Treaty, jointly controlled and managed by the Federal Republic of Nigeria and Democratic Republic of São Tome and Principe for the purposes of the exploration and exploitation of resources, aimed for achieving optimum commercial utilization for two countries.



Legal Framework for EEZ

ON PLACE:

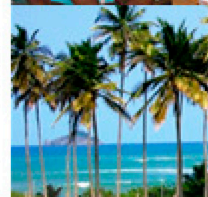
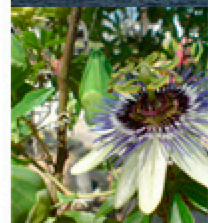
- Petroleum Operation Law
- Petroleum Tax Law
- Base Law on Environment (law n.10/99)
- Law on Conservation of Fauna, Flora and Protected Areas (law n.11/99)
- Law on Forest (law n.5/2001)
- Law of Fishing and Fish Species (law n.9/2001)
- Decree Law n.63/81 that establishes legal instruments for protection, exploration and management of marine resources within EEZ

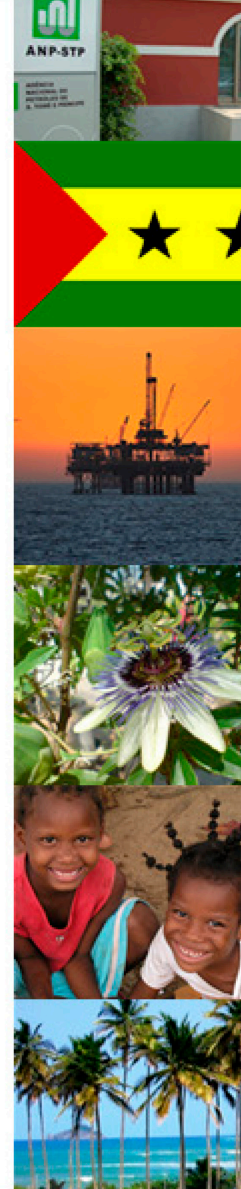


Legal Framework (Cont.)

- Decree Law 2007, that approves the Fishing Regulations
- Decree Law 37/99 that approves the Environmental Impact Assessment.
- Law nº 16/2009 (Petroleum Operation Law)
- **OIL REVENUE LAW (LAW N.8/2004)**

REVENUES FROM OIL & GAS ACTIVITIES AND CHALLENGES FACED IN ITS ADMINISTRATION





Revenues from Oil & Gas Activities

Distiction from:

1º Revenues directly paid into the National Oil Account

2º Contractual amounts allocated for funding Social Projects and Scholarship for national citizens



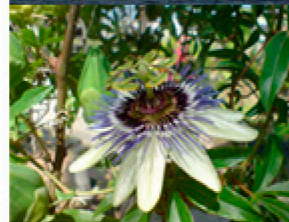
Revenues Directly Paid into the National Oil Account

1. Signature Bonus:

- a) Signature Bonus single payment (amount negotiable).
- b) Production Bonuses set by cumulative production thresholds.

2. Tax:

- a) Taxation on the contractor's income
- b) Withholding tax on the payment of services for petroleum operation carried out and delivered in the territory of Sao Tome and Principe





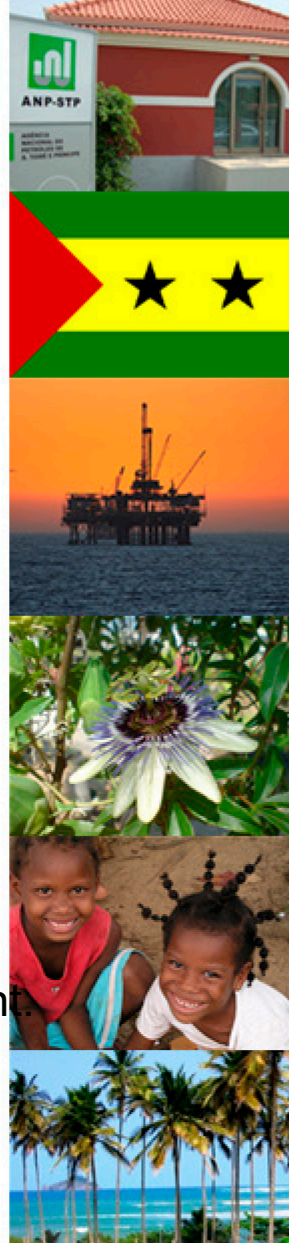
Funding Social Projects and Scholarships

Social Projects:

Under the PSC terms, the contractors/oil companies should fund social projects, mostly in the education and health sector. The practice is that the Government indicates the projects, but the details of such projects are agreed between the Government and the contractors.

So far, the contractors have founded social projects around USD 2.500.000 (buying schools buses, funding the construction of schools, health center, support facilities, etc). Contractors/oil companies pay the costs of the social Projects, directly to the services providers (ex. construction companies).

This means that for social projects, money never goes directly to the Government.



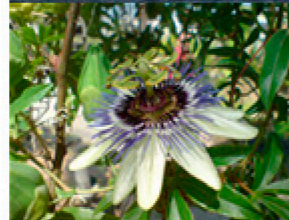


Funding Social Projects and Scholarships

Social Projects

This process, seems to be a good process as it ensures a good execution of the social projects, and the Government will not be attempt to reallocate the funds for something other than social projects.

However, this implies that a transparent procurement policy is required to be put in place in order to ensure the competitiveness of the fees charged and quality of services provided.



Funding of Social Projects and Scholarship

Scholarship:

Under the PSC terms, the contractors are also required to fund scholarship for Sao Tome citizens. In this respect, contractors have already expended around USD **(amount to be confirmed)** with training and scholarship.

The amount agreed and allocated for scholarship is also directly paid into the training institutions bank account (Universities and others training centers).



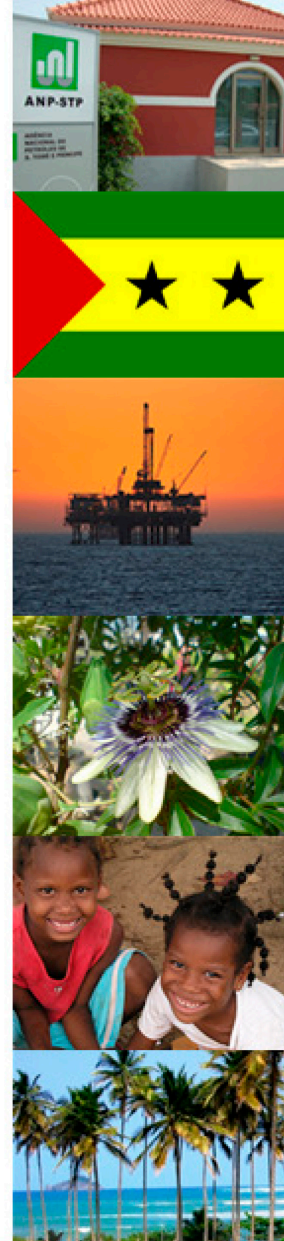


Revenues Directly Paid into the National Petroleum Account

Regarding revenues directly paid into National Oil Account, an account hosted at Federal Reserve Bank. Oil Revenue Law (Lei n.º 8 /2004), regulates some relevant matters.

Two important aspects:

❖ **Prohibition on Liens or Encumbrances** (article 4º) *“Any and all acts are prohibited by the State or its Officials if such acts directly or indirectly create, permit, assume, or promise the existence of public loans, public bonds, security interests or any other liens or encumbrances relating to the Oil Accounts or any other Oil Resources, whether existing or future, or related thereto”*

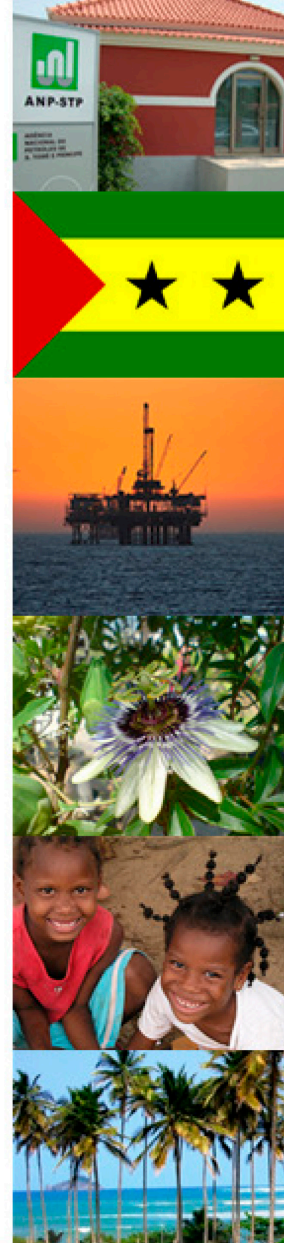




Revenues Directly Paid into the National Petroleum Account

❖ **Determination of and Limits on the Annual Funding Amount** (article 8º) – according to this article, only 20% of the total estimated balance on the National Oil Account at the end of previous year, as estimated by the Central Bank are transferred to fund the State General Budget each year.

Additionally, article 9º provides that an amount not less than 7% of the annual funding amount should be reserved to the public expenditures of the Autonomous Region of Príncipe and an amount not less than 10% should be transferred to support the budget of local entities (Districts/Camaras).



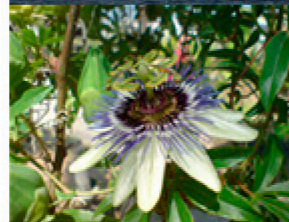


Revenues Directly Paid into the National Petroleum Account

The total amount paid into National Oil Account (2005 to 31 December 2016) is USD 68.494.890,33. The total amount transferred to fund the State General Budget is 59.061.475,62, under basis of 20% per year.

From an administration of oil revenues perspective, there are two current major issues:

1º Both the Authorities of the of the Autonomous Region of Príncipe (*not less than 7%*) and the Local Authorities (*not less than 10%*), have been criticizing the Central Government, by pointing out that the amount transferred to their budget, from the annual State General Budget are less than the percentage set out in the Oil Revenue Law.





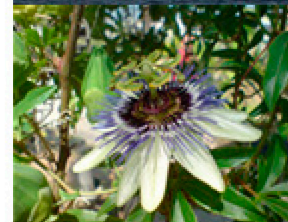
Revenues Directly Paid into the National Petroleum Account

2° There are voices contesting the Oil Revenue Law to the extent that it allows only 20% of the total amount on the National Oil Account to be transferred, annually, to the State General Budget.

According to these voices, with this restriction, in the scenario of country starting producing oil, we will reach a stage where we will have money laid down in the Federal Reserve Bank, while the country continues starving for foreign investment in basic infrastructures, such as roads, hospital, potable waters. We will not in medium term be able to invest our revenue to help to diversify the economy.

Nevertheless, whether the Oil Revenue Law should or not be amended is still a debatable issues.

Certainly, there will have pros and cons in preserving the clause of the Revenue Law and in making chances.





Landscape (Príncipe)





Landscape (South of S. Tome)





Landscape (Cont.)

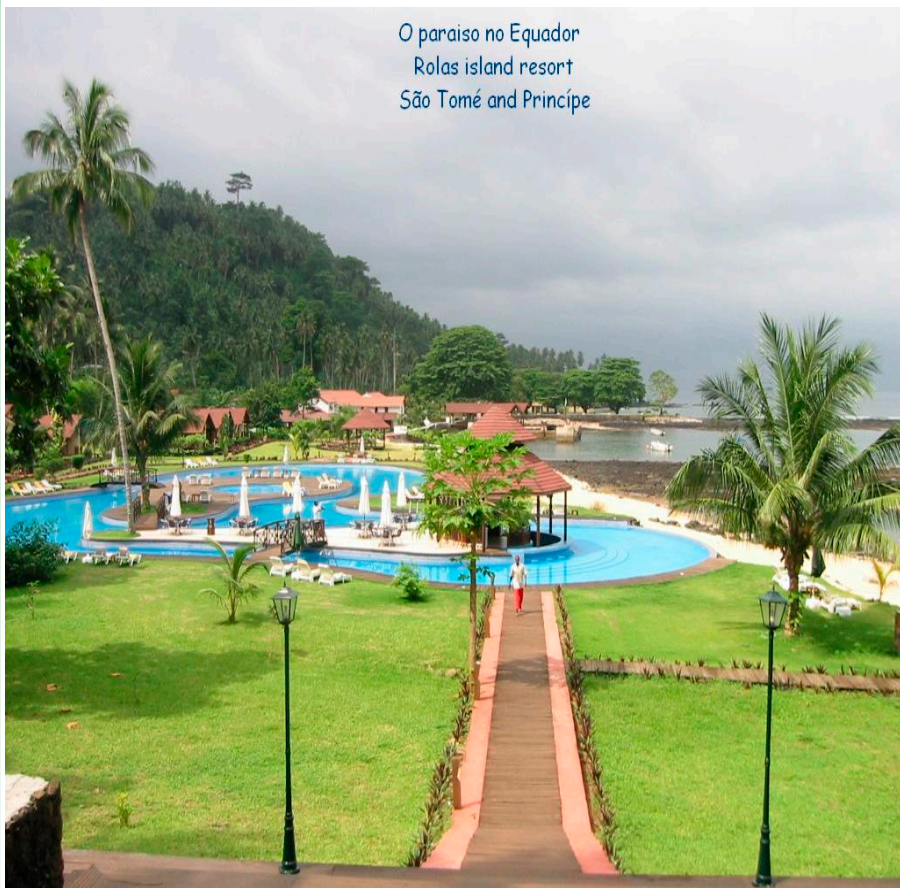




Rolas Resort (Sul ST.TOME)



O paraíso no Equador
Rolas island resort
São Tomé and Príncipe





Aerial View of Principe Island





FIM



- Muito Obrigado
- Thank You
- Merci
- Muchas Gracias