Newsletter

Nigeria Sao Tome & Principe 2003 Licensing Round

After much waiting, Nigeria and Sao Tome on the 22nd of April 2003, flagged off the licensing round for nine oil blocks in the Joint Development Zone ("JDZ"). The JDZ is an area of overlapping maritime boundary claims between Nigeria and Sao Tome, which both countries have agreed to jointly develop. The area is estimated to hold crude reserves of about six billion barrels.

The JDZ

The JDZ was established by a Treaty signed on the 21st of February 2001 by both Nigeria and Sao Tome. The Treaty amongst other things, outlines the principles and legal framework for the joint development of the resources of the Zone. The Treaty also established the Joint Development Authority ("JDA") which is responsible for the management and administration of activities relating to exploration and exploitation of the resources in the Zone. The JDA is conferred with legal personality under international law and under the laws of both countries. It has the capacity to contract, to acquire and dispose of movable and immovable property and to institute and be party to legal proceedings. The JDA reports to a Joint Ministerial Council ("JMC"), which has overall responsibility for all matters relating to the exploration and exploitation of resources in the Zone. The JDA itself is made up of four departments. (i) the Monitoring and Inspections Department, which performs the role of a State Ministry of Petroleum Resources, (ii) the Commercial and Investment Department, which performs the functions of a State Petroleum Corporation, (iii) the Non-Hydrocarbon Resources Department, and (iv) the Finance and Administration Department.

Fiscal Regime

The principal components of the fiscal regime for the Zone are as follows:

- A uniform tax rate of 50%
- Royalty to be based on a sliding scale that varies with the daily rate of production
- Area Rentals will be charged as follows:
  - OPL for each sq. km or part thereof $200
  - OML for each sq. km or part thereof
  During the first 10 years of term $500
  Thereafter $200

- Other miscellaneous fees and charges are as follows:
  - Application for an OPL (bid package) $15,000
  - Processing fee for an OPL application $10,000
  - Application for an OML $1,000,000
  - Application to assign a stake in an OPL or related PSC $500,000

- Application to assign a stake in an OML or related PSC $1,000,000

- Application to terminate an OPL, OML or related PSC $100,000

- Application for a licence to operate a drilling rig $100,000

- Licence to operate a drilling rig (annually) $50,000

- Permit to export samples for analysis (per well) $10,000.

Petroleum equipment are exempted from customs duties or other taxes in respect of its import into, use in or export from the Zone.

The petroleum and tax regulations containing details of the fiscal regime for the Zone has been approved by the JMC and is expected to be published any moment from now.

Outline of PSC Terms

Petroleum operations in the JDZ will be conducted based on the production sharing contract ("PSC") model. Exploration Licenses (ELs), Oil Prospecting Licenses (OPLs) and Oil Mining Leases (OMLs) will be held by the JDA which will then sign a PSC with oil exploration and production companies. The PSC will effectively transfer the rights and obligations in the OPLs and OMLs to the oil companies. A model production sharing contract has been approved by the JMC. The main features of the model PSC are as follows:

- Signature bonus which must not be less than $30 Million shall be payable in one tranche
- Production Bonus shall be paid within one month upon reaching the stated production threshold..
- A minimum work obligation of two wells or the equivalent of one well worth of 3D Seismic data and one well
- Ring Fencing of individual developments for cost recovery and profit sharing and on a PSC basis for taxation.
- Cost Recovery ceiling of 80%.
- Profit Share will be based on an R Factor that tracks project profitability.

Selection Criteria

Applications will be evaluated on both Technical and Commercial basis.

The basic criteria for technical evaluation are:

- Evidence of Company's Technical capability
- Work Programme Commitment. The Work Programme Commitment shall be phased into three exploration sub periods (4 + 2 + 2)
- Geological interpretation of Block
- Development proposals and plans for Associated Gas
- Environmental policies
- Local Content. Applicants will be required to indicate local content in terms of commitment to training and growth of indigenous capability, indigenous manpower and the use of services of the local industry of either or both countries.

Only bids that achieve technical evaluation scores of 60% and above will allowed to proceed to the next phase of Commercial Evaluation.

The basic criteria for commercial evaluation are:

- Signature bonus which must not be less than $30 Million per block.
- Production bonus for specific production thresholds

All bonuses offered shall be non-tax deductible and non-cost recoverable. Signature bonuses shall be payable in one tranche not later than 30 days after the signing of the PSC.

Requirements

Participation in petroleum operations in the Zone is open to only companies incorporated in any or both countries. Foreign companies intending to participate in petroleum operations in the Zone will need to incorporate local subsidiaries in either or both Nigeria and Sao Tome & Principe.

Other requirements include:

- Completed application forms.
- An MOU or equivalent document for joint applications.
- Evidence of previous or existing oil & gas activity.
- Evidence of good financial standing from a reputable bank or financial institution.
- Evidence of the payment of $15,000 (per block) bid package fee and $10,000 (per block) bid processing fee.

on Friday the 18th of October at 5.00 p.m. of that day. The JDA is planning a Roadshow in London for the 19th and 20th of June and another one in Houston for the 24th and 25th of June to elaborate on the requirements and regulations for the Licensing Rounds and operations in the JDZ.

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