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# Angola

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*Angola is today the second-largest oil producer in Africa, right after Nigeria. Its economy is highly exposed to variations in the prices of crude oil, given its heavy dependence upon hydrocarbon production. According to the World Bank, the “oil sector accounts for one-third of [Angola’s] GDP and more than 90% of [the country’s] exports”.<sup>1</sup> Angola’s GDP decreased by 9.3% in 2020,<sup>2</sup> which was largely due to the damaging effects of the COVID-19 pandemic, which hindered international trade and investment. The economy of Angola thus remains heavily dependent on crude oil.*

## **Overview of the current energy mix, and the place in the market of different energy sources**

Despite its efforts towards a swift energy transition – following the main global concern in searching for an energy matrix aimed at low carbon emissions and based on renewable sources to substitute fossil energies, Angola still relies heavily on fossil fuels. According to the country’s Ministry of Energy and Water, the hydroelectric potential of the country is vast, but the development of projects is still lengthy. The Angolan government plans to focus on hydroelectric power as one of its key energy sources in the future and plans to launch several projects towards that end as early as 2025, balancing competitiveness, regional development and environmental sustainability. Angola’s hydroelectric potential is currently estimated at 150TWh/year but, despite the current efforts towards the transition referred to above, the full potential of other renewable sources such as wind, solar and biomass is still far from being fully achieved, with the country’s economy remaining extremely dependent on oil.

The production, consumption and export of natural gas has been increasing in recent years and this, in conjunction with oil, is a key source for the production of power. Natural gas is expected to play a pivotal role in Angola’s long-term plan for the generation of power, and its connection with the hydropower production is fundamental for the energy sector, considering eventual drier years.

The potential of photovoltaic energy (through heat and sunlight) in the country is estimated at 17.3 GW, putting Angola in an attractive position for investment in this renewable source. If Angola is able to promote the energy transition it aspires to, in the manner it plans and with sound investment, the country is well positioned to become the main driving force behind this transition in sub-Saharan Africa, showing to the other countries and the world the evolution from a fossil fuel-based economy to one focused on renewable energies, through a smooth transition.

The production of power in Angola comes from various sources, with hydroelectric plants producing 64%, fossil fuels contributing with 34% and the remaining 2% arising from renewable sources.

## Petroleum

Despite the country's heavy dependence on oil, the latest projections by the *Oil & Gas Journal* (OGJ), show a decrease in the country's reserves of crude oil from 8.4 billion barrels in 2019 to 8.2 billion barrels as of early 2020.<sup>3</sup>

## Refining and refined oil products

There is currently only one refinery working in Angola, but there is at least three others under construction or scheduled to briefly begin construction located in Cabinda, Lobito and Soyo. According to the most recent data publicly available, Angola's refining capacity was 65,000 barrels a day in 2019<sup>4</sup> and the country is aiming to expand its refining capacity.

## Natural gas

Liquefied natural gas (LNG) exports from Angola grew in 2019. The Ministry of Energy and Waters (*Ministro da Energia e Águas*) has identified the pressing need for an adequate infrastructure for the transportation of LNG enabling Angola to become an active participant in the regional gas market.

## Renewable energies – hydropower

The government has identified hydropower as the key source for power generation in Angola for the upcoming years. The announced strategy includes connecting the hydropower infrastructure with those intended for LNG transportation.

Over 45% of the population now has access to power, which represents a growth of 100% in approximately the past 20 years.

The country's resources are still heavily unexplored, with natural gas and hydropower as the two main alternatives to the dependence of the country's economy on oil.

## **Changes in the energy situation in the last 12 months which are likely to have an impact on future direction or policy**

In September 2021, Angola's Agency for Petroleum, Gas and Biofuels (*Agência Nacional de Petróleo, Gás e Biocombustíveis*) announced the entities to which the blocks subject to tender were awarded. These procedures covered nine blocks, which are negotiating the terms of the contracts under which their activities are going to be undertaken.

## The Privatisations Programme

The petroleum sector has been undergoing a deep restructuring process since 2017, which led to new legislation being passed. Moreover, ANPG was created, replacing the National Concessionaire. This new regulatory entity was also created for the purposes of optimising the coordination of the petroleum sector and eliminating potential conflict of interests. More recently, the Privatisations Programme (PROPRIV) was approved by Presidential Decree 250/19, of 5 August 2019, setting out a timeline for the partial and full privatisation of public companies. Sonangol EP, as well as some of its subsidiaries, is among the companies that will be privatised under PROPRIV (although the share capital of Sonangol EP is planned to be partially offered to the public under an IPO). It is also worth mentioning that an ambitious bid round programme (that will be continuously carried out until 2025) was launched. As referred to above, the public tender for the first 10 blocks (out of 55) has already been awarded.

## **Developments in government policy/strategy/approach**

### Liberalisation of access to information on oil blocks

Angola has been taking steps towards a more open oil market. The need for transparency

and legal stability to attract foreign investment has made ANPG increasingly collaborative and committed to attracting such investments. Thus, ANPG will provide free data about blocks in the Kwanza and Lower Congo basins. The concessionaire explains that interested companies should express their interest in the bids and request free data consultation by sending a letter or e-mail to ANPG.

The annual bidding rounds until 2025 are aimed at attracting “medium-sized explorers to Angola’s basins that have proved productive in recent years and provided returns for companies well above industry averages elsewhere”, as stated by ANPG.

#### Angola seeks tax incentives for gas projects

A specific framework applicable to the activities related to the oil sector was created in 2018. Having been approved three years ago, this regime was already approved as part of Angola’s effort to attract foreign investment, balancing the investors’ expected returns and the State’s legitimate interest. The General Tax Administration (AGT) considers that there are currently good tax incentives for the implementation of gas projects in Angola.

Presidential Legislative Decree No. 7/18, of 18 May 2018, establishes the legal and tax regime applicable to the activities of prospection, exploration, appraisal, development, production and sale of natural gas in Angola. This legal regime was specifically designed for the promotion of gas exploration activities in Angola. This legal framework establishes the reduction of tax rates, namely the petroleum production tax from 20% to 5%, the petroleum income tax from 50% to 25%, which may be reduced to 15%, depending on the difficulties identified in certain blocks.

#### The use of hybrid energy production systems

The possibility of developing hybrid systems of production of power is currently being studied. These systems combine the production of power from solar energy with storage systems. These would require substantial investment but would strongly contribute to the desired energy transition.

This form of energy management and distribution would allow the creation of smaller production plants, facilitating access to more remote regions of the country. The possibility of distributing power to a larger area of the country would also promote the creation of new industries which rely on access to power which is currently non-existent, possibly bringing about a significant change to the country’s economy.

#### Permanent offer programme

ANPG launched a permanent offer programme that will allow the negotiation of petroleum resources available in Angola throughout the year without the need of a bid round announcement.

The Angolan government approved the proposal in late August, and the new programme will allow the national concessionaire to take the initiative to promote and negotiate oil and gas concessions. This will enable it to adopt more competitive strategies in order to attract international investment in Angola’s energy sector.

### **Developments in legislation or regulation**

#### Presidential Decree no. 76/21 – the bankability of projects in the energy sector

A major legislative innovation was the approval of Presidential Decree no. 76/21 (Regulation on the Activities of Production, Transmission, Distribution and Commercialisation of Electricity), of 25 March 2021, which strengthens the “bankability” of projects in the Angolan

energy sector. This is aimed at tackling some of the most common concerns for foreign investors, also allowing the encumbrance of concession assets under certain conditions and enabling payments to be made in foreign currency.

These measures bring Angola closer to the international market standards regarding trust and legal certainty, which offer investors increased comfort when deciding on their investments.

#### Amendments to the Environmental Conservation Areas Law

Law no. 12/21 of 7 May 2021 approved an amendment to the Law on Environmental Conservation Areas. The new statute exceptionally allows the exploitation of mineral resources, oil and gas, in partial and special natural reserves and in national parks.

There are claims that this amendment was approved against the energy transition trend that Angola claims to be a part of.

#### A lender-friendly approach: the Movable Assets Registration

Although not specifically relating to the energy sector, reference should be made to a recent legal framework, applicable to securities over moveable assets and the creation of the Registration Office for Security over Moveable Assets (*Central de Registo de Garantias Mobiliárias*, which is not yet fully operational), respectively, Law no. 11/21, approved in 22 April 2021 and Presidential Decree no. 114/21, of 29 April 2021, which created the Registration Office (*Central de Registo de Garantias Mobiliárias*).

Considering that the energy sector is heavily dependent on external financing from private players, this framework created a shift in paradigm in this civil law jurisdiction by allowing the creation of security over movable assets and also by introducing novelties such as security over future or undetermined assets (in a way equating to a common-law floating charge) or establishing the possibility to enforce such security by taking possession of the secured assets (which was also not possible prior to the enactment of this law). Extremely challenging to put in practice, the framework represents an unprecedented move taken by Angola towards attracting more external investment and external financing.

### **Judicial decisions, court judgments, results of public enquiries**

In Angola there is no available case law, judicial decisions, court judgments or results of public enquiries. This makes the access to the interpretation and application of the relevant legislation – including the legal framework applicable to the energy sector – very difficult. Angola often refers to Portuguese court decisions, but, in the energy sector, no court decisions have been issued.

### **Major events or developments**

The major developments we identify are related to ongoing projects, amongst which we highlight the following:

#### Caculo Cabaca hydroelectric project

This project began in August 2017, and four turbines are expected to be installed, for a production of 1,000 MW by 2024. Once all these turbines are installed, this project will become the largest hydroelectric facility in the country. The dam's electro-mechanical equipment, produced in Germany, is currently dependent on the negotiation for their financing.

#### Baynes hydropower plant

This cross-border project, located on the border between Angola and Namibia, is expected to produce between 400 and 600 MW from 2025 onwards.

## Proposals for changes in laws or regulations

The main change that is most often mentioned by all energy stakeholders is related to the implementation of a legal framework that is aligned with the so-called Energy Plan 2025 presented by the Angolan Ministry of Energy and Water (MINEA). The Plan established five major vectors: (i) to promote human development and the well-being of Angolans; (ii) to ensure a high rate of economic development; (iii) to harmoniously develop the national territory; (iv) to promote an equitable and sustainable development; and (v) to promote Angola's competitive insertion in the world economy. The Plan set important and relevant goals, but unfortunately, it has not yet been accompanied with robust regulation and serious incentive policies for investors to get the plan off the ground and implemented in practice. Some efforts have been made but, without a regulation that accompanies the policies, it is unlikely that the goals proposed in this Plan will be fully achieved by 2025.

One of the key challenges in the Angolan energy sector is the relationship between the various applicable frameworks. For example, projects in the Energy Sector are generally subject to the licensing framework set forth in Law no. 27/15, of 14 December 2015, which amended and republished the General Electricity Law, but are usually also dealt with within the context of the public-private partnerships framework and public procurement framework. The tension between various frameworks sometimes gives rise to queries on the applicability of the respective provisions (and that can have an impact, for example, in relation to authorisations to be sought) that oftentimes are difficult to resolve considering that public entities are not always equipped to answer them (also because of the lack of practical experience). Perhaps it would be positive to use the current impetus to reform the legal framework applicable to the energy sector to try and bring more clarity on the interconnection between the various frameworks, so that such law could in fact codify most of the rules applicable to these projects; this would certainly have a positive impact on bringing not only more clarity to both public and private entities, but also on making procedures more streamlined and on reducing the time for getting a project approved across the border.

\* \* \*

## Endnotes

1. Angola Overview: Development news, research, data | World Bank.
2. International – U.S. Energy Information Administration (EIA).
3. International – U.S. EIA.
4. International – U.S. EIA.

\* \* \*

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