PETROLEUM IN CONGO 2002

1. REPUBLICA DEMOCRATICA DEL CONGO: VISTA GENERAL

a) OVERVIEW

The West Central African country of Democratic Republic of Congo (DRC, formerly Zaïre) is rich in mineral resources, especially copper and cobalt, which provide the country's main source of income. However, production from the upstream oil industry, mainly from offshore fields, is an important contributor to the national economy.

War still ravages the DRC. Despite a ceasefire signed in July 1999, hostilities broke out again in DRC in March 2000. Until 1999, the main government agency in the petroleum sector was the Enterprise Petroliere du Congo (PetroCongo). PetroCongo was dissolved in August 1999 and replaced by a new state company called Cohydro (La Congolaise des Hydrocarbures). The company is responsible for all activities related to the oil sectors from oil exploration and production to refining.

b) UPSTREAM

The exploitation of the country's hyrdocarbon resources, mainly from offshore fields, is an important contributor to the national economy. Production is approximately 25,000 bpd.

Production levels have dropped from approximately 30,000 bpd in the mid 1990's to 25,000 bpd at the beginning of 2000. Two major three-year projects have been started in an attempt to increase production levels both onshore and offshore. The project led by Finarep (TotalFinaElf) aims to more than double onshore production from 7,220 bpd to 16,000 bpd by 2001, while offshore, Chevron Oil Congo (DRC) together with its partners, hopes to increase production from 15,361 bpd to 21,000 bpd by 2002.

Exploration for oil and gas in DRC began in the 1960's along the country's 22 km Atlantic Ocean coastline at the estuary of the Congo River (Congo) which is sandwiched between the prolific offshore producing region of northern Angola and its oil-rich enclave of Cabinda.

Congo became an oil producer in 1976 when its offshore fields came on stream. Congo's entire crude output is exported, as its crude characteristics are incompatible with the configuration of the country's only refinery.

Various foreign companies are operating in partnership with the government in the upstream oil sector. The most significant is a consortium operating the offshore concessions which comprises Congo Gulf Oil (Chevron), 50%, Teikoku Oil of Japan (Congo Petroleum Company) (32%) and Union Oil of California (Unocal) (18%). Operating an onshore concession in the Congo River estuary is a consortium known as CongoP (Société de Recherche et d'Exploitation des Pétroles au Congo) which, until 1999, included Petrofina and Shell. In 1999, Ocelot International bought out Shell's interest in three onshore production concessions.

The Japan National Oil Company (JNOC) has also been involved in exploration activities. The collapse of many state structures, inefficiency and bribery together with political instability have led to extreme difficulties within the industry. Once peace is restored to the country, however, it seems likely that the Kabila government, like its predecessors, will try to promote foreign interest in the onshore Lemba Trough, Tanganyika Graben blocks and Cuvette Centrale.

The Ministry of Energy is updating petroleum legislature to supervise and control the awarding of exploration permits and production concessions. In the DRC, acreage is licensed under a concession system.

c) DOWNSTREAM

Congo has only one oil refinery, the Société Congo-Italienne de Raffinage (SOCIR) (formerly the Société Zairo-Italienne de Raffinage (SOZIR)) refinery in which Agip and the government each had a 50%shareholding. In 1999, AgipPetroli sold Agip Congo SARL, which held a 50% interest in a number of service stations and in Societé Congo-Italienne de Raffinage SARL (SOCIR).

The refinery has a nominal operating capacity of 750 000 tons of crude per annum but generally operates at a rate of 50% or lower. As the country's domestic crude is too heavy to be processed by the refinery, crude for refining has to be imported, mainly from Nigeria. Congo also imports other finished products from Kenya and Zambia. The government are looking to upgrade the refinery to 50,000 bpd at an estimated cost of US$ 150 million. This upgrade is dependent on finding foreign investors and on the return of political stability to the country.

Marketing of fuels and lubricants products is carried out by Mobil, Shell, Agip, Fina and PetroCongo. Distribution is handled by the oil companies through Congo Services des Entreprises Pétrolières (SEP), a jointly owned organisation. The distribution infrastructure consists of river, road and barge systems, all of which are in need of improvement. The lack of an adequate transportation network, wide-scale corruption and inefficiency together with the political instability and civil war hamper development in all sectors of the economy and frequent product shortages are experienced. In the eastern part of Congo there is a scarcity of tanker trucks since many have been trapped or abandoned in Rwanda and Burundi by the ongoing political turmoil.

A barge system is used to transport imported crude to the refinery. Distribution starts at the Ango-Ango depot at inland river port of Matadi. All products, except fuel oil are pumped about 350 km by pipeline to 3 Kinshasa depots. From Kinshasa, petroleum products are barged to various river ports (Mbandaka, Bumba and Kisangani) on the Congo (Congo) River for further distribution either by road or rail. Finished product from Kenya and Zambia are imported by road. SEP together with the marketing companies own and operate two pipelines between Muanda and Ango-Ango, and between Kisangani and Walikale.

Product storage is considered to be adequate for both crude and finished products. The SOCIR refinery provides a large portion of the country's total storage capacity. The government is looking to upgrade this refinery in order to increase production.

The government controls petroleum product prices. Pricing is based on a single pricing formula for all products setting a fixed price based on refining and distribution costs and providing 70 different retail prices for the different destinations in the country. Annual petroleum tax revenue represents almost half of government indirect taxes. In 2000, there was a 200% increase in the petrol price following a devaluation of the DRC currency.

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