

Executive Summary

The recent discovery of oil prospects off Namibia's coast is a possible game changer for the country. It is anticipated that the industry will attract billions of dollars worth of investments and expand the economy's current size by a sheer factor. At the moment, however, Namibia's oil and gas industry is still in infancy and essentially at the exploration stage and the country meets its entire demand for petroleum products through imports.

There are currently four frontier basins of particular interest to petroleum explorers: Namibe, Walvis, Lüderitz and Orange. If proven commercially viable, the country's GDP could double by 2040. In addition, The national petroleum company is in partnership with the Norwegian company, BW Energy, to develop the Kudu Gas fields, discovered in 1974 in the northern Orange sub-basin, approximately 130 km off the south-west coast of Namibia. The Kudu Gas reserves have the potential to transform Namibia into a net electricity exporter through gas-to-power production. A combination of oil and gas discoveries means Namibia is poised to become a significant player in the oil and gas industry.

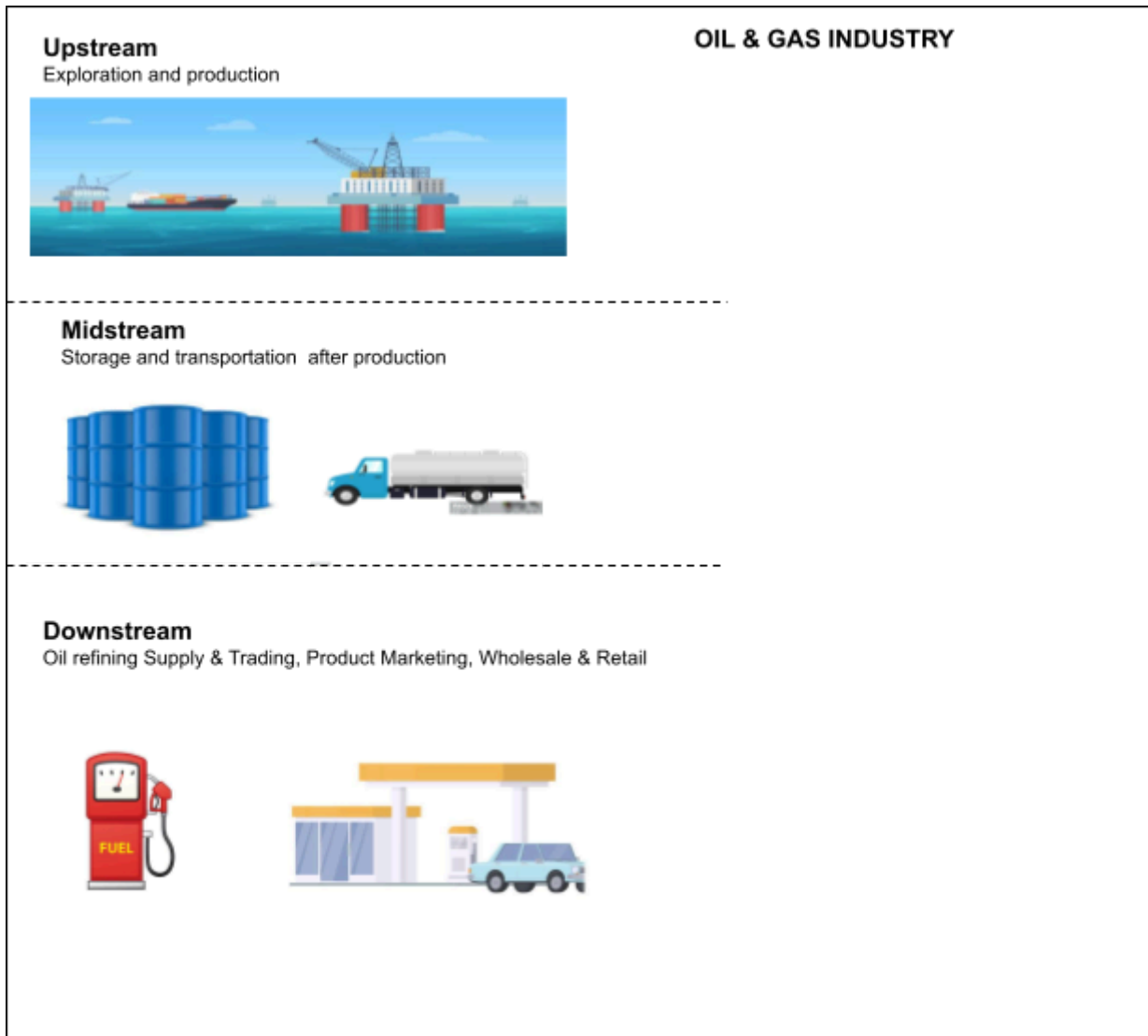
Drawing lessons from the experiences of oil producing countries on the continent and across the world, the Namibian government is cognisant of the potential pitfalls that are associated with discoveries of valuable natural resources such as the classical Dutch disease phenomenon and the ever present threat of corruption. Therefore, in his Budget Motivation Statement delivered on 8 April 2024, the Minister of Mines and Energy, Hon. Tom Alweendo, reiterated the government's vision to effectively manage this new sector and to ensure that the subsequent economic benefits will accrue fairly and equitably to all Namibians. One of the notable efforts in that regard is the development of the Local Content Policy (LCP) in the oil and gas sector. This policy aims to ensure maximum local economic benefits through service provision to the oil industry by businesses owned by Namibians.

Therefore, the government seeks to engage firms to compete for multi-billion dollar projects, including exploration and development of oil and gas fields, transportation and storage of petroleum products, and eventually refinery construction and associated infrastructure. Opportunities abound in the leading sub-sectors such as in providing high quality oil and gas equipment locally in order to save costs, and in finding and providing technological solutions to optimise operations—exploration and production equipment and services (such as deep and ultra-deep technologies like drill ships and floating vessels) and environmental protection and monitoring technologies (such as sea pollution remediation products).

Overview of the Sector

The Oil and Gas industry is typically segmented into three parts - upstream, midstream and downstream (Figure 1). The upstream sector includes the searching for potential underground or underwater crude oil and natural gas fields, drilling of exploratory wells, and subsequently drilling and operating the wells that recover and bring the crude oil and/or raw natural gas to the surface. The midstream sector includes storage and transportation of crude products after production. The downstream sector, on the other hand, includes all work done at the refinery, distillation, cracking, reforming, blending, storage, mixing and shipping as well as wholesaling and retailing. The case of heavy oil processing (oil sands etc.) and gas plant operation tend to cross the boundaries somewhat.

Figure 1: Structure of Oil and Gas Industry



Upstream, the national oil company, NAMCOR, controls the exploration activities for oil and gas through the bidding process. NAMCOR is a state-owned company that takes care of the government's interest in the Namibian petroleum resources. The company has the option to voluntarily participate in the licence agreement if one is offered by the partner company during negotiations, and its interests are usually

carried out during the exploration phase. NAMCOR also contributes to the development phase and beyond. However, no applicant is compelled to offer NAMCOR a share in a licence and no penalties are imposed if an offer is not made.

Namibia's oil and gas (O&G) industry is primarily characterised by exploration as well as supply and distribution activities at the moment. The country meets its entire demand for petroleum products through importation (Table 1). However, this could change in the foreseeable future because Namibia's upstream oil and gas sector is on the verge of rapid transformation. Significant discoveries were made in the country's Orange Basin in 2022 and 2023. This includes the Graff-1, Venus-1, and Jonker-1X exploration projects, just to name a few. These prospects have attracted oil and gas supermajors including TotalEnergies, Shell, Chevron and ExxonMobil, as well as multinational energy corporations such as Galp and QatarEnergy and independents such as ReconAfrica and many others.

Table 1: Petroleum Imports (Real Value) - N\$ millions

	2015	2016	2017	2018	2019	2020	2021	2022
Refined petroleum products	14,000	12,154	9,037	10,479	12,238	8,284	10,943	22,758

Source: Annual National Accounts 2022

NAMCOR and its partner, ReconAfrica, announced preliminary analysis of the data which provides clear evidence of a working conventional petroleum system in the Kavango Basin. ReconAfrica is a Canadian oil and gas company with extensive experience in the sector. In addition, NAMCOR and its other partners, Shell Namibia Upstream BV and Qatar Energy, announced that the Graff-1 deep-water exploration well has made a discovery of light oil in both primary and secondary targets. The company is currently engaged in extensive laboratory analyses to determine the reservoir of the available oil deposits. The drilling of the second exploration well will determine the size and recoverable potential of the identified hydrocarbons.

Together with its partners TotalEnergies and QatarEnergy, NAMCOR also announced another discovery of major light oil and associated gas on the Venus-1X prospect, located in Block 2913B (PEL 56) in the Orange Basin, offshore southern Namibia. The Venus-1X discovery is located approximately 290 km off the coast of Namibia, in the deep-water offshore exploration block. This is in addition to NAMCOR's partnership with BW Energy to develop the Kudu Gas fields, discovered in the northern Orange sub-basin approximately 130 km off the south-west coast of Namibia. The Kudu Gas reserves have the potential to turn Namibia into a net electricity exporter through gas-to-power production.

While these developments are encouraging and seemingly progressing well, it's still a long way before the real potential of these discoveries can be determined and there are significant risks along the way that need to be taken into account. The Namibian government, through the Ministry of Mines and Energy, facilitates a privately-run downstream oil and gas sector. At the moment there are five main oil companies involved in the marketing of petroleum products in Namibia and a few smaller, emerging ones. The market for gas supply and marketing in Namibia is relatively small and oligopolistic, dominated by a few wholesalers and retailers.

Key Players

The main players in Namibia's oil and gas industry are:

- Ministry of Mines and Energy (policy and regulation);

- NAMCOR (Exploration and retail);
- Oil & Gas exploration companies (BW Energy, ReconAfrica, Shell, Total Energies, Exxon Mobil, etc).
- Oil & Gas retail companies (Puma, Shell, Total, Engen, Vivo, Afrox, etc)
- Support services (Halliburton, Schlumberger (SLB), etc)

Policy Environment

The state-owned NAMCOR is the national oil company. This functions as a part of the Ministry of Mines and Energy (MME) and works with it to promote the country's acreage. It also acts as an advisor on national petroleum policy and has the capacity to act on behalf of the state as its commercial arm. The MME regulates the Namibian oil industry. Below are the main pieces of legislation that govern the sector both upstream and downstream:

(a) Upstream Petroleum

- Petroleum Taxation Act , 1991 (Act 3 of 1991) - which sets out the Petroleum Income Tax.
- Petroleum (Exploration and Production) Act, 1991 (Act 2 of 1991) - which sets out the Royalty levied on sales (as well as the level of application fees and annual area rental charges);
- Petroleum Laws Amendment Act, 1998(Act 24 of 1998) - which introduces a number of specific new incentives for Third Round licensees.
- Administrative provisions contained in the Income Tax Act 24 of 1981 (the "Income Tax Act")

(b) Downstream Petroleum

Strategic petroleum products (petrol and diesel) are controlled by the following legislation:

- Petroleum Products and Energy Act, 1990 (Act 13 of 1990), as amended in 1994 and 2000;
- Petroleum Products Regulations, 2000.

Fiscal Regime

The petroleum fiscal regime is favourable to oil and gas exploration and development and includes three key elements:

- Petroleum Income Tax rate is levied at the rate of 35% of taxable income and is levied separately for each licence area.
- In the computation of taxable income, exploration expenditure and operating expenditure is written off immediately and in full (i.e. 100% depreciation). Development expenditure is depreciated over 3 years (33.33% per annum, straight line), and deducted accordingly.
- Royalties are payable at 5% of gross revenue.
- The market value of crude oil is used as the basis to levy royalty and petroleum tax.

In addition to the above taxes, there are licence fees, annual area rental charges and annual training charges (PetroFund), all payable in local currency. However, the following deductions and allowances are allowed:

- any expenditure actually incurred in respect of every licence area in the production of gross income in such licence area excluding expenditure of a capital nature;
- repairs and maintenance (excluding improvements) of premises, machinery and other articles used for exploration, development or production;
- interest on borrowings employed in respect of the licence area concerned;
- rental on land and buildings, plant, machinery and other items;

- wages, salaries
- cost in respect of education and training of Namibian citizens at approved institutions;
- cost in respect of the provision of education and scientific material and equipment specified in a production licence;
- royalties paid in respect of Petroleum Exploration Act;
- custom duties in respect of importation of movable equipment/materials;
- consumables used in production, conveyance and storage facilities;
- general administration and management charges and bad debts;
- restoration and rehabilitation expenditure specified in terms of a licence;
- all exploration expenditure incurred in the current year of production and prior to the first year of production (which is the year in which petroleum is first sold). Prior to the first year of production such costs are accumulated and carried forward until the first year of production;
- one third of all development expenditure incurred in the current year of production and prior to the first year of production (which is the year in which petroleum is first sold). Prior to the first year of production such costs are accumulated and carried forward until the first year of production. The rest of the cost is deductible in each of the two ensuing tax years in equal amounts. Where an expense is incurred in respect of more than one licence area, the taxpayer should make a reasonable apportionment between the different licence areas.

Changes to tax policy occur from time to time, so it's important to always confirm with professional accountants or with the Namibia Revenue Authority (NamRa) on what fiscal incentives are available at the time of making the investment decision.

Namibia has signed 11 double tax treaties so far, most of which are based on the OECD model tax conventions and thus allowing for a reduction in withholding tax rates in many cases. The treaties are with the following countries: Botswana, Germany, Malaysia, France, India, Romania, South Africa, United Kingdom, Mauritius, Russia and Sweden

Contribution to the Economy

Since Namibia does not produce any oil or gas at the moment. Therefore, the contribution of the Oil & Gas industry can only be implied through other channels and related sectors such as wholesale and retail trade, revenue to the government through various taxes and royalties, as well as through local spending and corporate social responsibility programmes of the oil and gas companies.

In terms of direct employment, the 2018 Namibia Labour Force Survey recorded that 3,278 people were employed in the 'Electricity, gas, steam and air conditioning' industry. This represented 0.5% of the total employment in the country. This figure represents only direct employment in the broader sector. Workers in this industry earned an average monthly wage of N\$17,795, the third highest across all industries in the country.

The impact of O&G is, however, potentially much larger when contribution to government revenue, indirect and induced employment, as well as the social investments made by the sector, are taken into account. Moreover, the Labour Force Survey results are quite dated and do not take into account the situation in the sector after recent discoveries of oil prospects. A surge was recorded in recent figures pertaining to Namibia's foreign direct investments and a significant portion was attributed to exploration activities in the oil industry.

Petroleum oils topped the list of imported goods for the month of December 2023, with a share of 25.5 percent of total import value. These were mostly sourced from India, Oman and Bahrain. As has been

the case over the past years, petroleum oils were the second most re-exported commodity, accounting for a share of 16.3 percent and mainly destined to Botswana.

Even though re-exports do not undergo significant industrial transformations, they benefit the intermediate country through services such as sorting, repackaging, storage, transport, and trade mediation services. This implies that the country's services sector greatly benefits from activities of re-exports.

Investment Opportunities

Namibia's oil and gas sector is fairly nascent and requires further development. Currently the focus is on the upstream activities which include searching for potential underground or underwater crude oil and natural gas fields, drilling of exploratory wells, and subsequently bringing the crude oil and/or raw natural gas to the surface. To this end, the Ministry of Mines and Energy has issued a number of exploration licences that resulted in the latest discovery of oil in Namibia.

The downstream activities based on Namibian crude oil will start once the oil discovery proves to be commercially viable. Though the recent drilling revealed deposits of oil reserves, more work is still underway to confirm the exact volumes. The international oil companies are invited to apply for petroleum exploration licences in Namibia, under the Open Licensing System. This system allows companies to apply at any time for acreage.

Should the oil be commercially viable, there would be more downstream opportunities such as refinery, blending, storage, mixing, transportation, as well as wholesaling and retailing, amongst others. At the moment a few downstream opportunities exist, primarily due to the increased regional demand for petroleum.

Therefore, the government seeks to engage firms to compete for multi-billion dollar projects, including exploration and development of oil and gas fields, transportation and storage of petroleum products, and eventually refinery construction and associated infrastructure. Opportunities abound in the leading sub-sectors such as in providing high quality oil and gas equipment locally in order to save costs, and in finding and providing technological solutions to optimise operations—exploration and production equipment and services (such as deep and ultra-deep technologies like drill ships and floating vessels) and environmental protection and monitoring technologies (such as sea pollution remediation products, etc).