Background Briefing on Liberia’s Oil Sector

July 2012

This document presents a briefing on the history and current status of the oil sector in Liberia. It includes:

1. Sector priorities, information about NOCAL and the current Reform Program
2. Frequently Asked Questions about oil
3. Explanation of fiscal terms that make up PSCs
4. A background briefing on the history of the oil sector in Liberia, including a timeline of activities
5. All NOCAL’s public statements since the discovery in February 2012:
   a. Feb 21 - NOCAL statement regarding the discovery of potential oil
   b. Feb 26 - NOCAL statement on the reform process and key principles
   c. March 15 - NOCAL statement on the status of the 17 offshore oil blocks
   d. April 6 - NOCAL statement on the Buchanan Policy Retreat
   e. April 12 - NOCAL statement releasing Annual Budget
   f. April 18 - NOCAL statement announcing full audit
   g. April 20 - NOCAL response to the report from Legislature Joint ad-hoc Committee
   h. April 25 – NOCAL accepts in-principle proposed ExxonMobil-COPL Joint Venture
   i. May 21 – NOCAL says new petroleum policy expected to be finished in August.

6. Annex 1: Indicative Timeline of the evolution of a country’s oil sector


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1. Sector priorities, NOCAL, Reform Program

The Government’s stated overall goal is to use Liberia’s possible oil deposits for the maximum social and economic benefit of all Liberians, and to avoid the resource curse.

It is very early days. The discovery was only of potentially commercial oil. We do not yet know the extent of those reserves – it will take a year for African Petroleum (who made the discovery) to return to assess whether the quantity is commercial, and 5 to 7 years to develop a well to production if it is commercial.

It is therefore very unlikely that Liberia will see oil revenues from production during this term of government. The priority now is to put in place strong systems of governance and accountability, and the correct policy and legislation to manage oil for development and the benefit of all Liberians.

The Government has three priority areas in the coming years, defined by the President in her speech in Houston on April 20th 2012:

1. To reform existing oil policies and legislation so as to bring them in line with international best practice – including increased accountability, transparency, fairness and equality – in a manner that includes, informs and educates our citizens.

2. To seek and to strengthen partnerships with the world’s best private sector operators who have the technical and financial capacity to take on the risk to explore and develop Liberia’s offshore oil prospects.

3. To put in place systems to manage potential oil revenues so that they benefit all Liberians, and guarantee by legal strictures that such revenues are sustainably leveraged across the other critical sectors of the economy. This includes maximizing local content and investment in our country’s priority needs, as well as saving and stabilization measures.

About NOCAL and management of the sector

The National Oil Company of Liberia (NOCAL) is the independent state-owned enterprise created by the NOCAL Act of 2000 and mandated by that Act and the 2002 Petroleum Law to coordinate the development of Liberia’s oil sector. NOCAL Chairs the Hydrocarbon Technical Committee (HTC) – the inter-ministerial body created by the 2002 Petroleum Law which is empowered to negotiate all contracts. Today, the HTC is made up of:

a. NOCAL (Chair)
b. Ministry of Lands, Mines and Energy
c. Ministry of Finance
d. Ministry of Labor
e. Office of the Legal Advisor to the President
f. National Investment Commission
g. Environmental Protection Agency
h. Ministry of Justice
IN 2012 NOCAL entered a new phase, under new leadership. This ‘new NOCAL’ is reforming itself in a major way, especially ushering in stronger systems of transparency and accountability. This has already started, with the engagement of civil society and other stakeholders, the publishing of the budget and the announcing plans for a full external audit, earning unprecedented praise from Global Witness in May. The New NOCAL has:

- **New leadership** at the Board, President/CEO and VP levels
- Four new **Core Values**:
  1. **Transparency** – making Liberia’s sector open and accountable
  2. **Sustainability** – making sure all policies plan for the future
  3. **Inclusiveness** – making sure all stakeholders are engaged and included in the sector
  4. **SHE (safety, health and environmental care)** – making sure that Liberia’s people and environment are protected
- A **new Public Affairs Department** proactively engaging the public on radio and in events to educate and inform
- **New financial transparency**, publishing NOCAL’s budget (in April) and planning a full external audit
- **New Technical rigour** through training and secondment, and improving monitoring of the offshore operations and work programs of the private sector oil companies
- We are opening up exciting new partnerships in the private sector
- New engagement with **Civil Society Organizations** like LEITI, LOGO and LipWatch.

The ‘New NOCAL’ is undergoing major reforms
About the reform program which is underway

The new NOCAL is coordinating a vigorous oil governance reform program, announced on February 26th 2012. It will resolve the key governance issues to make sure we achieve the overall goal, and it will adhere to the above 4 core values at all times.

The reform process has three main steps:

1. Draft and adopt a new policy creating principles and guidance for exploration and production activities.
2. Draft and enact a new Petroleum Law, guided by the new policy, to cover Exploration and Production.
3. Create a new model Production Sharing Contract that reflects the new law.

The reforms are conducted under the Hydrocarbon Technical Committee (HTC), so it is an inclusive process and not NOCAL acting alone. It will consult all stakeholders, including civil society, public, as well as the Legislature.

The sector reform process is broad and inclusive

1. E&P Policy
   Draft Apr-July 2012
   Validate Aug 2012
2. New E&P Law/NOCAL Act
   Complete Q4 2012
   Enact early 2013
3. New Model PSC
   Draft Q4 2012
   Complete Q1 2013

A cross-governmental task force is managing the process:

- Process is overseen at Ministerial level (HTC)
- Technical Sub-Committee produces main outlines
- Drafting Committee generates drafts for HTC to decide
- External Technical advice and drafting support from Policy Advisory Group
- Major public consultations included for policy and law

The first step to create a new policy started in March, with the HTC drawing up a timetable for the process. In early April experts under the HTC met in Buchanan for a retreat to generate the preliminary policy statements, so that a first draft could be generated following the retreat. The
The retreat included civil society organizations and LEITI. The whole reform process is supported by the Policy Advisory Group (Norad (Norway), Revenue Watch Institute, and ACET).

The retreat addressed issues including:

- State ownership of petroleum resources
- The correct governance and regulatory framework for oil – including NOCAL’s role
- The correct forms of state participation in the oil sector (operations and equity)
- Systems of accountability and transparency
- Strong systems to protect the environment and ensure health and safety
- The correct structure and rules governing licensing and contracts
- Rules and policies to govern IOC work programs – including flaring
- The principles that should guide our approach to local content
- The correct fiscal regime, to ensure the maximum Liberian ‘Government take’ from production sharing
- The outline principles that will guide Liberia’s revenue management in the future – including how NOCAL should be financed.

The policy will not define these areas in great detail, but just establish high level principles to guide legislation for each area.

The retreat included civil society participation from Liberia Oil and Gas Initiative, Petroleum Watch and LEITI. This openness earned the first time Global Witness has ever praised the government for transparency in May.

The drafting team made up of technical experts from the HTC (plus Law Reform Commission) generate a first draft of the policy. This will be followed by extensive stakeholder consultation.

The expected timetable for the rest of the process over the coming months is:

- **May**: First draft of policy completed
- **End June**: First draft reviewed by expert technical advisors in the external Policy Advisory Group (Norway Oil for Development Program, Revenue Watch Institute, USA, and African Centre for Economic Transformation, Ghana)
- **July**: Review and feed-back on first draft
- **August**: National Public Consultation and discussion with all stakeholders, including public, civil society, Legislature and business. Also Diaspora consultation in United States
- **Late August/early September**: Incorporation of inputs and further drafts
- **Mid-September**: Submission to President and Cabinet for adoption.

Currently several of these issues are under further analysis and many of the issues only require high-level principles for the purposes of a policy. Other future legislation may be needed to address aspects of the sector not covered by an E&P Law – such as a Revenue Management Act or Local Content Law.
Were we want Governance to be in 5 years

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<th>Laws and policies</th>
<th>Civil Society and business</th>
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<td><strong>Petroleum Law and Model PSC fit for purpose</strong></td>
<td><strong>Informed public who grasp main concepts and demand good governance</strong></td>
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<td>Clear vision &amp; transparency</td>
<td>Clear and predictable Fiscal Regime</td>
<td>Functioning system for national and local consultations and FPIC</td>
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<td>‘Tech’ monitoring capacity,</td>
<td>A Revenue Management Act that reflects a national consensus</td>
<td>CSOs who understand oil and form part of reforms, accountability &amp; oversight mechanisms</td>
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<td>‘Tech’ command of data</td>
<td>If necessary, a Local Content Law</td>
<td>Businesses prepared for local content opportunities</td>
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<td>Legal capacity to negotiate</td>
<td>A clear strategy for oil revenue in National Development Plan</td>
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2. Frequently Asked Questions about oil in Liberia

Is Liberia producing oil?
No – Liberia is at least 5-7 years away from producing a drop of oil. We are still in the exploration phase, and the potential discovery made by African Petroleum in February needs to be evaluated further. That means scheduling a new rig to return to the area later in 2012 and drilling further wells to see how large or small the reservoir is. Only then can they say whether it is of large enough (‘commercial’) quantities to develop to production.

How is exploration done?
For offshore oil, NOCAL partners with a seismic data company (TGS-NOPEC) which does geological surveys of the sea-bed. The International Oil Companies (IOCs) buy this data and decide where to drill. The terms of the Production Sharing Contracts govern how long they have to interpret the data (usually 3 years) and how long they have to explore (usually 2 years). Once they have decided where to drill, they hire a drill-ship (which costs about US$1 million per day) and drill an exploratory well.

How is production done?
If the company finds oil and it is in commercial quantities they then have to build a well around it and a pipe for it to come up to a special floating platform (also known as a floating production, storage and offload facility (FPSO)), which takes at least 5 years to put in place.
Why are companies like Chevron or African Petroleum doing the work and not NOCAL?
Liberia today does not have the equipment, money or expertise to do exploration, or build wells. Every exploratory well costs over US$100m to drill, and there is usually a high chance of failure to hit oil. Compare that with Liberia’s national budget of US$400m. Exploration also takes great expertise, so a partnership with private sector companies makes more sense so that the IOCs bring in the expertise and take on all the financial risk.

How much money will oil produce?
It is impossible to say until we know what is down there. The Narina-1 well which African Petroleum drilled found good quality oil in good quantities, but you need to drill more wells until you know how much and whether it is commercially viable. The oil in LB-09 is very deep down, which makes it harder to get, and more expensive. African Petroleum are currently arranging to hire a rig to return to Block 9 later this year to appraise the reservoir they found, to see if it is commercially viable.

What does commercially viable mean?
It basically means: “can the oil company extract that particular oil reservoir, at that depth, at today’s oil prices, taking all costs into account, and still make a profit?” If oil is US$ per barrel, then their costs might far outweigh what they could make selling it. If it was US$500 per barrel, then lots more oil fields might be viable. Today’s price is about US$110 per barrel.

Why do the PSCs vary with the Petroleum Law?
The simple reason is that given the extreme financial risk of drilling offshore Liberia, some provisions of the Law (especially 3.3, 3.4 and 3.7 regarding equity and royalties) were not realistic to expect from the companies given the risk at the time. Liberia was classified a ‘frontier’ region, which means maximum risk, which means to get the companies to come at all you have to offer them more. Liberia got the best deal it could under the circumstances. As Liberia develops, that risk reduces and Liberia can demand more from new contracts it signs. That is also part of the rationale for revising the Law and Model Contract.

How do PSC’s work?
Production sharing contracts (PSCs) are different from Mineral Development Agreements because they are not concession agreements. A concession agreement effectively gives an area for a duration of time to a company to extract those resources, and the country benefits by charging royalties (which are taxes no matter what profit – see below) and taxes on the operations. A PSC, meanwhile, says that in addition to charging royalties and taxes, the company will share part of the petroleum produced with the country. This ‘production share’ is usually provided in the form of money, but in some countries they also take a share of the actual oil, for example to refine. The production share comes out of the ‘profit oil’. The difference between concessions and PSCs is like the difference between a person who leases his land to a farmer and just charges rent (Concessions), and a person who charges rent and takes a portion of the harvest (PSCs).

What are ‘cost oil’ and profit oil’?
If an oil well produces a certain total amount of barrels per day, or per month, the company is making money selling it and also running up big costs to operate the well. ‘Cost oil’ is the amount of oil they need to sell to cover all their costs. ‘Profit oil’ is what is left over after all costs have been recovered by the company (see fiscal terms section below). In a PSC the money
from the profit oil is then shared between the company and the country according to a sharing schedule agreed in the contract.

**Should Liberia re-negotiate the 10 existing PSCs?**
The high risk is that a renegotiation may drive investors away and would not result in better terms. We do not know if we have commercial oil yet, so we do not have a strong bargaining position. We have had huge success in attracting the world’s best companies (like Chevron) to come and explore. They are taking all the risk of exploring – which can cost USD1 million per day. If we try and re-negotiate, we risk losing these partners. This is not like Firestone or Arcelor Mittal. In those cases we knew what rubber was there, we knew what iron ore was there, so we could drive a harder bargain. In the case of oil we do not know. People should not under-estimate the value of having top companies – they are safer, more effective, employ more staff and do more good for the country. They are not corrupt, and more likely to ensure transparency.

**How do PSCs get agreed? Is it just NOCAL?**
PSC’s are negotiated between the companies and the Hydrocarbon Technical Committee. This is a cross-governmental committee, chaired by NOCAL. It includes Justice, Finance, Lands and Mines, NIC, EPA and the Legal Advisor to the President. All the PSCs are ratified by the Legislature before they come into effect.

**When will the next bidding round take place?**
Not until we have the new policy, law and contract in place to fix the new governance and regulatory structures.

**What about equity share in oil blocks?**
There are two different kinds of equity being debated. First is ‘state equity’, i.e. whether NOCAL has a share in the blocks on behalf of the Republic of Liberia – like an investor. Second is ‘citizen equity’ or share purchase – which is the opportunity for ordinary Liberians to buy shares in the oil companies (section 3.4 of the 2002 Petroleum Law).

For the first type, the old Petroleum Law says NOCAL should have 20% state equity share in the blocks (Section 3.3). In practice that is unrealistic and not reflected in all the PSCs inherited by the new NOCAL, for the reasons above. The new law will review this section.

When it comes to citizen equity or share purchase, the PSCs are silent, for the same reason. No country has ever been able to make this work on a practical level and the few attempts have led to corruption and increasing inequality. Most countries and best practice these days focus on local content and effective revenue management to increase the benefits to citizens.

**When will Liberia receive money?**
The main revenue comes when production starts. Even if the recent discovery is commercially viable, which we don’t know yet, it takes years and up to US$1bn investment to build the infrastructure at the well to do production. Until then, Liberia raises money from selling seismic data (shared with TGS NOPEC), from social development payments, and fees under the PSCs for ‘surface rental’ (money for using the area during exploration).

**Where does the current money go?**
NOCAL uses part of this money to cover its operating costs, some for scholarships and capacity building, and the rest (like surface rentals) go to Ministry of Finance. Liberia also currently receives taxes from the IOCs, which go to Finance.
NOCAL also gives funds to the University of Liberia and scholarships for Liberians to study oil-related subjects abroad. NOCAL advertises the scholarships in the newspaper, and applicants go through an open process. So far we have sent over a dozen Liberians abroad to study. This is very important for our local capacity.

How do people not on scholarships benefit now?
NOCAL supports UL. NOCAL also carries out social projects – like the housing projects in Lofa and Buchanan that were completed – and is building youth centres (one was opened in July in Logan Town). The oil companies also spend social development funds. For example, Chevron is spending US$10.5 million over 5 years on education, health and enterprise development.

What is the US$10.5 million figure that has been talked about?
That figure is the total value of the Social Development Fund that Chevron committed to as part of its PSCs. It is calculated based on SD payments of US$700,000, for three blocks, over 5 years. This money is managed by Chevron, not NOCAL or the government, to make sure it is spent properly. Chevron is focusing their support on Health, Education and Enterprise Development. They are open about their program and should be contacted directly for more information.

What is the US$10.7 billion number that has been mentioned?
That number was an estimate made by the US Embassy at one time as a guess at the total, eventual, possible value of the Chevron investment in Liberia. It is a hypothetical number and has nothing to do with the PSC deal or the social development funds.

When will oil generate jobs for Liberians?
This will take time, and people have to have realistic expectations. Oil is not a labour-intensive industry, and it requires specific skills. That said, over time it will be possible to employ more Liberians, especially through the different business opportunities that an oil sector creates for services (‘local content’). The Government will push as hard as it can to make sure the companies employ Liberians, but if there aren’t candidates with the necessary skills then we will handicap the sector if we force them. It’s more important to focus on ‘local content’ – that’s where the benefit comes. Liberians have to be entrepreneurial too, and take the initiative to create businesses that can take advantage of the oil sector’s needs (like transport, waste management, hospitality and other services).

What is ‘local content’?
Local content means the opportunities for local businesses to benefit from the oil sector – for example providing support services to the big companies. This could be everything from maintenance of the rigs, to catering, transport, housing for workers etc. Countries usually establish rules that make the companies use local contractors. However, we need to make sure again that we don’t handicap the development of the oil sector. If we create local content rules that mean the IOCs can’t do their work, then Liberia won’t get any money from oil at all. It’s a balance, and NOCAL has plans to promote and train businesses to benefit from oil.

Will we refine oil in Liberia?
We can’t say one way or the other until we have reviewed the policy. The current process is to create a policy and Law to cover Exploration and Production (also known as ‘upstream and midstream activities’), not ‘downstream’ activities like refining. It may be a good idea for Liberia to refine, or it may not be good return on investment. It all depends on the scale of reserves.
**How will the revenue be used?**

It’s too early to say, because we do not know the geology yet. We can’t count chickens before they hatch. Also, this is a question that should be debated nationally – in an inclusive way. One thing we can say for sure – the revenue has to benefit ALL Liberians, not just certain people or certain areas. Managing oil revenues is complex and must be done correctly. In doing so it is necessary to get the correct balance between:

1. Investing in the urgent development needs of the country (like infrastructure, education)
2. Saving money for future generations (because oil belongs to them too)
3. Putting aside money to stabilize the economy in the (likely) event of volatile oil prices
4. Not flooding the economy with money (especially foreign exchange) which can hurt the economy and lead to Dutch Disease (see below for details on Dutch Disease)
5. Boosting the government budget (but not overspending on recurring costs).

Getting this balance right usually means creating special Funds alongside the main budget to cover investment, stabilization and future saving (also called Heritage Finds). These funds then have to be managed in a transparent and accountable way, involving all stakeholders and guided by the countries’ national development strategy and the public priorities.

**Who will control Liberia’s oil revenues?**

This is another question under review by the policy making process, but the best practice is that revenue should be controlled by central government, with enough retained by the national oil company to operate autonomously. Currently under Liberian law, almost all revenues go to the Ministry of Finance. This includes current sources of revenue – such as surface rentals – and possible future revenue through production sharing and taxation. That arrangement is unlikely to change. The Government is looking carefully at international benchmarks (especially Brazil and Norway) to determine how best to ensure that our national oil company (NOC) has the right financing to play its proper role in the long term – an autonomous operational budget, but without limiting revenue to the central coffers (like Nigeria or Angola) or leading to an NOC that cannot function (like Mexico where over-taxation of the NOC led to disaster).

**What is the oil curse and how can Liberia avoid it?**

The ‘oil curse’ refers to many poor countries which find oil but see falling economic indicators instead of progress. This has been especially true in Africa where institutions of governance and accountability are weaker. There is much debate about why this happens, but it is usually attributed to two failures: one political, one economic.

The political failure is when a government fails to put in place the correct governance, transparency and accountability mechanisms, and educate the public. When the money starts to flow, the existing problems like corruption, capital flight, patronage, cronyism and ‘rent-seeking behaviour’ all get worse and divert resources away from development and good governance. The reform process is trying to put in place exactly these proper structures and processes, to international benchmarks.

The economic failure is to do with bad economic policy, especially handling and spending revenues. Oil can generate so much money that a small country with weak governance, low government capacity and low absorptive capacity can struggle to spend it well. Avoiding that means structuring how you manage the money in government (with dedicated funds and proper oversight) and spending it well (with good programs and policies).
The priorities are 1) getting the right balance between spending and saving (for future generations), 2) making sure money spent is on investment rather than just the general government recurring costs, 3) choosing areas to spend on carefully – especially things that will lead to a strong economy when the oil runs out (like education, infrastructure), 4) setting aside enough money to avoid price shocks (the oil price is very volatile) and 5) making sure the economy is being diversified to avoid Dutch disease.

What is ‘Dutch disease’?
Dutch disease refers to a cluster of economic effects first observed in Holland in the 1970s. Firstly, when an oil sector starts booming it tends to attract labour away from other sectors and dwarf salaries. Secondly, it makes manufacturing and exports less profitable because the money coming into the country causes the local currency to appreciate rapidly. The result is that other exports and domestic industry become uncompetitive, and the country is left with a lop-sided economy with few jobs. Liberia is not manufacturing or exporting much yet, so it will not damage other parts of the economy so much as discourage and prevent them developing.

How major is the issue of NOCAL’s dual role?
There is an accepted model that separates the roles of regulation, commercial interests of the state, and policy making. While there are clear merits to this benchmark, there is also increasing recognition that it is not something to do too hastily.

The first issue is ‘conflict of interest’, where a national oil company (NOC) is a player and a referee at the same time. However, conflict of interest only arises when the NOC has a commercial interest – when it becomes a player. That commercial interest can be in the form of an equity share in operations, or as a company actually doing exploration and production (E&P). Neither of these currently apply to NOCAL, so there is no conflict of interest at present. NOCAL’s equity share of Blocks 11, 12 and 14 will only start at the start of production, and it is probably decades before NOCAL has the money and the capacity to do its own E&P.

Secondly, capacity constraints must be taken into account. It is unwise to spread very limited capacity too thinly too early on, especially when there is no question of a national oil company actually conducting operations. You don’t have to look far in West Africa to see examples where trying to create a separate regulator too soon has caused problems (Ghana). Liberia’s capacity (in terms of qualified, experienced geologists, geo-physicists, geo-chemists, engineers and environmental experts) is still very limited, and it is concentrated in NOCAL at the moment.

For now the priority for Liberia is to monitor and regulate the IOCs to make sure they are doing what they are supposed to. Thus separation is something to aim for, but many gold standard countries, like Norway or Brazil, took years or even decades to separate. We have to choose the right timing to split – which will probably be the start of significant commercial production when a conflict of interest begins. The new policy will address this issue.

What kinds of transparency measures is Liberia putting in place for oil?
Liberia already leads the rest of Africa with introducing EITI. As a result Liberia was the highest African country on the Revenue Watch Institutes Index on transparency in 2010. But we will go further – NOCAL has already published its annual budget and announced a full external audit for the previous 3 years. We are looking at other material that we can put in the public domain – especially around bidding, contracts and financial records.
We are also looking at international benchmarks about how to involved and build the capacity of civil society to shoulder its share of accountability – monitoring contracts and environmental and social impact assessments. We want a close partnership with civil society.

3. Explanation of fiscal terms that make up PSCs

What are oil and gas fiscal terms?¹
In most countries, the extractive industries develop and operate through relationships between sovereign governments and private companies. The fiscal terms that govern the relationship between these parties determine how the financial benefits and risks of extractive projects will be divided. Terms can be written into a country’s laws and apply to all projects or they may be contained within the individual contracts that govern the rights and obligations for a specific site or project.

Fiscal terms in the oil and gas industries must be structured around four important characteristics of the extractive industries: 1) petroleum and mineral resources are not infinite, so governments must generate returns that are sufficient to compensate the country for the value of the asset being depleted; 2) extractive projects require significant upfront investments before revenues begin to flow; 3) project risks, including geological risks, price variations, technical uncertainties, and political risks, are often significant; and 4) extractive revenues have the potential to represent a dominant share of a country’s public revenues.

Why are fiscal terms important?
If managed successfully, petroleum projects can generate large revenue streams for the state. The right set of fiscal terms enables a government to strike a balance between attracting the best investors and getting a good deal for the country. A fiscal regime that does not provide sufficient incentives for investors can result in production or revenue levels that fall short of government goals. But a fiscal regime that fails to distribute enough revenue to the host country can fail to effectively compensate the country for the value of its depleting resources, and can foster citizen dissatisfaction and national instability.

The fiscal terms influence not just theoretical assessments of expected national revenue under various scenarios, but also the enforcement of extractive agreements. The success or failure of a legal system to provide benefits for the country depends on the state’s ability to manage its commitments and ensure that all parties are adhering to the rules. Thus, an analysis of any system must consider how effectively it empowers the government to enforce the terms that capture benefit for the state. Good terms will enable governments to minimize the risk of corruption, non-compliance, and over-use of loopholes.

What are the main fiscal instruments?
Among the most common tools that states use in varying combinations are:

- **Bonuses.** A one-time payment made upon the finalization of a contract, the launch of activities on a project, or the achievement of certain goals laid out in the law or contracts. Sizes vary, ranging from tens of thousands to even hundreds of millions of dollars for a few large petroleum projects.

• **Royalties.** Payments made to the government to compensate it for the right to extract (and purchase) a non-renewable natural resource. Most royalties are either ad valorem (based on a percentage of the value of output, e.g., 5% of the value of the minerals produced) or per unit (based on a fixed amount, e.g., $10 per ton). When examining the likely financial impact of a royalty, it’s important to consider not just the percentage or per-unit value, but also the baseline against which that figure will be applied. The system in place for measuring the value or market price of the mineral plays an important role in determining the impact of royalty rules.

• **Income Tax.** In some cases, oil, gas and mining companies are subject to the general corporate income tax rate prevailing for all businesses in a country; in other cases, there is a special regime for these extractive sectors. Because petroleum and mining projects require heavy capital and operational investments, rules on how the tax system handles costs and deductions – the deductibility of interest payments, the depreciation of physical assets, the ability to count losses from one tax year to offset profits in a future tax year, etc. – play a major role in determining how governments and companies benefit.

• **Windfall Profits Taxes.** Some countries have set up special tax instruments designed to give the government a greater share of project surpluses, through additional tax payments, when prices or profits exceed the levels necessary to attract investment.

• **Government Equity.** In some cases, petroleum projects are set up as locally-incorporated entities for which shares are divided between a private company and a state-owned company or another public body. Holding these equity stakes can give the state access to a portion of dividend payments.

• **Other Taxes and Fees.** Additional sources of fiscal revenues for the state include withholding tax on dividends and payments made overseas, excise taxes, customs duties, and land rental fees.

• **Production Sharing.** Many oil and gas contracts entitle the state to a share of the physical quantities of petroleum produced. These systems typically allocate such resources as reimbursements on production costs, then split control over the remaining “profit” oil or gas between the operating group of companies and the government. The government either sells its portion on its own, or takes cash payment from the operating companies in lieu of physical delivery of the commodity.

**What are best practices for fiscal terms?**

Since each country is characterized by variations in economic priorities, administrative capacities, mineral/petroleum endowments, and levels of political risk, it is impossible to identify one type or mix of fiscal instrument as best for all countries across the board. But there are certain considerations that governments should include in the design of fiscal regimes.

• The fiscal regime for mining or petroleum should be clearly established by laws and regulations that should be readily accessible to the public. Minimizing parties’ discretion to alter fiscal terms in individual contracts facilitates contract enforcement and the application of a coherent sector-wide fiscal strategy, and reduces the risk of corruption in negotiations.

• Fiscal regimes are most stable when they contain progressive elements that give the government an increasing share of revenues as profitability increases. This can be achieved
using a variety of instruments, including progressive income taxes, windfall profits taxes, and variable-rate royalties.

- When developing a fiscal regime, it is important to consider not only the total value over the life of a project, but also the timing of the expected revenue flows. Some fiscal instruments – bonuses and royalties, for example – generate revenues to the state at an earlier stage than instruments such as profits-based taxes. Governments should develop their fiscal regimes so as to generate revenues on a timeframe that corresponds with national development plans.

When analyzing the impact of a country’s fiscal terms on revenue generation, there are several potential loopholes that bear close monitoring:

- **Transfer Pricing.** An integrated international company may use sales among various subsidiaries as a means to reduce its fiscal obligations within a particular country. A sale of mineral or petroleum output from one subsidiary to another at a price under the fair market value may serve to reduce the revenue the company reports to the government and thus limit the royalty or tax payments it owes. Similarly, by purchasing a good or service from a related company at an inflated price, a company can raise its reported costs, thereby increasing deductions and decreasing income tax liabilities. In order to limit transfer pricing abuse, a government should put in place a firm policy for the valuation of transactions between related parties, linking the prices utilized for revenue-collection assessments to objective market values wherever possible.

- **Debt-to-Equity Ratios.** Interest payments on loans are often deductible for income-tax purposes. Integrated international companies sometimes finance subsidiaries in extractive-rich countries with extremely high levels of debt in the form of related-party loans, which means that interest payments made from the subsidiary to its parent company are deducted, limiting the subsidiary’s tax liability. Governments can combat this problem by capping the level of debt that an extractive subsidiary can take on in relation to its total capitalization, or by mandating that interest payments made on debt exceeding a certain debt-to-equity ratio will not be deductible for tax purposes.

- **Ring-Fencing.** Companies that have multiple activities within one country sometimes use losses incurred in one project (say, exploration expenses from a new mine that has not yet begun production) to offset profits earned in another project, thereby reducing overall tax payments. Governments can overcome this situation through ring-fencing, the separate taxation of activities on a project-by-project basis, which facilitates the government collecting tax revenue on a project each year that it earns a profit.

- **Loss Carry-forwards.** Many tax systems allow a taxpayer to deduct losses generated in one year from income earned in a subsequent year. Such a system takes into account the heavy up-front costs necessary to get a project off the ground. But in an effort to prevent unfettered carry-forwards from overwhelmingly reducing long-term revenue generation, some governments have placed limits on them, restricting either the period of time that a loss can be kept on the books or the amount of income in any given year that can be offset by past losses.

- **Stabilization Clauses.** Petroleum and mineral contracts often have clauses that establish that the law that exists on the day that the contract is signed will govern the agreement, and that subsequent legal changes will not have any effect on the contract (also known as “grandfather
These clauses offer investors some assurance that they will not be subjected by legislative action to a drastically different fiscal regime than the one on which they based their decision to invest. But in order to protect the interests of citizens, preserve state sovereignty, and remain flexible to changing economic and political circumstances, stabilization clauses should be narrowly drafted and limited to major revenue streams such as royalties, taxes, duties, and major fees. Stabilization clauses should not freeze environmental, labour or other similar rules.

- **Cost recovery.** Cost recovery is a very important aspect of contracts that has to be carefully managed, rather than being a loophole. Cost recovery refers to the right of a company to keep as much money from production as they need to recover their costs, before sharing what is left over (profit oil) with the country under the production sharing schedule in the PSC. All PSCs allow for cost recovery, but it is very important(137,645),(370,683) that a PSC puts a limit on cost recovery to make sure that the company does not try to claim all the money from production as costs. In Liberia the cost recovery limit is 70% of total production, which means that 30% of total oil produced will always be shared between the company and the country.

- **Gold plating.** This is one more way that companies can try to claim additional costs against production and retain more money. It refers to the practice of deliberately over-spending on items, materials or equipment to inflate accounted costs.

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**The different types of revenue Liberia receives over the life of a PSC**

<table>
<thead>
<tr>
<th>Year</th>
<th>Phases</th>
<th>Activities of the Companies (IOCs)</th>
<th>Revenues for Liberia</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sign PSC</td>
<td>Bidding, negotiation, signing PSC</td>
<td>Signing Bonus (to MoF)</td>
</tr>
<tr>
<td>2</td>
<td>Analysis</td>
<td>Buying Seismic Data and analysing</td>
<td>Sale of data (to NOCAL)</td>
</tr>
<tr>
<td>4</td>
<td>Exploration</td>
<td>Hiring drill-ships and drilling exploratory wells</td>
<td>Surface Rental (to MoF)</td>
</tr>
<tr>
<td>6</td>
<td>Development</td>
<td>(If a discovery is made) Building well platform and infrastructure to handle production</td>
<td>Dividend Withholding Tax (to MoF)</td>
</tr>
<tr>
<td>10 to 15</td>
<td>Production</td>
<td></td>
<td>Tax payments</td>
</tr>
</tbody>
</table>

- **Total Production of oil**
  - IOC recovers costs up to 70% - Exploration and appraisal - Development - Financing & overheads

- **Profit Oil**
  - Split according to PSC

- **IOC profits after tax and Production Sharing**

- **Cost Oil**
  - IOC share

- **Country share**

- **Equity Dividends**
  - (to NOCAL – much later)
4. Background and technical information on Liberia’s oil sector

**Exploration History & Technical Data**
Prior to the creation of NOCAL in 2000, two phases of exploration activity occurred in the offshore sector of Liberia: During the first phase, 1970 to 1972, four wells were drilled by Union Carbide Petroleum Corporation, Frontier International Petroleum Inc., and Chevron Oil Company Liberia. In the second phase, 1983 to 1989, three wells were drilled by Amoco Liberia Exploration Company.

All wells penetrated a significant thickness of reservoir quality sandstone, ranging in age from late Jurassic to late Cretaceous, and five of the wells found ‘oil prone’ and ‘mixed oil and gas prone’ source beds with the total organic carbon exceeding two percent. Even though all of the wells proved the presence of hydrocarbons, deep water economics in the 1970’s and 80’s, along with the low cost of oil, played a crucial role in each well being subsequently abandoned.

Between 2000 and 2010, TGS Nopec Geophysical Company (Houston, TX) conducted 24,773 km of 2D Seismic Data; 24,408 km of 2D Gravity and Magnetic Data and 18,345 km² of 3D Seismic Data. The TGS surveys established the presence of essential petroleum factors: multiple mature oil prone source beds throughout most of the study area; abundant reservoir quality sandstones; adequate seals; varied, abundant and large traps and hydrocarbon generation; and
expulsion post trap formations that expand from a few hundred meters on the continental shelf to more than 2000m in the basin containing mature Cenomanian to Turonian source beds. Traps are numerous and widespread.

**Off-Shore Liberia**

Thirty concessionary blocks: 17 deepwater blocks from the continental shelf to water depths of 2500 meters to 4000 meters and 13 ‘Ultra-deepwater’ blocks to water depths of 4500 meters, comprise Liberia’s off-shore acreage.

Of the 17 deep-water blocks:

- Ten (10) blocks awarded: LB17, LB16, LB15, LB14, LB13, LB12, LB11, LB10, LB9, LB8
- Two (2) blocks are currently under negotiations: LB7 and LB6
- Five (5) blocks have not been awarded: LB 1-5.

**Current Drilling Activities**

African Petroleum Corporation Limited (API), acquired Blocks LB-08 and LB-09 in 2007 and holds100% working interest in both blocks. Blocks LB-08 and LB-09, located South East of the recent oil discoveries made in Sierra Leone, have completed 5,100 sq km of 3D seismic data. API undertook an initial valuation of the 3D seismic data and identified more than 50 prospective intervals in over 40 prospects and leads, some of which are similar to the recent Anadarko Petroleum Corporation’s Mercury-1 discovery in nearby Sierra Leone and the large Jubilee field discoveries in Ghana by Tullow Oil plc. API completed drilling the first well, Apalis-1, in Block LB-09 in September 2011. The results confirmed that Blocks LB-8 and LB-09 are located in a prospective oil basin. The geological and geophysical data have confirmed the critical components of a working hydrocarbon system are present and functioning. No commercial quality reservoir with hydrocarbons was encountered and consequently no well

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2 Currently undergoing a negotiation for a 100% transfer.
production test was undertaken. African Petroleum then completed Narina-1 well and announced the discovery of a potentially significant quantity of good quality oil, subject to the necessary appraisal process to take place later in 2012.

Chevron commenced drilling in Block 12 in March 2012 and will complete in August 2012.

### Timeline: Liberia’s oil sector

#### Major early Events

<table>
<thead>
<tr>
<th>Year</th>
<th>Major events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1958</td>
<td>Exploration License to Liberian American Exploration Corporation</td>
</tr>
<tr>
<td>1968</td>
<td>Chevron &amp; Conoco acquired reconnaissance magnetic &amp; seismic data</td>
</tr>
<tr>
<td>1969</td>
<td>Establishment of Liberia’s Petroleum Code</td>
</tr>
<tr>
<td>1969-1972</td>
<td>Liberian Government divided the continental shelf into 4 concessions blocks (A, B, C, and D)</td>
</tr>
<tr>
<td>1969</td>
<td>Union Carbide, Chevron, Frontier Oil were awarded blocks A, B, and C respectively. Block D was not released.</td>
</tr>
<tr>
<td>1971</td>
<td>Wells A1-1 and A2-1 were drilled by Union Carbide, well 11B-1 by Chevron and well Cestos-1 by Frontier.</td>
</tr>
<tr>
<td>1972</td>
<td>Approximately 13,000 line-km of offshore geophysical data was acquired by USGS</td>
</tr>
<tr>
<td>1976-1981</td>
<td>Approximately 5,900 line-km of seismic data was acquired by the Ministry of Lands, Mines and Energy in conjunction with GSI (1975) and World Bank (1981)</td>
</tr>
<tr>
<td>1982</td>
<td>New Liberian Petroleum Code and created 5 shelf area blocks &amp; 4 Deepwater blocks</td>
</tr>
<tr>
<td>1983</td>
<td>Amoco was granted 4 off-shore blocks; 2 on the continental shelf and 2 in deepwater</td>
</tr>
<tr>
<td>1983-1984</td>
<td>7,800 line-km of seismic acquired</td>
</tr>
<tr>
<td>1984</td>
<td>Amoco obtained 2 additional blocks</td>
</tr>
<tr>
<td>1985</td>
<td>Amoco drilled 3 wells, S/1-1, S/3-1, and H3-1</td>
</tr>
<tr>
<td>1986</td>
<td>Amoco relinquished most of its acreage</td>
</tr>
<tr>
<td>1989</td>
<td>Amoco pulled out, program laid dormant</td>
</tr>
<tr>
<td>1997–1998</td>
<td>GOL divided the unlicensed offshore into 8 blocks (A – H)</td>
</tr>
</tbody>
</table>

#### Yearly Activity Since 2000 and Creation of NOCAL

<table>
<thead>
<tr>
<th>Year</th>
<th>Activity in Oil Sector</th>
<th>NOCAL</th>
<th>Legislature</th>
<th>Government</th>
</tr>
</thead>
</table>
| 2000 | - NOCAL formed through NOCAL Act
         - Hired TGS NOPEC Seismic Work Program                                               | President: Belle Dunbar
         Chair: N/A                                                                       | 51st Session |
|      |                                                                                       | President Charles Taylor                                                 |
| 2001 | - TGS completed Seismic Study
         - Re-demarcated 8 Blocks to 17 Blocks                                              | President: Belle Dunbar
         Chair: N/A                                                                       | 51st Session |
|      |                                                                                       | President Charles Taylor                                                 |
| 2002 | - Model Production Sharing Contract (PSC) created
         - ‘New Petroleum Law’ enacted by Legislature                                      | President: Belle Dunbar
         51st Session                                                                 |
<p>|      |                                                                                       | President Charles                                                        |</p>
<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
<th>Chair: N/A</th>
<th>Taylor</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>- Acquired Amoco Well Logs (ownership dispute)</td>
<td>President:</td>
<td>National</td>
</tr>
<tr>
<td></td>
<td>- Filed additional 200m isobaths extension with UN</td>
<td>Belle Dunbar</td>
<td>Transitiona</td>
</tr>
<tr>
<td></td>
<td>- Frank Musah Dean becomes President/CEO</td>
<td>Chair: N/A</td>
<td>l Gov’t</td>
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<td></td>
<td></td>
<td>51st</td>
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<td></td>
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<td>Session</td>
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<tr>
<td>2004</td>
<td>- March: Blocks awarded via face to face negotiations (Repsol Block 17,</td>
<td>President:</td>
<td>National</td>
</tr>
<tr>
<td></td>
<td>Oranto Block 12)</td>
<td>F Musah Dean</td>
<td>Transitiona</td>
</tr>
<tr>
<td></td>
<td>- April: NOCAL launches first bid round for all Blocks – Six blocks</td>
<td>Chair:</td>
<td>l Gov’t</td>
</tr>
<tr>
<td></td>
<td>awarded from bid (16, 15, 13, 11, 9 &amp; 8)</td>
<td>Willis</td>
<td>Elections</td>
</tr>
<tr>
<td></td>
<td>- July: signs PSC for Block 17 with Repsol</td>
<td>Knuckles</td>
<td></td>
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<td></td>
<td></td>
<td>51st</td>
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<td>Session</td>
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<tr>
<td>2005</td>
<td>- June: Blocks 8, 9 awarded to African Petroleum</td>
<td>President:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- June: Blocks 11, 12 awarded to Oranto</td>
<td>F Musah Dean</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- June: Block 13 awarded to Broadway</td>
<td>Chair:</td>
<td></td>
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<tr>
<td></td>
<td>- Sep: Blocks 15 awarded to Woodside</td>
<td>Willis</td>
<td></td>
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<tr>
<td></td>
<td>- Sep: Block 16 awarded to Repsol</td>
<td>Knuckles</td>
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<td>Session</td>
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<tr>
<td>2006</td>
<td>- Block 13 PSC amended by HTC</td>
<td>President:</td>
<td></td>
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<tr>
<td></td>
<td>- September: Well logs available online via A2D Technologies (a TGS</td>
<td>Fodee Kromah</td>
<td></td>
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<tr>
<td></td>
<td>NOPEC company)</td>
<td>Chair:</td>
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<td></td>
<td></td>
<td>Clemenceau</td>
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<td></td>
<td></td>
<td>Urey</td>
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<tr>
<td>2007</td>
<td>- PSC for Blocks 11, 12 amended</td>
<td>President:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- July: Blocks 11, 12 ratified</td>
<td>Fodee Kromah</td>
<td></td>
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<tr>
<td></td>
<td>- July: HTC amendments to Block 13 PSC ratified by Legislature</td>
<td>Chair:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Dec: 2nd Bid Round launched</td>
<td>Clemenceau</td>
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<td></td>
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<td>Urey</td>
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<td>Session</td>
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<tr>
<td>2008</td>
<td>- July: 2nd Bid Round closed</td>
<td>President:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- PSCs for Blocks 8, 9, 15, 16, 17 amended by HTC and ratified</td>
<td>Fodee Kromah</td>
<td></td>
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<tr>
<td></td>
<td>by Legislature August 18th</td>
<td>Chair:</td>
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<td></td>
<td></td>
<td>Clemenceau</td>
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<td>Urey</td>
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<td></td>
<td>Session</td>
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<tr>
<td>2009</td>
<td>- July: PSC for Block 14 signed to Oranto and ratified by Legislature</td>
<td>President:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- July: PSC for Block 10 signed to Anadarko (majority) and ratified by</td>
<td>Fodee Kromah</td>
<td></td>
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<tr>
<td></td>
<td>Legislature</td>
<td>Chair:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Sep: Hired TGS Ultra Deep 15000kms</td>
<td>Clemenceau</td>
<td></td>
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<tr>
<td></td>
<td>- Sep: NOCAL launch 3rd Bid Round</td>
<td>Urey</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Dec: 3rd Bid Round Closes Blocks 1 – 5</td>
<td>52nd</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Session</td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>- Chevron enters Blocks 11, 12 and 14 as majority operator. Amendments</td>
<td>President:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>ratified by Legislature in September 2010</td>
<td>Fodee Kromah</td>
<td></td>
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<td></td>
<td></td>
<td>Chair:</td>
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<td></td>
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<td>Clemenceau</td>
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<td>Session</td>
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</tr>
<tr>
<td>2011</td>
<td>- Anadarko conducts exploratory drilling in Block 15</td>
<td>President:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Discussions on transfer of Block 13</td>
<td>Chris Neyor</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Third Bid Round for Blocks 1-5 cancelled</td>
<td>Chair:</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Clemenceau</td>
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<td>Urey</td>
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<td>52nd</td>
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<td></td>
<td></td>
<td>Session</td>
<td></td>
</tr>
<tr>
<td>2012</td>
<td>- Exploratory drilling in Blocks 9 by African Petroleum. AP announced</td>
<td>President:</td>
<td></td>
</tr>
<tr>
<td></td>
<td>potentially significant discovery in February</td>
<td>Dr Randolph</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- Chevron drilling exploratory well in Block 11</td>
<td>McClain</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Chair:</td>
<td></td>
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<td></td>
<td></td>
<td>Robert Sirleaf</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>53rd</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>Session</td>
<td></td>
</tr>
</tbody>
</table>

President: Belle Dunbar, Chair: N/A, Taylor: National Transitiona l Gov’t
President: F Musah Dean, Chair: Willis Knuckles, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
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President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
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President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
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President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
President: Fodee Kromah, Chair: Clemenceau Urey, Taylor: National Transitiona l Gov’t
## Current status of Liberia’s 17 offshore Blocks (June 2012)

<table>
<thead>
<tr>
<th>Block</th>
<th>Status</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Not awarded or under any contract</td>
<td>Third bid round cancelled in 2011. No bids accepted. Blocks will not be offered until after the planned review of the petroleum policy, Petroleum Law and model Production Sharing Contract discussed below.</td>
</tr>
<tr>
<td>2</td>
<td>Not awarded or under any contract</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>Not awarded or under any contract</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Not awarded or under any contract</td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Not awarded or under any contract</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Under review: Contract parties Hong Kong Tong Tai and CNOOC (China)</td>
<td>Contract being negotiated but never fully executed or submitted to the President or Legislature, and is currently under review.</td>
</tr>
<tr>
<td>7</td>
<td>Under review: Contract parties Hong Kong Tong Tai and CNOOC (China)</td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Under contract to: African Petroleum Ltd (100%)(Australia)</td>
<td>No well drilled yet. Exploration activities are in progress (gathering and interpretation of data).</td>
</tr>
<tr>
<td>9</td>
<td>Under contract to: African Petroleum Ltd (100%)(Australia)</td>
<td>Two (2) exploratory wells drilled. Apalis-1 in Q4 2011 and Narina-1 in Q1 2012. In February African Petroleum (AP) announced a significant oil discovery at Narina-1. AP currently considering what additional steps must be taken to determine whether the discovery is suitable for commercial exploitation.</td>
</tr>
<tr>
<td>10</td>
<td>Under contract to: Anadarko (80%) (USA) Mitsubishi (10%) (Japan) Repsol (10%) (Spain)</td>
<td>No well drilled yet. Exploration activities are in progress (gathering and interpretation of data).</td>
</tr>
<tr>
<td>11</td>
<td>Under contract to: Chevron (70%) (USA) Oranto (30%) (Nigeria) NOCAL has option to receive 10% from Oranto at start of commercial production</td>
<td>No well drilled yet. Exploration activities are in progress (gathering and interpretation of data). Chevron is preparing to conduct exploratory operations. First exploratory well expected in Q2 of 2012.</td>
</tr>
<tr>
<td>12</td>
<td>Under contract to: Chevron (70%) (USA) Oranto (30%) (Nigeria) NOCAL has option to receive 10% from Oranto at start of commercial production</td>
<td>No well drilled yet. Exploration activities are in progress (gathering and interpretation of data).</td>
</tr>
</tbody>
</table>
| 13 | **Under contract and review by NOCAL**  
Peppercoast Petroleum Ltd (formerly named Broadway Consolidated PLC (UK-Isle of Mann)) (100%)  
Initial contract signed: 2005  
Amended: 2006  
Ratified by Legislature: 2007 | In 2011 Peppercoast proposed a 100% transfer to Canadian Overseas Petroleum Ltd (“COPL”) (Canada). This was proposal denied by NOCAL. Peppercoast proposed an alternative transaction, with Exxon-Mobil acquiring 70% and COPL 30% of the Peppercoast Block 13 contract, and with Exxon-Mobil having primary operational and financial responsibility for the entire contract. NOCAL agreed in principle, discussions to finalize the agreement are underway. |
|---|---|
| 14 | **Under contract to:**  
Chevron (70%) (USA)  
Oranto (30%) (Nigeria)  
NOCAL has option to receive 10% from Oranto at start of commercial production  
Initial contract signed: 2009  
Amended: 2010  
Ratified by Legislature: 2010 | No well drilled yet. Exploration activities are in progress (gathering and interpretation of data). |
| 15 | **Under contract to:**  
Anadarko (47.5%) (USA)  
Repsol (27.5%) (Spain)  
Tullow (25%) (UK)  
Initial contract signed 2005  
Amended: 2008  
Ratified by Legislature: 2008 | Montserrat-1 exploration well drilled in Q3, 2011. In November 2011 Anadarko announced a non-commercial oil discovery in Montserrat-1. Well has been plugged and abandoned. |
| 16 | **Under contract to:**  
Anadarko (47.5%) (USA)  
Repsol (27.5%) (Spain)  
Tullow (25%) (UK)  
Contract signed 2005  
Amended: 2008  
Ratified by Legislature: 2008 | No well drilled yet. Exploration activities are in progress (gathering and interpretation of data). |
| 17 | **Under contract to:**  
Anadarko (47.5%) (USA)  
Repsol (27.5%) (Spain)  
Tullow (25%) (UK)  
Contract signed 2005  
Amended: 2008  
Ratified by Legislature: 2008 | No well drilled yet. Exploration activities are in progress (gathering and interpretation of data). |
21 February 2012

Potentially significant oil discovery in Liberia

The National Oil Company of Liberia (NOCAL) welcomes the announcement by African Petroleum that their Narina-1 exploratory well drilled in Block LB-09 off the coast of Liberia indicated a potentially large accumulation of oil deposits, while emphasizing that development of any discovery will take several years.

The exploration and preliminary discovery by African Petroleum provides further evidence of Liberia’s strong offshore prospects, part of the same geological system that has yielded significant discoveries in neighboring Sierra Leone and Ivory Coast. It reflects the policy of the Liberian government to form strategic commercial partnerships with the private sector to explore those prospects and use any discovery for the maximum benefit and development of Liberia and its people.

Although early indications are positive, the exact extent of the deposits found in LB-09 is not yet known. African Petroleum will now conduct tests to further evaluate the quantity of the oil discovered, a process expected to take several months. This evaluation will indicate whether the deposits are in sufficient quantity to be commercially viable for production. Once appraised, the deposits will then take five to seven years until production can begin.

The President and CEO of NOCAL, Dr Randolph McClain, said today:

“This news is good news for Liberia, and we are cautiously optimistic. We do not yet really know how much is down there. But we know, according to African Petroleum, that this discovery is of very good to excellent quality oil. We will be working with African Petroleum to develop a better picture. So now, we urge everyone to be very patient. It will take time to fully appraise this discovery, and years before a drop of oil is produced from the well.

In the meantime, we have to work double time to get our house in order in terms of reforming our policies, laws and regulations for total transparency in the oil sector. We are also determined to develop the safety, health and environmental policies to avoid any adverse or catastrophic incidents. We look forward to working with all the stakeholders – within government, in the private sector, in civil society organizations and, most importantly, the public. We plead for your participation. Let’s work together to set a vision.

Our goal remains the goal set out by the President, H.E., Madam Ellen Johnson Sirleaf: that the revenue from any oil found in Liberia will be used for the development of Liberia and the maximum benefit of the Liberian people. If commercial quantities become available, the income from these quantities can be used to improve the lives of our people, to attain self-sufficiency, and to ensure sustainable development. To achieve that, we remain committed to the principles of transparency, sustainability, inclusiveness and safety, health and environmental care in all our activities to manage the petroleum sector.

We want to commend African Petroleum and all our partners in the private sector for continuing to work with professionalism and efficiency to explore Liberia’s prospects, and re-iterate our commitment to fair, equitable and strong commercial partnerships going forward.”
The finding by African Petroleum took place in Block LB-09, off the coast of Liberia, one of two blocks being operated by the company under a Production Sharing Agreement negotiated by the Executive and ratified by the Legislature in 2008. The exploratory well is among several being drilled during 2011 and 2012 by different world class operators.

28 February 2012

**NOCAL statement on governance and reform programme**

A recent briefing was provided to NOCAL by the international advocacy group Global Witness which addressed issues related to Liberia’s oil sector and possible future revenues.

While stressing that Liberia is still a long way from oil production, NOCAL wishes to welcome the Global Witness briefing and its 2011 report. It makes an important and positive contribution to the debates needed on reforming the sector so that any oil produced in Liberia achieves its overall goal: the benefit of Liberians and development of the country.

Last week, NOCAL and Liberians welcomed the news that African Petroleum had made a discovery of ‘significant deposits’ in block LB-09. The President and CEO of NOCAL Dr Randolph McClain expressed optimism about the find, while cautioning that further appraisal is needed. In the same statement, the CEO stated clearly the overall goal of managing oil, as outlined above, and the urgent need to reform the sector to achieve this goal. He identified core principles that will guide the sector and the reform process:

- **Transparency:** Unless the management of the sector and revenues is subjected to open and public scrutiny there can be no accountability. NOCAL and the Government as a whole are wholly committed to both the principle and practice of transparency in managing any oil discoveries and revenues generated. That will mean strengthening existing procedures like LEITI and auditing, but also introducing new processes where necessary and accountability mechanisms, especially in management of revenue.

- **Safety, health and environmental prudence:** Liberia’s oil sector will fail in its goal to benefit the population if it is undermined by avoidable accidents or environmental disasters. NOCAL is committed to the highest standards of safety, health and environmental care. That means careful assessment of risks on all sides, stringent regulations and measures to mitigate risks and strict monitoring. This will require greater government capacity and processes, as well as the cooperation of partners in the private sector and civil society.

- **Sustainability:** Unless the institutional structures and capacity, and the deployment of revenues, are set up for long term sustainability, the sector will fail in its overall goal to benefit the country. The Government and NOCAL are committed to sustainability. That will mean the right institutional framework, equipped with the necessary capacity; it also means sensible management of revenue to avoid economic pitfalls like Dutch disease, develop a balanced and diversified economy and make long term investment in people.

- **Inclusiveness:** Issues related to oil must be addressed in a way that includes all stakeholders, including civil society, in order to be representative. The Government and NOCAL are dedicated to making sure that both the reform process, and the processes and structures it produces, are inclusive and representative to the greatest degree possible without inhibiting a government’s ability to govern. NOCAL recognises the critical
constraint in this area posed by severely limited public understanding, and will take steps
to raise awareness.

These principles reflect the evolving priorities of NOCAL and the Government. It is the result of
President Madam Ellen Johnson Sirleaf’s steps to improve governance and management of oil,
with the appointment of a new CEO and Board of NOCAL to take the sector forward. That
management is now establishing a clear and inclusive forward agenda to reform the oil sector.
This process will lead to proper governance systems, improve fiscal transparency and
sustainability and deal with concerns about mismanagement and corruption, such as those voiced
by Global Witness. The reform process is complex and will take time, but it will advance
significantly over the next year in the three following areas:

1. Formulating a new national policy to govern the petroleum sector: This process will
provide the essential and necessary expansion to the existing Energy Policy. It will set in
national policy the over-arching goal of the sector to benefit Liberia’s people, and cover
important issues including but not limited to ownership and regulatory framework, safety,
health and environment, contracts and licensing, the need for local content and local
business benefits, and mechanisms for transparency and accountability. The formulation
of the policy will be a cross-governmental effort, coordinated by NOCAL and consulting
civil society and other stakeholders. NOCAL will work with these stakeholders in the
coming period to design this process. This is a direct demonstration of the commitment to
the principle of inclusiveness and the benefits of civil society involvement.

2. Reviewing and if necessary changing the existing petroleum law: It is essential that
Liberia’s sector is governed by a clear and relevant legal framework. The existing
Petroleum Law requires review and revision, because the sector has developed since
2000, and because it was not guided by a coherent and inclusively formed national
policy. With a new policy in place, it will be possible to evaluate the existing law against
the proposals, objectives and principles set out and make amendments or re-draft as
necessary.

3. Develop and implement a model production sharing contract: Best international practice
has shown that the contracting process for oil exploration and production is at its best
when it is governed by a clear law, effective regulations, and an established ‘model’
contract that standardises and harmonises Liberia’s partnerships with the private sector.
With a clear policy and law in place, Liberia will be positioned to develop and introduce
such a measure.

NOCAL is also pursuing other important areas of reform, including clarification of Liberia’s
maritime boundary with Sierra Leone, significant capacity building efforts across the
government and the oil sector, data management and addressing oversight of health and safety
compliance.

NOCAL and the Government recognise the importance of other issues raised in the Global
Witness report, including the appropriate institutional frameworks and parameters, the correct
fiscal arrangements, the importance of civil society representation, and transparency in the
spending of revenues. These are complex questions, and NOCAL believes that the right way to
start to address them is through the open, deliberative and inclusive reform process outlined
above, reaching consensus decisions that promote both the best interests of the Liberian public
and the ability of the government to leverage oil for rapid yet sustainable development.
NOCAL also believes in the need to nurture an informed and educated media and public that understand the issues relating to the oil sector. This will enable the issue of the use and management of oil revenues to be the subject of an open and informed national debate at the appropriate time.

NOCAL embraces the important role of civil society organisations, both within and outside Liberia, in furthering our common principles and goals for the sector. We look forward to engaging them on these and other issues and developing a constructive partnership for change.

15 March 2012

**NOCAL Update on Status of Liberia’s Oil Blocks**

Consistent with the new NOCAL’s announced policy of transparency and regular disclosure of important information, NOCAL is pleased to provide the following status report on each of Liberia’s 17 existing offshore oil blocks.

**Table showing current status of Liberia’s 17 offshore Blocks (see previous section)**

The Republic of Liberia retains ownership of all blocks, including all those under contract. All exploration, and any future development and production, will be conducted for the social and economic benefit of all Liberian people.

NOCAL confirms that there are no plans to offer additional blocks at this time – either the five remaining off-shore blocks 1-5 or the ‘ultra-deep’ blocks (18-30) on the seaward side of the original 17 offshore blocks. If and when any of them are offered for bid, they will be offered through an open, competitive and transparent bidding process, adhering to international best practices.

The current priorities of the new NOCAL and the Executive Branch are (1) to move forward on the Block 13 transaction and settle it in the best interests of the country and (2) to conduct a broad-based process to reform the governance of the oil sector, which is the correct way to safeguard for all the people of Liberia the benefits of the possible discovery of commercial quantities of oil.

NOCAL will, in collaboration across the Executive Branch and with the National Legislature, facilitate an inclusive reform program reflecting input from all sectors of society to 1) review international benchmarks and formulate a new national petroleum policy, 2) create a body of laws and regulations that will govern the oil sector on behalf of all of the people of Liberia, and 3) ensure that Liberia’s oil contract forms (PSCs) reflect best practice and the relevant provisions of the Republic’s Amended Revenue Code.

NOCAL re-affirms its commitment to the principles of transparency, inclusiveness, sustainability and safety, health and environmental care in all its activities.

5 April 2012

**Liberia’s HTC conducts landmark retreat to begin new petroleum policy**

The Government of Liberia’s Hydrocarbon Technical Committee (HTC), led by NOCAL, has successfully completed a retreat to initiate landmark reforms of Liberia’s oil sector governance. The retreat, held in Buchanan between April 2 and 4, is the beginning of a bold and
comprehensive reform program embarked on by the Government to address governance of oil and gas.

Over the coming days, and in line with its stated policy of complete transparency, NOCAL will be issuing further information about the important discussions that took place. NOCAL will also issue factual information governing various issues to address various inaccuracies which currently threaten to seriously undermine public understanding of this sensitive topic.

We call on all stakeholders to engage constructively and positively with the debate regarding how to develop our oil sector for the maximum social and economic benefit of all Liberians, and for the exercise in the utmost accountability and regard for facts when participating in that debate.

The Policy Retreat held in Buchanan between April 2nd and April 4th was attended by members of the HTC (see below), and representatives of civil society including Liberia Oil and Gas Initiative (LOGI) and Petroleum Watch. It successfully established the majority of the first principles of a new Exploration and Production Policy for Liberia. For several areas, the HTC requested further analysis to be done on several areas before making a decision.

President and CEO of NOCAL, Dr Randolph AKW McClain who chairs the HTC said:

“I am delighted with the progress we made in the last few days. This retreat is a huge first step in our reform process, to put in place all systems and policies to make the most of oil for all Liberians. I want to thank all the participants and institutions involved. We are on the road to reform now, and I hope we can work with all our stakeholders to move this process, our oil sector and the country forward. I also hope that with these reforms, we can also move beyond the constant ‘oil vuvuzela’ and have a sensible, informed debate about oil and our future.”

The HTC sub-committee will now begin to draft agreed sections of the policy, and conduct the requested analysis, before submitting it back to the HTC for approval. Once approved, this first draft of the policy will be taken for extensive consultation and validation with all stakeholders and the public before it is submitted to Cabinet. This is in line with the government and NOCAL’s stated policy of inclusiveness in all parts of the reform process.

The success of this retreat will go down as a landmark in Liberia’s path to prepare its oil sector for the possibility of serious discoveries and serious development of the country. Although the existence of oil in commercial quantities and quality remains uncertain, and any production would take years to begin, the Government and NOCAL are not hesitating to put in place the measures of governance, transparency, accountability, sustainability and SHE (Safety, Health, and Environment) protection that this country needs.

12 April 2012

NOCAL increases financial transparency

In line with its regularly stated policy of complete transparency, the National Oil Company of Liberia submitted to the National Legislature on 1st March 2012 its Annual Budget for the Financial Year 2011/12. The document listed budget line items, projected income and outgoings, and it represents to unprecedented detail and transparency on the sector by the Executive branch of Government to the public via their elected Representatives.
This same budget information is herewith released again – directly to the media and online – to demonstrate again that NOCAL is fully committed to unprecedented public transparency and openness in Liberia’s oil sector.

Liberia does not yet produce oil or gas – there has been no appraisal and confirmation yet that oil has been discovered in commercial quantities. Therefore Liberia does not receive any oil revenues – all income at this stage is generated by fees for the use of seismic data by other parties, and contributions made by the private sector partners for corporate social responsibility, training, etc as indicated in the Board approved budget shown.

To deepen and extend this commitment, NOCAL will in due course release further information once it is available to advance the cardinal principle of transparency, including budget performance, etc. NOCAL maintains its commitment to continue to meet its obligations with regards to the Liberia Extractive Industries Transparency Initiative.

April 18, 2012
NOCAL announces full external audit of finances

The National Oil Company of Liberia (NOCAL) today announced the bold move to subject its books to a forensic financial audit by independent auditors. The announcement comes as the latest in a series of moves by the state oil agency to increase transparency and usher in a new era of openness – including the publication last week of its annual budget for the first time in its 12 year history.

NOCAL says the audit will be conducted by a world-class international auditing firm – to be named shortly – which will work in close collaboration with the General Auditing Commission (GAC). The audit will look in detail at the records, beginning with the years 2009, 2010, and 2011; with others to follow.

NOCAL says it embraces the cooperation of all branches of government, especially the Legislature that has recently shown keen interest in the sector. NOCAL says it intends to make the results of the audit fully public, both locally and internationally, in its continued commitment to transparency. According to NOCAL, the audit will pay special attention to the year 2011, and to records and transactions relating to the concession of Block 13 and Liberian interests held in that concession.

Dr Randolph AKW McClain, President and CEO of NOCAL, said:

“This audit is crucial to the new era at NOCAL, which for too long has been a black box. We are moving ahead with bold reforms, but we also need to resolve past issues and put our house in order. NOCAL exists to maximise the benefits of oil to the Liberian people, so they have a right to know what has been done in the past on their behalf. This is part of our commitment to complete transparency when it comes to the oil sector. It is time to let the sun shine in.”

NOCAL is reaching out to Liberia’s General Auditing Commission to work closely with NOCAL and the international auditors to open up the books and put them in order. Meanwhile, it is expected that NOCAL will announce the name of the external audit firm being commissioned in the very near future.

20 APRIL 2012
NOCAL welcomes Legislative report, but many recommendations redundant
NOCAL welcomes the renewed engagement of the Legislature in the evolving governance of Liberia’s oil sector. The constructive engagement and cooperation of all parties and stakeholders is essential to the successful reform and management of Liberia’s potential hydro-carbon sector.

However, NOCAL observes that many of the statements and recommendations of the report are redundant or outdated. To take the main instances:

- **ON REFORMS:** The Legislature called for reforms to the laws governing the sector. On 26 February 2012 NOCAL publicly set out precisely such a reform process on behalf of the Executive. It described a clear and inclusive program of reform, starting in 2012 with the formulation of a new Petroleum Policy, followed by establishing a new Petroleum Law, followed by creating a new Model Production Sharing Contract (PSC). This program is a cross-governmental effort and will include public and civil society consultation. The first stage of this process took place in Buchanan in early April, to start to draft a new policy.

- **ON NEGOTIATIONS:** The Legislature called for a moratorium on the issuing of oil contracts for Blocks 1-7. However, NOCAL observes that a third bidding round to award contracts for Blocks 1-5, was cancelled by NOCAL in 2011. No contracts have been awarded, and therefore a moratorium has effectively been in place since last year. Contracts for Blocks 6 and 7 were negotiated but never fully executed or submitted to the Legislature, and are currently under review by the Government. These details have been publicly issued by NOCAL when it provided an update on the status of all oil blocks on March 15th, 2012. For Blocks 6 and 7 where unsatisfactory past processes have not yet been resolved, active review is underway to find a resolution which prioritizes above all else the future potential value generated for the country.

- **ON BLOCK 13:** Block 13 has been under contract to Peppercoast Petroleum Ltd (formerly named Broadway Consolidated PLC). The contract was signed in 2005, amended in 2007, and ratified by Legislature in 2007. To date, no well has been drilled. In 2011, Peppercoast proposed a 100% transfer to Canadian Overseas Petroleum Ltd (“COPL”). NOCAL withheld consent. Peppercoast has proposed an alternative transaction, with Exxon-Mobil acquiring 70% and COPL 30% of the Peppercoast Block 13 contract, and with Exxon-Mobil having primary operational and financial responsibility for the entire contract.

- **ON THE NATIONAL BUDGET:** Regarding the $27 million, NOCAL observes that no royalties or revenues can accrue from an agreement that has not been signed.

- **ON LOCAL CONTENT AND REVENUE MANAGEMENT:** The Legislature highlighted the issues of local content and revenue management. Both these issues were addressed in the NOCAL statement of February 26, which stated clearly that the new Petroleum Policy will set out the principles guiding all aspects of the upstream and midstream oil sector, including revenue and local content, which is very important in developing a middle class. Once a new Petroleum Policy has been validated and finalized, a new Petroleum Law will reflect its principles in Law. If after this the Government determines that further legislation is necessary to address any other issues, including local content or revenue management, then the Executive will submit further legislation following a similarly inclusive process.
ON PSC VARIANCE WITH THE LAW: Regarding the variation between the content of Liberia’s existing PSC Contracts and the articles of the Petroleum Law of 2003, NOCAL observes that:

a. All existing active PSC’s were submitted to and ratified by the Legislature over the last 8 years, as noted above. In other words, the legislature also approved the violation it raises.
b. The reform of the model PSC aims to address precisely this issue.
c. If the old Petroleum Law is not fit for purpose, then the issue of PSC compliance with the law would be better saved until the enactment of a new Petroleum Law.
d. NOCAL is committed to securing the greatest possible equity terms and value for the Republic of Liberia.

The new management inherited an organization with outdated policies and inconsistent Production Sharing Contracts (PSCs). We are working diligently to resolve these issues by putting the correct policies and procedures into place through a comprehensive, cross-governmental reform program already outlined by NOCAL (and reiterated below).

NOCAL has clearly stated the goal of the petroleum sector: to manage any potential revenues for the economic and social benefit of all Liberians. NOCAL further set out the principles that will guide its approach to reforms and the oil sector in general: transparency, inclusiveness, sustainability and proper regard for safety, health and environmental concerns. The Government is confident that the stated reform program represents the appropriate process whereby these questions can be addressed in a transparent and inclusive fashion, leading to appropriate and timely legislation.

April 25, 2012
National Oil Company of Liberia Accepts In-Principle Proposed ExxonMobil and Canadian Overseas Petroleum Joint Venture for Block LB-13

The National Oil Company of Liberia (NOCAL) announced that it has approved in principle a proposal by the current holder of Liberia’s Block 13 to transfer its interest to a joint venture between ExxonMobil and Canadian Overseas Petroleum.

The proposal by Peppercoast Petroleum (formerly Broadway Consolidated PLC), which is the current holder of Block 13, would transfer 100% of its interest in Block 13 to Canadian Overseas Petroleum (COPL), which would immediately transfer 70% working interest to a wholly-owned subsidiary of ExxonMobil. The ExxonMobil subsidiary will become the operator of Block 13, responsible for exploration and any future development of oil resources discovered in Block 13. The COPL subsidiary will hold the remaining, non-operating, 30% interest in Block 13.

Under the terms of the Production Sharing Contract, parties may only assign their interests to third parties whose "technical and financial reputation is well established". NOCAL, which has the power to approve or reject transfers, has told Peppercoast that it accepts that the proposed joint venture between ExxonMobil and COPL satisfies in-principle the technical and financial competency requirements of the transfer provisions of the PSC.

NOCAL’s in-principle approval does not mean the deal is complete. It means only that NOCAL accepts that ExxonMobil has the technical and financial capacity to serve as the operator of Block 13, and that NOCAL is therefore willing to meet with representatives of ExxonMobil and
COPL to discuss proposed changes to the Petroleum Sharing Contract (PSC) governing Block 13. A Liberian Government team is heading to London next week to initiate those discussions.

This approval is subject to the requirement that ExxonMobil acquires its interest immediately following Peppercoast's assignment to the COPL subsidiary, and that the parties negotiate agreement on proposed amendments to the PSC. It is these amendments to the PSC that the Liberian Government team, made up of representatives of the Hydrocarbon Technical Committee, is going to London next week to negotiate. The team will be headed by the President and CEO of NOCAL, and includes the Chairman of the Board of NOCAL and the Ministers of Justice, Lands Mines and Energy, Finance, the Legal Advisor to the President of Liberia, the Chairman of the National Investment Commission, and outside legal advisors.

President and CEO of NOCAL, Randolph AKW McClain said: “We are very pleased with this proposal as it brings the kind of credibility we welcome. NOCAL looks forward to working with ExxonMobil and COPL to conclude a fair contractual agreement and bring the saga of Block 13 to a satisfactory conclusion. This will enable us to move forwards to develop Block 13 for the benefit of all Liberians.”

21 May 2012

Government to complete new oil policy this August, followed by new Law
Reform process will include major national consultation

The first milestone in the Government’s landmark reforms to Liberia’s oil sector is expected to be completed this August, in the form of a new national policy for the oil and gas sector.

The Government’s Hydrocarbon Technical Committee (HTC), the inter-ministerial body responsible for the oil sector which is chaired by NOCAL, is leading the reform process which began in February 2012 to create a new policy, new Petroleum Law and a new model Production Sharing Contract. The Committee says it wants the policy to be completed by August, subject to the correct validation process, so that work can begin as soon as possible on drafting a new Petroleum Law to replace the current outdated law.

The process to complete the policy by August will see nationwide stakeholder and Diaspora consultation to ensure greater public understanding and input on reforms to the oil and gas sector. This is in line with the commitments made by NOCAL, which is coordinating the work, to transparency and inclusiveness.

The expected timetable for the rest of the process over the coming months is:

- May: First draft of policy completed
- Early June: First draft reviewed by expert technical advisors in the external Policy Advisory Group (Norway Oil for Development Program, Revenue Watch Institute, USA, and African Centre for Economic Transformation, Ghana)
- Mid-June: HTC Ministers review and feed-back on first draft
- Mid-June to mid-July: National Public Consultation and discussion with all stakeholders, including public, civil society, Legislature and business.
- Early July: Diaspora consultation in United States
- Mid-July to end July: Incorporation of inputs and further drafts
- Early August: Submission to President and Cabinet for adoption.
A detailed version of this timetable (subject to revisions) is available on the NOCAL website.

The HTC-led reform process began in February some time before public calls were made for reform to the sector. These calls were welcomed by NOCAL and the Executive Branch, who urged all stakeholders to engage with and support the process that had already begun.

So far the policy formulation process has seen several meetings of the HTC and its expert sub-committee, including a policy retreat in Buchanan. This retreat was attended by civil society representatives from LOGI, Petroleum Watch and LEITI. The inclusion of civil society early in the process earned the Government rare praise from Global Witness in a press release in April.

President and CEO of NOCAL, Dr Randolph AKW McClain said:

“We are pleased with the progress so far, and determined to complete this important reform process as quickly, openly and inclusively as possible. Even though we still do not yet know if we have a commercial quantity of oil, we want to engage all stakeholders and educate people about oil so that all have a say in the future of the sector.”
Annex 1: Indicative Timeline of the evolution of a country’s oil sector

The early stages of the oil sector...

Overall goal: Maximise benefit of oil to the country

<table>
<thead>
<tr>
<th>Reality in sector and country</th>
<th>Phase 1 (years 1-10)</th>
<th>Phase 2 (years 10-20)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Limited knowledge of the geology</td>
<td>- Viable proven reserves, in production</td>
<td>- Viable proven reserves, in production</td>
</tr>
<tr>
<td>Low national development</td>
<td>- Increased capacity</td>
<td>- Increased capacity</td>
</tr>
<tr>
<td>Low human resources capacity in oil</td>
<td>- Low/Intermediate national development</td>
<td>- Low/ Intermediate national development</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>National Priority</th>
<th>Maximise knowledge and build institutions, build strong private sector partnerships</th>
<th>Maximise Government take and invest revenues in national development priorities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance focus</td>
<td>- Build transparency and accountability systems - Create a strong but flexible fiscal regime - Engage public on ORM and local content</td>
<td>- ORM systems in place - Full collection of revenue - Maintain NOC integrity</td>
</tr>
<tr>
<td>NOC focus</td>
<td>Regulation of IOCs, build technical capacity, early local content opportunities</td>
<td>Build technical knowledge, monitor IOCs (in some cases), learn commercial techniques</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector strategy and institutional roles</th>
<th>Phase 3 (years 20 -&gt;)</th>
<th>Phase 4 (years 30 -&gt;)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Keep state equity options open (by block)</td>
<td>- Major reserves, significant production</td>
<td>- Major reserves and significant production</td>
</tr>
<tr>
<td>IOCs do exploration and take on risk</td>
<td>- Middle income status</td>
<td>- OECD level development</td>
</tr>
<tr>
<td>NOC leads sector and manages IOCs</td>
<td>- High human capacity</td>
<td>- High human capacity</td>
</tr>
<tr>
<td>Ministry does strategy and writes regulations</td>
<td>- Separate out regulatory function if capacity has been developed. If not, NOC regulates and monitors IOCs, increases commercial ventures, including through equity</td>
<td></td>
</tr>
<tr>
<td>Enable other key institutions with capacity</td>
<td>- Ministry continues law and policy making - Clear local content strategies</td>
<td>-</td>
</tr>
<tr>
<td>Govt makes detailed plans for local content</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

If (and only if) reserves are significant...

Later phases depend on reserves, capacity and national development

<table>
<thead>
<tr>
<th>Reality in sector and country</th>
<th>Phase 3 (years 20 -&gt;)</th>
<th>Phase 4 (years 30 -&gt;)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Major reserves, significant production</td>
<td>- Major reserves and significant production</td>
<td>- Major reserves and significant production</td>
</tr>
<tr>
<td>Middle income status</td>
<td>- OECD level development</td>
<td>- OECD level development</td>
</tr>
<tr>
<td>High human capacity</td>
<td></td>
<td>- High human capacity</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>National Priority</th>
<th>Maximise Specialisation in aspect of sector (eg Qatar in gas, Petrobras in pre-salt)</th>
<th>Maximise Internationalisation (NOC competes with world class operators)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Governance focus</td>
<td>- Implement separation of powers governance system (eg Brazil in 1990s)</td>
<td>- Regulate increasingly international NOC and maximise local benefits</td>
</tr>
<tr>
<td>NOC focus</td>
<td>Exploration and Production Capacity - Commercial independence, specialisation (deepwater, gas, manufacturing, etc)</td>
<td>Internationally competitive operator</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Sector strategy and institutional roles</th>
<th>Phase 3 (years 20 -&gt;)</th>
<th>Phase 4 (years 30 -&gt;)</th>
</tr>
</thead>
<tbody>
<tr>
<td>NOC doesn’t regulate, increases equity</td>
<td>- NOC on level playing field with IOCs domestically</td>
<td>- NOC on level playing field with IOCs domestically</td>
</tr>
<tr>
<td>IOCs continue, esp. for difficult operations</td>
<td>- Independent regulator</td>
<td>- Independent regulator</td>
</tr>
<tr>
<td>Ministry continues role - policy and strategy</td>
<td>- Ministry maintains strategy and law making role</td>
<td>- Ministry maintains strategy and law making role</td>
</tr>
<tr>
<td>Oversight role by Independent regulator and other oversight institutions</td>
<td></td>
<td>- Government takes international role</td>
</tr>
</tbody>
</table>
Global Witness welcomes oil sector reforms by the Liberian Government

24 April 2012

Recent pledges by the Liberian Government to enhance transparency and the involvement of civil society in its oil sector represent a welcome step forward, says Global Witness today.

International interest in Liberia’s oil sector has increased in recent months after the Australian oil company African Petroleum announced it had found commercial oil off of Liberia’s coast. Other oil concessions have been awarded to major companies such as Chevron and Anadarko Petroleum, while last week Canadian Overseas Petroleum announced that the Liberian Government had approved the entry of ExxonMobil to an offshore concession – Block 13.

“When Liberia’s oil find and the involvement of large companies, it is possible that the sector could produce much needed revenue for the country,” said Jonathan Gant, a Policy Advisor with Global Witness. “But for Liberians to benefit from this oil rush the country has got to overcome a history of outdated laws, low capacity within the National Oil Company of Liberia (NOCAL) and corruption in the sector. In promising further transparency and involving civil society groups in drafting policy, the Government is moving towards reforms the oil sector so badly needs.”

One of the most significant developments came in February of this year, when NOCAL announced that it was committed to being transparent about the operations of oil companies and management of the money they are expected to generate. Adding further detail to this pledge, on 11 April NOCAL stated that it had submitted the agency’s current annual budget to the Liberian Legislature. Most recently, on 19 April NOCAL announced that it would commission an independent audit of its finances for the past three years and would “open up the books and put them in order.”

In another welcome move, the Liberian Government has begun including Liberian civil society organizations in discussions about reforms of the country’s oil laws and policy.

“Reforming Liberia’s oil sector will be hard and will take considerable time. Reforms will be successful if they are inclusive and if NOCAL embraces fiscal transparency,” said Gant. “We are optimistic that, if the Government continues down the reformist path it is now taking, Liberia’s citizens can reap the full benefits of the country’s oil wealth.”

/Ends

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Note to editors

In September 2011, Global Witness and the Liberian Oil and Gas Initiative published a report describing those steps necessary to reform Liberia’s oil sector, Cure or Cure: How Oil Can Boost or Break Liberia’s Post-War Recovery. A copy of this report is available at www.globalwitness.org/curse_or_cure/index.html.