Tuesday, April 21, 2020

Minister Gwede Mantashe
Department of Energy
192 Visagie Street
Corner Paul Kruger & Visagie Street
Pretoria
South Africa

Attn;
Minister Gwede Mantashe – Department of Energy
Mr Thabane Zulu – Director General, Department of Energy
Ms Lindiwe Mekwe – CEO, Petroleum Agency South Africa

OBJECT: JOINT CALL TO ACTION IN SUPPORT OF AFRICA'S OIL & GAS INDUSTRY

Dear Minister Mantashe,

The IAGC and the African Energy Chamber (AEC) recognize and empathize with those impacted by the global pandemic COVID-19. This unprecedented event has resulted in a significant toll on human health. Further, many sectors of global industry have been severely and detrimentally affected. In particular, the energy sector has seen dramatic reductions in the price of oil, exacerbated in part by geopolitical tensions between those countries within the Organization of Petroleum Exporting Countries (OPEC) and non- OPEC nations. Falls of at least 50% in West Texas and Brent Crude futures have created great uncertainty in the marketplace, and the IAGC and the AEC are concerned about the knock-on impacts on the African oil and gas industry. The importance of acting swiftly to ensure stability in the oil and gas industry in Africa, including the geophysical & exploration (G&E) sector in particular, to maintain the critical supply chain and infrastructure to replace current energy reserves and to fulfil future demands cannot be emphasized enough.

The African Energy Chamber is the voice of the African energy industry and represents companies and organizations in the upstream, midstream and downstream sectors of the energy business in Africa.

Founded in 1971, the IAGC is the global trade association for the geophysical and exploration industry, the cornerstone of the energy industry. With more than 80 member companies in 50 countries employing an estimated 87,000 people with revenues exceeding 11.5 Billion (USD), Membership includes onshore and offshore survey operators and acquisition companies, data and processing providers, exploration and production companies, equipment and software

manufacturers, and industry suppliers and service providers. IAGC member companies play an integral role in the successful exploration and development of offshore hydrocarbon resources through the acquisition and processing of geophysical data.

AEC partners and IAGC members are working to ensure that essential survey operations continue safely in the current environment, implementing guidance relating to COVID-19 issued by relevant national and international authorities. This is being done to ensure that the health and wellbeing of offshore workers is not compromised.

To impede the spread of COVID-19, many governments have imposed, among other things, travel restrictions with some exceptions. The exploration industry maintains work crews, both offshore and onshore, consisting of employees of many nationalities, making it imperative that these exceptions are clearly defined and easily understood to ensure adherence to any screening measures adopted by countries. We urge governments to work closely with the energy industry to ensure the disruption to energy workers is minimized, for both onshore and offshore operations. We wish to highlight that some nations are designating seafarers as 'key workers'[1], and as such granting them necessary exemptions from travel restrictions, while implementing clear protocols for the protection of personnel in order to limit the transference of COVID-19 to essential offshore vessels and installations. We support the International Maritime Organization in calling for the United Nations to grant 'key worker' status to all seafarers and thus hasten their crew rotations[2], which are essential to maintaining a healthy workforce and expedient offshore operations.

Exploration is essential to maintaining a stable energy industry. We urge all National Authorities to maintain expected timelines for licensing rounds, including all review periods and award announcements. Geophysical companies have invested billions of dollars in the creation of non-exclusive Geophysical Data throughout the world that have dramatically improved the success rate in finding and developing new oil and gas supplies in Africa. These data (and their derivative products) continue to be available for deployment in Africa despite the downturn and should be encouraged.

In the near-term, exploration companies are likely to see losses mount as production companies curtail budgets, possibly even moving to cancel previous agreements. We urge governments to consider extending the periods over which losses can be carried forward. Where there are no limits to the length of carry forward, we ask for an increase to the percentage of taxable income available for the deduction of losses. This will also ensure that government revenue in the long term, emanating from oil and gas projects is secured, should activity in the sector be protected. Additional measures we advocate are:

1. Waive taxes on service companies for 6 months;

[1] https://safetyatsea.net/news/2020/uk-government-recognises-seafarers-as-key-workers/
[2] http://www.imo.org/EN/MediaCentre/WhatsNew/Pages/default.aspx

2. Waive withholding taxes, especially for not resident companies, for 6 months;
3. Urge the banks to provide no interest loans and loan guarantees for local service companies with ongoing projects with IOCs;
4. Grant extensions on all exploration projects for 24 months;
5. Extend the confidentiality periods for non-exclusive geophysical data to a minimum of 15 years where such is not already in place;
6. Waive part of the work project commitments for exploration companies;
7. Have a discussion and set up a government and private sector discussion on revising some of the fiscal terms in the PSC that make it difficult for explorers to meet commitments in today's market environment and aid capital fundraising;
8. Cut in half (50%) fees due to the state like training funds, surface rental, social projects etc.;
9. Be champions of the industry by encouraging various farm-in and farm-out discussions on current licenses;
10. Ensure state backing on midstream projects so FID's are not cancelled;
11. Make diversification of the economy a priority;
12. Look at local content measures that are not working and try to encourage or implement a more regional African content approach;
13. Take a look at cutting spending and even some unnecessary travel expenses.

Conclusions

As the world faces the challenges in dealing with the novel corona virus 'COVID-19' along with geopolitical challenges from an oversupply of oil on the world market, the fundamentals of the energy industry are weakening. Policy decisions today will have lasting impacts on the economy for months, if not years, to come. The exploration industry provides the key to unlocking energy resources that will allow for rebuilding economies when the COVID-19 virus has run its course, however, in order to rebuild, there must be a viable energy industry when that time comes. Energy is the bedrock of today's civilization, and supports the transportation, farming, medical, and manufacturing industries that are all essential to meet today's challenges, and none are possible without a stable and consistent supply of energy which starts with geophysical and exploration activities.

Thank you for your attention and consideration of our request. We would be pleased to answer any questions or provide any clarification you may have, and we wish all industry colleagues well during this difficult period.

Please accept, Your Excellency, the assurances of our highest esteem,

Nj AYUK
Executive Chairman
African Energy Chamber
Suite 24, Katherine & West 114 West St.,
Sandton
SOUTH AFRICA
nj.ayuk@centurionlg.com

Nikki Martin
President
IAGC
1225 North Loop West - Suite 220,
Houston, TX, 77008
USA
info@iagc.org