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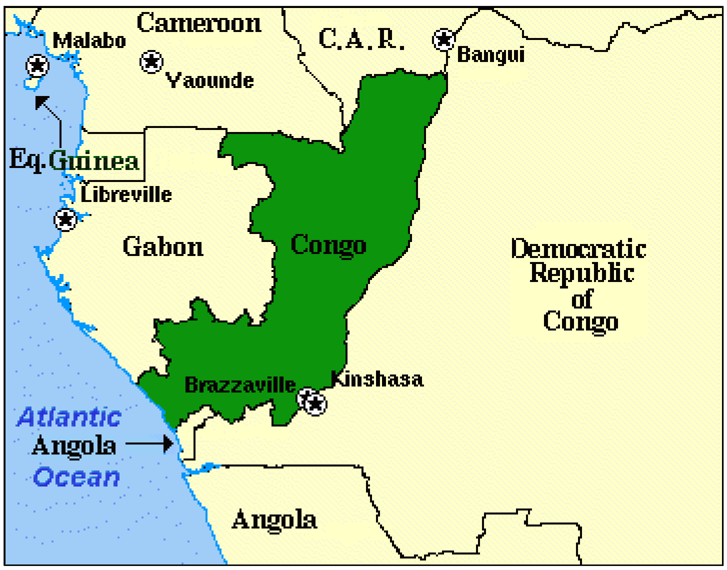
Congo-Brazzaville

With increased interest in offshore West Africa and the development of new offshore oil fields, Congo-Brazzaville is becoming increasingly important to world energy markets.

Note: Information contained in this report is the best available as of September 2004 and is subject to change.



GENERAL BACKGROUND

After several years of recurrent civil war during the 1990s, the Republic of Congo achieved a basic level of political stability during 2002 and 2003. Denis Sassou-Nguesso was elected to a seven-year term as president of Congo in March 2002. In the two rounds of elections held in May and June 2002, the parties that supported President Sassou-Nguesso, the Parti Congolais du Travail (PCT) and the Forces Démocratiques Unies (FDU) won 83 of the 153 seats in the Assemblée Nationale (National Assembly). Heavy fighting erupted between the government and the "Ninja" rebels led by Rev. Frederic Bitsangou (Pastor Ntoumi) in Congo's Pool region, but by the end of the year, an accord was achieved. A peace settlement was agreed to on March 17, 2003 between the government and Pastor Ntoumi, and by April, over 2,000 rebel Ninja soldiers surrendered their weapons. An additional 600 Ninja rebels surrendered in May 2003. The disarmed Ninjas, who were guaranteed amnesty by the government, are still awaiting either integration into the military or assistance returning to civilian life.

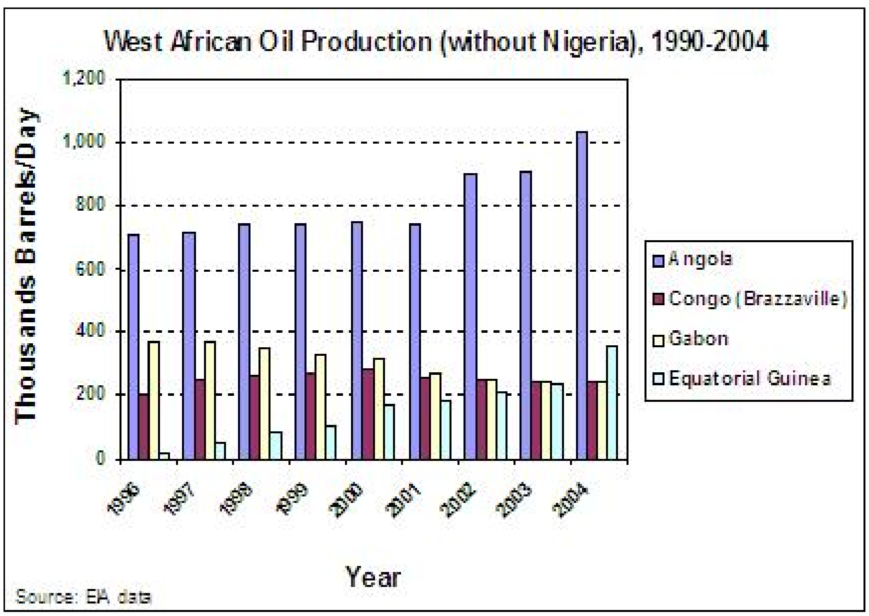
Congo's economy consists mainly of village agriculture, an urban informal sector or "grey economy" (i.e. unregulated business, commercial, and service activities), and an industrial sector dominated by oil and oil-related services with few linkages to the rest of the economy. Since the 1980s, the oil industry has provided the major share of government revenues and exports, replacing timber production and exports as the principle growth sector. Oil accounts for about 67% of Congo's real gross domestic product (GDP)-about 78% of the government budget-and about 95% of Congo's export earnings, according to the World Bank. Observers are encouraged to see that high average oil prices during 2004 are resulting in higher-than-expected government revenues.

In spite of its oil wealth, Congo has experienced budgetary shortfalls as a result of public sector expenditures, slumps in world oil prices (1998-1999), and armed conflicts (1997, 1998-1999, and 2002). Congo's business and administrative infrastructure was badly damaged during the recurrent fighting, increasing the petroleum sector's dominance of the economy (since oil production was not directly harmed by the fighting). Rebel attacks and subsequent shut-downs along the CFCO railway, which runs from the port of Pointe Noire to the capital Brazzaville and the interior, severely curtailed the movement of goods and people. Economic activity was further hampered by the fact that over 800,000 Congolese, nearly 30% of the population, fled their homes during the conflicts.

In November 2000, The International Monetary Fund (IMF) approved a loan of $14 million for emergency post-conflict assistance to support the Congo government's reconstruction and economic recovery program. Congo later signed an agreement with the IMF for a "staff-monitored program" (SMP) as part of its post-conflict recovery plans. However, the government's performance under the SMP during January-September 2003 fell short of IMF expectations, and negotiations for a follow-on "poverty reduction and growth facility" (PRGF) were abandoned. Implementation of the PRGF would have provided Congo some debt relief under the Initiative for the Heavily Indebted Poor Countries (HIPC Initiative). Congo was expected to increase its financial and fiscal transparency (including at the state oil company), to improve the management of its fiscal balance and external arrears, and to reduce cost over-runs for civil service salaries. A new SMP was devised to cover the period from January through June 2004.

In September 2003, the World Bank approved a new Transitional Support Strategy (TSS) for Congo, supplementing the original TSS agreed upon in 2001. Under the program, projects of more than $117 million have been approved, aimed at helping to restructure the Congolese public sector and to promote peace and stability. In February 2003, a $7 million program to improve the transparency and administrative capacity of the government became effective, followed by a $28 million program for emergency recovery and community development in September 2003. At a donor's conference in Paris in July 2003, donors discussed their intention to commit $216 million in new financing during 2004 and 2005. Previous projects include a $40 million Emergency Reconstruction, Rehabilitation, and Living Conditions Improvement Project that was approved by the Bank in July 2002. The project comprises several components, including repairs to roads, bridges and schools; rehabilitation of the railway; job creation; and efforts to combat HIV/AIDS.

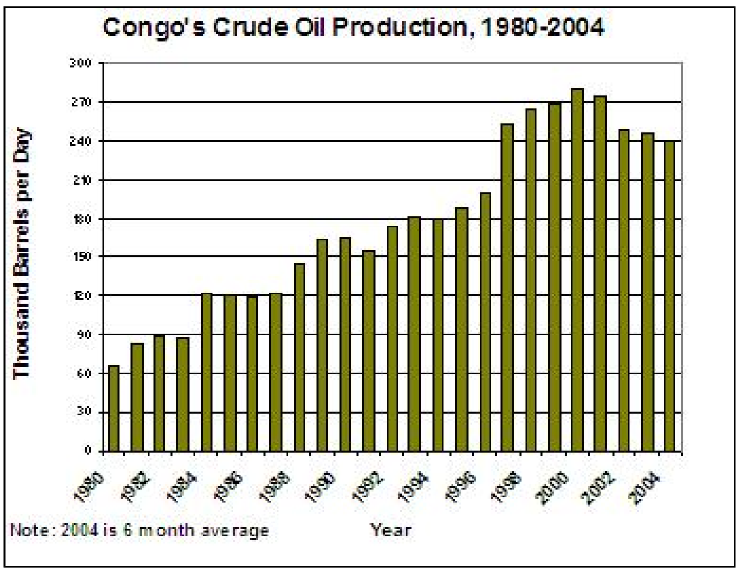
OIL



Congo is sub-Saharan Africa's fifth largest oil producer (after Nigeria, Angola, Gabon, and Equatorial Guinea), with estimated proven reserves of 1.5 billion barrels. The majority of Congo's crude production is located offshore and is heavily reliant on foreign personnel and technology. Congo's crude oil types are typically medium and sweet, with specific gravities in the 22°API to 33°API range. The country's main crude export blend is Djeno, which has a 27.6°API gravity and a 0.23% sulfur content. Recent

production on the country's
largest oil field -- N'Kossa, with 500 million barrels in recoverable reserves -- and the second largest -- Kitina, with 145 million barrels in reserves -- has yielded lighter, higher value crude types of 40.7°API and 38°API gravities, respectively.

In 1998, the Congolese government established a new national petroleum company, the Société Nationale des Pétroles du Congo (SNPC). SNPC assumed all upstream functions of the older state-owned oil firm, Hydro-Congo, which retained its control of downstream operations. In February 2000, exploration and production assets were formally transferred to SNPC. In 1994, Congo enacted new hydrocarbon legislation that replaced old joint venture (JV) arrangements in existence since 1968 with production-sharing agreements (PSAs) involving foreign oil companies. Under the PSAs, the government's portion of oil from each agreement increased from around 17% to 31%. The PSAs are intended to insure a constant minimum flow of revenue to the government, commensurate with similar agreements between other regional oil exporting states and major oil companies. Under Congo's PSAs, foreign partners carry out exploration and development during an agreed period of time (usually three years for each phase). Contractors (the foreign oil companies) finance all investment costs, and recover their investments when production begins. All major operators in Congo have signed PSAs for their respective field developments.



Production

Oil production in Congo commenced in 1957 from the onshore Pointe Indienne field, reaching a peak output of about 2,500 barrels per day (bbl/d) in the mid-1960s. Over the past twenty years (see graph), Congo's crude production has quadrupled, from 65,000 bbl/d in 1980 to an average of 280,000 bbl/d in 2000. Production has been declining recently, largely due to drop-off in production at mature fields, and delays in bringing several fields online. Crude production averaged 275,000 bbl/d in 2001, and 249,000 bbl/d in 2002. In the last quarter of 2003, Congo's average production of crude was 247,000 bbl/d, leaving Congo behind Equatorial Guinea -- with average production of 293,000 bbl/d -- as Africa's fourth largest oil producer. During the first six months of 2004, oil production averaged 240,000 bbl/d but is expected to rebound when new fields (including the Libondo, Tchibeli, Litanzi, and Yanga-Sud fields) come online and offset reduced output at more mature fields. Approximately one-third of the oil produced goes directly to the government and it is sold by SNPC on the state's behalf.

Total, S.A. operates the majority of Congo's crude oil producing fields. Through its local subsidiary, Elf-Congo, Total is responsible for about 60% of Congo's total output. Total operates Congo's largest field, N'Kossa, located on the Haute Mer permit. N'Kossa production averaged approximately 34,000 bbl/d of crude in 2003, with an additional 10,000 bbl/d of LPG (liquefied petroleum gas). Total's (51% interest) partners on the Haute Mer permit are ChevronTexaco (30%), SNPC (15%), and Cape Town-based Energy Africa (EA) with a 4% interest. Total has a 100% operatorship of the Haute Mer C permit and hopes to bring the new Moho and Bilondo fields onstream in 2004. The Mer Tres Profonde Sud (MTPS) permit has been extended until the end of 2004, according to Total company information.

Agip, the second largest producer in Congo, averaged around 72,000 bbl/d for the first two months of 2003. The company's production accounts for about 25% of Congo's output. Agip operates the following fields (interest%): Djambala (65%), Foukanda (100%), Kitina (55%), Loango (50%), Mwafi (100%) and Zatchi (65%). Total is Agip's partner on both Loango and Zatchi, while ChevronTexaco and SNPC are the other shareholders with Agip in the Katina field. Kitana production currently averages 60,000 bbl/d.

Foukanda, with estimated reserves of 40 million barrels, was developed with a five-well platform located on the central portion of the Marine VI Block. Production from the Mwafi fields comes from six wells on a satellite platform. The oil is piped to the Loango platform and then on to Djeno terminal. Mwafi reserves are estimated at 26 million barrels.

Exports

While most of Congo's crude oil exports are destined for Western Europe (mainly France) and the United States, Congo also has sought to increase its sales to Asian markets. Congo exported 27,000 bbl/d of crude to the United States in 2003. This figure is up from the 23,000 bbl/d of crude exported to the U.S. in 2002, but is a dramatic decline from the 38,000 bbl/d Congo exported to the United States in 2001.

Field Development and Exploration

Total and its partners are continuing development and exploration on the Haute Mer permit, the location of the N'Kossa field. The Moho field, also in the Haute Mer area, was discovered in 1995. Moho has estimated reserves of 400 million barrels of oil. The $1 billion Moho/Bilondo oil project is developing three separate fields: Moho North; Moho South; and Bilondo. The different crude oil and reservoir characteristics will make the task of designing a transport system suited to all fields difficult. Total initially faced a choice between two options for the fields development -- a subsea production system (tied back to existing infrastructure) or a Floating Production Unit (a converted oil tanker) -- but both technologies will be utilized on Haute Mer. First oil is set to be produced in 2005 with output to hit 75,000 bbl/d of oil and 45 million cubic feet per day (Mmcf/d) of associated gas. Gas will be sent to N'Kossa with oil piped to shore to the Djeno terminal via the Likouala platform.

Total also plans to develop two N'Kossa satellite fields, N'Kossa Sud Sud and N'Soko. N'Kossa Sud Sud lies south of the main N'Kossa field, and it is likely that it will be developed via subsea wells. Four wells have been drilled on the field to date. N'Soko lies three miles (five kilometers) southeast of N'Kossa and was discovered 10 years ago. Two production and one water injection well will be needed for the development. N'Kossa Sud Sud development is scheduled to start in the third quarter of 2004. Nsoko has been approved for development to start in the second quarter of 2004.

Total is the operator of one of Congo's two ultra-deepwater blocks, Mer Tres Profonde Sud (MTPS). Total's (40%) partners on MTPS are Agip (30%) and ExxonMobil (30%). The Andromede Marine-1 well, drilled in 6,200 feet (1,893 meters) of water, tested at 7,000 bbl/d. Agip (55% interest) operates the Mer Tres Profonde Nord (MTPN) block. Total holds the remaining interest on MTPN.

In May 2003, U.S.-based Murphy Oil signed PSAs for two adjoining blocks Mer Profonde Sud (MPS) and Mer Profonde Nord (MPN). MPS and MPN were relinquished by Total (MPS) and ExxonMobil (MPN) in 2001. Murphy Oil holds an 85% interest in both blocks with the SNPC holding the balance. Water depths on the MPS and MPN range from 450 to 6,900 feet and total acreage is 1.8 million acres. Murphy plans to acquire additional seismic data and drill one exploratory well on MPS in 2004. Drilling on MPN is not anticipated to begin before 2005.

In May 2004, a subsidiary of Maurel & Prom, announced the discovery of 250 million barrels of new reserves at the M'boundi field. The subsidiary hopes to increase production from 25,000 bbl/d in 2004 to 73,000 bbl/d by 2007. In July 2004, UK-based exploration and production company, Burren Energy announced the discovery of oil at one of its two exploratory wells in the M'Boundi field. The well tested at 1,540 bbl/d.

Perenco UK, Ltd., an independent European oil company, also plans to expand its position in Congo. In April 2004, Perenco acquired U.S. firm, Nuevo Energy's 50% interest in the Yombo concession for $62 million. The company operates both the offshore Yombo and Emeraude fields, and also acquired from the Congo government the Marine IV exploration permit that ChevronTexaco relinquished in 1999.

In March 2003, Angola and the Republic of the Congo announced the creation of the Zone d'Interet Commun (ZIC, Common Interest Zone). The ZIC, a joint development area similar to the one established between Nigeria and Sao Tome and Principe, will be based in Brazzaville, and each country will receive half of all revenues generated from it. The ZIC includes portions of Block 14 (Angola), which is operated by ChevronTexaco, and the Haute Mer Block (Congo) operated by Total. ChevronTexaco will operate the acreage in the joint zone, and all companies active on both concessions will be entitled to take equity.

Refining and Downstream

Congo's sole refinery, CORAF, was commissioned in 1974. The nameplate capacity of the refinery is 21,000 bbl/d, but the refinery often operates at less than half-capacity and supplies only the domestic market. CORAF, which was facing serious technical and financial problems, ceased refining activities in August 1997, forcing the country to import oil products, primarily from the Democratic Republic of Congo. The government, in December 1999, provided 750 million CFA for restoration and maintenance of CORAF's facilities. CORAF operations started up again in 2000 and the government has expressed its intention to privatize the facility by 2006. As part of Congo's SMP agreement with the IMF, an agreement was signed between the government, the SNPC and CORAF that requires CORAF to pay for its oil purchases from the government.

State-owned Hydro-Congo held a monopoly over the sale and distribution of oil products in Congo for over 25 years, until it was privatized in 2001 when Total and Shell took over its assets for an undisclosed sum. The privatization was required by the terms of agreements with both the IMF and World Bank. Total and Shell have agreed to retain nearly two-thirds of the Hydro-Congo's staff.

NATURAL GAS

Congo contains an estimated 3.2 trillion cubic feet of natural gas reserves, the third largest gas resource base in sub-Saharan Africa behind Nigeria and Cameroon. Although the majority of Congo's natural gas reserves are associated (found alongside oil deposits), the country contains some major non-associated fields, including the offshore Banga Marine and Litchendjili Marine fields. The majority of Congo's natural gas output is currently vented or flared because of a lack of infrastructure, but the government plans to reduce this by utilizing the natural gas for electric power production over the next several years.

In December 2002, Agip and ChevronTexaco inaugurated a natural gas-fired power plant in Djeno near Pointe Noire. The plant, with a capacity of 25 megawatts (MW), was completed in 13 months at a cost of $32 million. The power plant is fueled by associated gas from the Kitina, Djambala and Foukanda offshore fields. The gas is separated onshore at the Djeno oil terminal and piped to the nearby power plant.

ELECTRICITY

Congo currently has an electrical generation capacity, primarily hydropower, of 118 MW. The potential for hydroelectric power generation in Congo is large (3,000 MW), but it has been largely unexploited. The 74-MW Bouenza (Moukoukoulou) and the 15-MW Djoué hydroelectric plants have been the mainstays of Congo's power generating capability since the early 1980s. Congo's power sector is run by the parastatal, Societe Nationale d'Electricite (SNE). Prior to the 1997 civil war, SNE was one of several government entities considered for privatization, but subsequent damage inflicted upon SNE's infrastructure in the Brazzaville area during the civil war decreased the likelihood of any near-term privatization.

Congo's electricity consumption currently is low, as most people in rural areas rely on wood as their primary source of fuel. Moreover, electricity transmission links are non-existent in many parts of the country, and fighting during the civil war destroyed much remaining infrastructure. Moukoukoulou, repeatedly a target for rebels during the civil war, has had its productive capacity reduced to 55 MW. In 1996, the Djoué hydropower station on the outskirts of Brazzaville was refurbished by Rotek, a branch of the South African power company, Eskom, but it was subsequently damaged in future fighting. Officials from SNE estimate that the cost of necessary repairs to the generating facilities at 15 billion CFA ($20.4 million). The generation shortage has forced Congo to import increasing amounts of power from the Democratic Republic of Congo. Congo plans to reduce its reliance on electricity imports by expanding current facilities and constructing additional generation facilities.

In 2003, construction began on the Imboulou hydroelectric dam on the Lefini River. Two Chinese companies, CMEC and CIEMCO are cooperating with the Congo government on the $280 million project. The 120-MW plant should increase Congo's electrical capacity to 234 MW. Construction of the facility is expected to take 5 - 6 years.

Development of the $925 million, 1-gigawatt (GW) Sounda Gorge hydroelectric project has been postponed. Sounda Gorge, at the confluence of the Niari and Kouilou Rivers, is located approximately 85 miles north of Pointe Noire. Before independence, the French built access roads, a cement-processing factory and a deviation tunnel at Sounda Gorge. Following independence, Electricite de France (EdF) unsuccessfully tried to complete the generating facilities.

Sources for this report include: Africa Energy and Mining; Africa News Service; African Energy; AllAfrica.com; Agence France Presse; BBC Worldwide Monitoring; CIA World Factbook; CountryWatch.com; Economist Intelligence Unit ViewsWire; Energy Day; Factiva; Global Insight; International Monetary Fund; Oil Daily; Panafrican News Agency; Petroleum Intelligence Weekly; Reuters; U.S. Energy Information Administration; World Bank; World Markets Energy; Xinhua.

COUNTRY OVERVIEW

President: Denis Sassou-Nguesso
Independence: August 15, 1960 (from France)
Population (2004E): 3.63 million
Location/Size: Central West Africa; borders the Atlantic Ocean, the Democratic Republic of the Congo (to the east and south), Gabon (to the west), Cameroon and the Central African Republic (to the north), and the Angolan enclave of Cabinda (to the south)/342,000 square kilometers (132,000 square miles), slightly smaller than Montana
Major Cities: Brazzaville (capital), Pointe Noire
Languages: French (official), Kikongo, Lingala and Monokutuba, plus other African languages also spoken
Ethnic Groups: Kongo (48%), Sangha (20%), Batéké (17%), M'Bochi (12%), others including

Europeans (3%)
Religion: Christian -- predominantly Roman Catholic (50%), Traditional Beliefs (48%), Muslim (2%)

ECONOMIC OVERVIEW
Minister of Finance and the Budget: Roger Rigobert Andely
Currency: Communauté Financière Africaine (CFA) franc
Market Exchange Rate (8/19/2004): US$1 = 530.77 XAF
Gross Domestic Product (GDP) (2003E): $3 billion
Real GDP Growth Rate (2003E): 1.2% **(2004F):** 6.1%
Inflation Rate (2003E): -1.3% **(2004F):** 1.1%
Merchandise Exports (2003E): $2.7 billion (of this, Non-Oil Exports $469 million) **(2004F):** $3.6 billion
Merchandise Imports (2003E): $1.9 billion **(2004F):** $2.2 billion
Major Export Products: Crude oil, timber, sugar, cocoa, coffee, diamonds
Major Import Products: Capital goods, foodstuffs, petroleum products, machinery, vehicles and spare parts
Major Trading Partners: China, France, South Korea, United States
Total External Debt (2003E): $7.1 billion (IMF)
Reserves, Gross (2003E): $40 million (IMF)

ENERGY OVERVIEW
Minister of Petroleum Affairs: Jean-Baptiste Tati-Loutard
Minister of Mines, Energy and Hydraulics: Philippe Mvouo
Proven Oil Reserves (1/1/04E): 1.5 billion barrels
Oil Production (2003E): 247,000 barrels per day (bbl/d), of which all is crude oil
Oil Consumption (2003E): 6,000 bbl/d **(2004F):** 6,000 bbl/d
Net Oil Exports (2003E): 241,000 bbl/d
Refining Capacity (1/1/04E): 21,000 bbl/d
Natural Gas Reserves (1/1/04E): 3.2 trillion cubic feet (Tcf)
Natural Gas Production (2001E): 124 Bcf (of which, 97% is flared or reinjected)
Natural Gas Consumption (2002E): None
Natural Gas Vented/Flared (2001E): 46 Bcf (latest figures available)
Coal Reserves: None
Coal Production/Consumption (2002E): None
Electric Generation Capacity (1/1/02): 118 megawatts
Electricity Generation (2002E): 358 million kilowatthours (MM kwh)
Electricity Consumption (2002E): 570 MM kwh

ENVIRONMENTAL OVERVIEW
Minister of Forestry Economy and Environment: Henri Djombo
Total Energy Consumption (2002E): 0.017 quadrillion Btu* (0.004% of world total energy consumption)
Energy-Related Carbon Dioxide Emissions (2002E): 3.98 million metric tons, of which 1.27 million metric tons (40%) from gas flaring. (0.01% of world carbon dioxide emissions)
Per Capita Energy Consumption (2002E): 4.7 million Btu (vs U.S. value of 339.1 million Btu)
Per Capita Carbon Dioxide Emissions (2002E): 0.87 metric tons (vs U.S. value of 19.97 metric tons)
Energy Intensity (2002E): 7,777 Btu/ $ nominal-PPP (vs. U.S. value of 9,344 Btu/$ nominal-PPP) **
Carbon Dioxide Intensity (2002E): 1.45 metric tons/ $ nominal-PPP (vs. U.S. value of 0.55 metric

tons /$ nominal-PPP)**
Fuel Share of Energy Consumption (2002E): Oil (76.0%), Hydroelectric Power (23.5%)
Fuel Share of Carbon Dioxide Emissions (2002E): Natural Gas (72%, 40% from gas flaring), Oil (28%)
Status in Climate Change Negotiations: Non-Annex I country under the United Nations Framework Convention on Climate Change (ratified October 14th, 1996). Not a signatory to the Kyoto Protocol.
Major Environmental Issues: Air pollution from vehicle emissions; water pollution from the dumping of raw sewage; tap water is not potable; deforestation.
Major International Environmental Agreements: A party to Conventions on Biodiversity, Climate Change, Endangered Species, Ozone Layer Protection, Tropical Timber 83, Tropical Timber 94. Has signed, but not ratified: Desertification and Law of the Sea.

* The total energy consumption statistic includes petroleum, dry natural gas, coal, net hydro, nuclear, geothermal, solar and wind electric power. The renewable energy consumption statistic is based on International Energy Agency (IEA) data and includes hydropower, solar, wind, tide, geothermal, solid biomass and animal products, biomass gas and liquids, industrial and municipal wastes. Sectoral shares of energy consumption and carbon emissions are also based on IEA data.
**GDP based on CIA World Factbook estimates based on purchasing power parity (PPP) exchange rates

OIL AND GAS INDUSTRIES
Organization: State-owned Société Nationale des Pétroles du Congo (SNPC) oversees offshore and onshore oil exploration and production; state-owned Hydro-Congo participates in downstream oil sector (marketing); Societe Commune de Logistique Petroliere (SCLOG) responsible for petroleum product distribution (SNPC, Total, ChevronTexaco and Tacoma/Puma Energy each hold 25 percent).
Major Producing Fields: N'Kossa, Loango, Zatchi, Kitina
Major Refineries (1/1/04 Capacity bbl/d): Congolaise de Raffinage (CORAF) - Pointe Noire (21,000 bbl/d)
Major Oil Terminals: Djeno
Major Foreign Oil Company Involvement: Agip, Anadarko, ChevronTexaco, Energy Africa, ExxonMobil, Heritage Oil, Maurel and Prom, Murphy Oil, Perenco, Sasol, Shell, Tacoma, Total

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To contact the Embassy of the Republic of Congo:
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