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September 5th, 2013

**THOMBO**  
petroleum

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London WC2N 5BW

The Committee Secretary  
P.O. Box 15  
Cape Town 8000  
Republic of South Africa  
Attn: Ms Ayanda Boss

Ref: GOV-01-13

*For delivery by e-mail to [aboss@parliament.gov.za](mailto:aboss@parliament.gov.za)*

Dear Ms Boss,

**Mineral and Petroleum Resources Development Act (MPRDA), Draft Amendment Bill 2012**

Having already commented on the proposed amendments to the MPRDA by letter to DMR in February, the substance of which remains unchanged, I would like to make the following observations for consideration by the Parliamentary Committee in its current phase of public consultation:

1. I am a South African who has learned his trade during more than 40 years of global activity in the oil exploration and production industry. I founded Thombo Petroleum some 10 years ago with the express ambition of evaluating, exploring and producing hydrocarbons from Block 2B off the West coast of South Africa. I have succeeded, so far, only in spending some R130 million and acquiring a 3D seismic survey over the area of main interest in the block.
2. Having insignificant personal financial resources to fund this ambition, I have had to rely on my technical experience and expertise to persuade third parties to join me in return for their financial support of the project. As a result, my original 100% interest in the block has been reduced to its current level of 11.25%.
3. I have been joined in the Block 2B project by Mr. Nazmi Adams, a previously disadvantaged South African, it being my wish to maximise South African involvement in the project as far as practicable. Guided by this philosophy, Thombo has included students from the University of Cape Town in its technical work on Block 2B to give them a taste of a real oil exploration project.
4. The Block 2B project is still in its infancy, with no guarantee that it will succeed. The next phase of activity needs to be the drilling of several exploration and appraisal wells at an overall cost of many billions of rands. I am currently seeking additional investors to give Thombo the financial capability to undertake this activity. However, I am worried that the proposed amendments to the MPRDA will stifle the interest of new companies in joining the project, thus bringing it to a premature end.

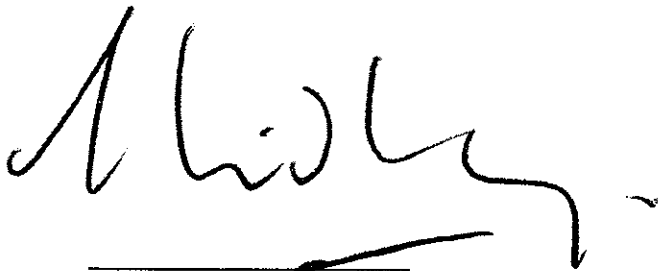
5. If the exploration of Block 2B is successful, its investors will then need to support a development project whose cost will run into tens of billions of rands. At such massive levels of investment, these investors must have confidence that they will achieve a high return, commensurate with both the cost and risks of the project, in the event production also proves to be successful.
6. I see strong parallels between Thombo's position, in which the company's commitment to South Africa makes it completely reliant on inward investment with only its technical knowledge and expertise to encourage such investment, and that of the government itself. It is similarly critical for the success of South Africa's fledgling offshore oil industry that the country makes itself attractive to inward investment and it has only the expertise inherent in the Petroleum Agency of South Africa (PASA) to help this happen. That which is good for Thombo is surely also good for South Africa.
7. What does success mean for South Africa? Of the hundreds of billions of rands of revenue that could be generated by a successful project in Block 2B, the country even under existing legislation would already receive the lion's share in one form or another. For the rest, Thombo and its investors would first have to pay government royalties, then the operating costs of the project, then corporation tax while gradually recovering their multi-billion rand investment before, finally, starting to make a profit.

In summary, a successful offshore oil industry requires encouragement of foreign investment which I believe will be best achieved by not changing the MPRDA regulations for existing rights holders such as Thombo, who have already taken substantial financial risk, and by retaining the technical knowledge and expertise of PASA in a manner that will allow them to continue to be such effective promoters of hydrocarbon opportunities in South Africa. Indeed, I regard PASA as a valuable technical partner in the Block 2B project.

Once a successful oil discovery has been made which demonstrates the country's hydrocarbon potential to the world, I would then be so bold as to suggest that a dedicated Ministry of Petroleum with dedicated petroleum regulations would maximise its benefit to the country and its people. I hope it is Thombo who makes this ground-breaking discovery – this is my ambition - but to achieve this I need the government's help, for example, as summarised in my previous paragraph.

In short, I would like to continue to work with government to maximise the chances of success of the country's fledgling offshore oil industry, to the benefit of the country, its people and of the industry itself.

Yours faithfully



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**Trevor Ridley**  
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February 7<sup>th</sup>, 2013



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## **Comments on the Proposed Revisions to the MPRDA**

### **Background**

#### ***Thombo Petroleum in South Africa***

By virtue of its Exploration Right over Block 2B, off the west coast of South Africa, Thombo Petroleum Ltd. is an interested and affected party concerning the proposed revisions to the MPRDA, announced on December 27<sup>th</sup>, 2012. Thombo is a private UK-registered company with 24% South African ownership, including a previously disadvantaged South African who is also a director of the company.

Thombo's small size means that it needs to persuade other companies to join it in its exploration ventures. In the case of Block 2B, Thombo identified an opportunity whose merits were sufficiently persuasive for Afren plc, a UK-listed oil company focussed on Africa, to join Thombo in a Joint Venture (JV) to explore the licence area.

At present, on behalf of the JV, Thombo is operating an offshore 3D seismic survey over the most interesting area of Block 2B. At a cost of the order of \$10 million, with no guarantee of success, this is not a trivial exercise. The data from the survey will not be available for analysis until the end of 2013, after which the JV will decide whether or not drill a well. Drilling a well will cost perhaps \$30 million, a large sum that will be necessary to continue exploration of Block 2B - but still without any assurance of success. It will take several such wells to determine whether or not a production project is possible; and if a production project eventually goes ahead, the cost is likely to exceed \$1 billion.

#### ***The South African Oil Exploration Environment***

The global success rate for exploration wells is approximately 15% and South Africa to date has implemented four small development projects after having drilled approximately 200 offshore exploration wells. This performance is far below average in terms of success rate and the size of the successes themselves is very low by African and global standards. Companies such as Thombo are therefore needed to help maintain the interest of the global industry in exploring in this country.

The recently awarded licences to explore onshore shale gas and offshore deepwater areas reflect advances in exploration and production technology, but their risks and very high cost restrict them to the domain of only the largest companies in the world. To quote from a recent industry communication, anticipating a shift away from deep-water exploration:

experience as a result of the current proposals may once again cause a slowdown in offshore activity.

In Thombo's opinion, it is vital for PASA's skills and experience to be retained by government, and the company seeks reassurance on this point.

### **Carried State Interest**

The proposal to allow the State an unspecified share in the net profits from any development is simply a royalty by another name. The unspecified nature of the carry would make it impossible for a company to evaluate the merits of applying for a licence in South Africa and so it will likely go elsewhere for its business.

The proposal to impose two directors on the management company is equally unworkable. The government would need to contribute to its share of exploration and development costs if it wished to participate in the management of exploration and production activities. In its proposed role, essentially that of a tax collector, the government will not need to participate in the management of the business itself.

### **BEE**

The proposal to increase BEE participation from its present level of 10% to 26% is probably unworkable in practice, because of the high costs and high risks involved in the business. Thombo considers it better to encourage a natural development of black enterprises and to let a company's overt commitment to black empowerment a criterion by which government decides whether or not to award a licence.

### **Enforced Local Beneficiation**

This is potentially another back-door tax and creates significant uncertainty in the evaluation of doing business in South by virtue of the unspecified extent to which produced petroleum would be required to undergo local beneficiation and the unspecified price at which petroleum would be transferred to the beneficiation plant. To guard against the unpredictable consequences of this proposal, any enforced local beneficiation would need to be on arms' length terms. Otherwise, potential investors will seek countries elsewhere in which they can model their business and assess their risks more reliably.

On a practical note, offshore production will almost certainly need to be shipped from the field in one stream and it will be impracticable to split the production and send it to multiple destinations.

### **Listed Companies Inability to Trade its Shares without permission**

This is an obvious non-starter for large foreign companies, so the objectives of this proposed restriction need to be stated so that a workable solution can be found.