UNDERSTANDING CAMEROON'S CRUDE OIL MARKETING

What is the International Oil Market?

The oil market is a semi-regulated competitive arena where pricing is influenced by the interplay of supply and demand, alongside external factors such as geopolitical developments.

The primary demand is driven by refineries, which process crude oil into products suitable for end users (fuel, combustibles, and petrochemical industry feedstocks).

Refineries operate through specialised trading subsidiaries tasked with engaging in the marketplace to buy necessary volumes for operational continuity or to sell unused stock.

These traders may also seek to make short-term profits through buying and selling operations by taking advantage of daily price variations. It's quite typical for an oil cargo to be traded multiple times before its final delivery. This arena of immediate physical oil transactions is known as the "spot market".

Alongside the tangible trading of oil, there is a virtual (paper-based) market where oil is traded based on its anticipated future worth, generally without any actual physical exchange of the commodity itself.

These transactions occur on futures markets, with the NYMEX (New York Mercantile Exchange) and the ICE Futures (Intercontinental Exchange) - formerly the International Petroleum Exchange (IPE) and based in London - being the two primary exchanges.

These markets enable producers to commit to selling (or refiners to commit to purchasing) quantities of oil at a fixed price in advance, thus protecting them from any potential negative fluctuations in oil prices.

Cameroon has been producing crude oil since 1977.

Hydrocarbon exploration and development activities are concentrated in two sedimentary basins, primarily offshore: Rio del Rey (South West) and Douala/Kribi-Campo (Littoral).

SNH collaborates with oil companies to carry out these activities.

In the exploration phase, oil companies are issued an Exploration Authorisation, and bear the sole responsibility for the costs associated with the work to be carried out. Upon making a profitable discovery, SNH enters into a production sharing contract, and compensates the oil company for its initial exploration expenditure proportionate to its stake in the contract. These exploration authorisations as well as the production sharing contracts are signed by the Minister of Industry.

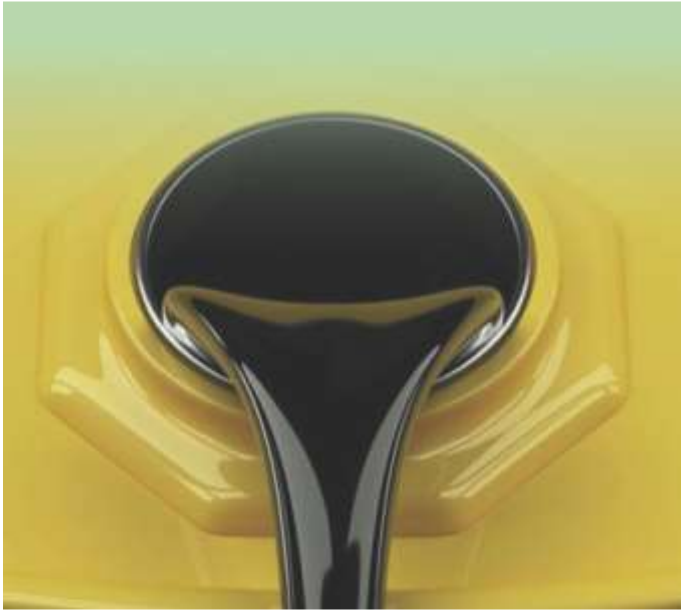
Production sharing contracts in force indicate that the State retains an average of 70% of the oil production.

As at **31 June 2024**, Cameroon's daily oil output stood at **61 405.74 barrels**. The production comprises three types of crude oil: **Kolé, Lokélé, and Ebome**, each with unique properties that influence their valuation on the global market.

How does SNH select its customers?

Any company intending to purchase crude oil from SNH must first secure approval. This necessitates the submission of various documents, including balance sheets for the preceding three fiscal years, the annual report of the preceding fiscal year, bank references, and evidence of experience in crude oil trading. This information is used to assess the company's financial standing relative to the value of Cameroonian crude oil cargoes, analyse its liabilities and business volume, and confirm its financial and operational trustworthiness.

Between 2016 and 2019, SNH sold a portion of its crude oil through futures contracts and the remainder via tenders. Since 2020, SNH's marketing strategy has shifted exclusively to tenders.



How does SNH sell Cameroonian oil on the market ?

Between 2016 and 2019, SNH sold a portion of its crude oil through futures contracts and the remainder via tenders. Since 2020, SNH's marketing strategy has shifted exclusively to tenders.

A crude oil futures contract is an agreement between a Seller and a Buyer whereby the Seller commits, over a specific period (a quarter, half-year, or year), to deliver a cargo of crude oil (400 000 barrels, 500 000 barrels, etc.) according to a predetermined schedule (monthly, quarterly, or half-yearly) to the buyer, who is required to accept delivery.

HOW ARE CAMEROONIAN CRUDE OIL PRICES DETERMINED?

1°) Contractual Pricing

SNH's crude oil selling price is calculated using the formula below that aligns with global industry standards. This formula enables the pricing of Cameroonian crude oil at a premium or discount relative to a benchmark oil:
Price = Brent +/- X USD per barrel

Brent, the benchmark for Cameroonian crude oil, is the arithmetic mean of at least five consecutive daily average quotations of Dated Brent, as reported by Platt's Crude Oil Marketwire, during the pricing period. This pricing period is agreed upon by the parties involved.

X represents the differential, which is determined by the parties after negotiations. This differential is assessed based on three factors :

- The quality difference between Brent, the benchmark light crude, and the Cameroonian medium and heavy crudes;
- Geographical location.
- The conditions prevailing at the time of the transaction (seasonality, actual demand for the specific type of crude oil, etc.).

Our crude oil prices are thus pegged to one of the three primary international oil market benchmarks and always mirror the overall trends in the global oil market.

Generally, our two main crudes, Kolé (medium crude) and Lokélé (heavy crude), are sold at a discount to Brent, while Ebomé (light crude) commands a premium over Brent.

The price negotiation period starts immediately after the Buyer accepts the Seller's allocation of the cargo and concludes no later than 30 days before the 1st day of the projected loading period for the cargo. In this timeframe, the Seller and Buyer agree on the differential value and the duration for calculating the benchmark crude oil's price.

As **for the period for calculating Dated Brent's price**, it will indicate the number of quotation days considered when setting the cargo's price
If the buyer and seller cannot reach an agreement by the end of the negotiation period on :

- The differential value (X);
- The period for calculating the benchmark crude oil price;
- The Seller reserves the right to offer the cargo to another buyer of its choice.

2°) Regulatory Framework

During the period under review, the development of hydrocarbons produced domestically was governed by Law No. 99/013 of 22 December 1999 on the Petroleum Code, and its implementing Decree No. 2000/465 of 30 June 2000. The decree specifies:

Section 90

The value of hydrocarbons produced under a Petroleum Contract within a contract area is the "international market price" of the said hydrocarbons, as defined in Title XIII.

Section 91

(1) The "international market price" of hydrocarbons shall be determined on a Free On Board (FOB) basis at the delivery point specified in the petroleum contract. This price must align with those agreed in sales contracts with third parties for hydrocarbons of similar quality. Necessary adjustments shall be made to account for the characteristics of the various transactions.

(2) The "International Market Price" shall be expressed in US dollars or in any other convertible currency agreed upon by the Parties.

Section 92

(1) The "International Market Price" of hydrocarbons is subject to negotiation between the State, or a designated public body, and the license holder. This price shall be determined quarterly, corresponding to each month within the production quarter, and shall reflect the mean of all average Dated Brent quotations, or an alternative benchmark crude oil, as mutually agreed upon by the license holder and the State, as reported in Platt's Crude Oil Marketwire for the relevant month, with an added or subtracted differential as jointly decided by the parties ;

(2) The "International Market Price" shall be established on a date jointly agreed by the State or a designated public body and the license holder. This date should ideally fall within the reference quarter but must not be later than the final day of the month succeeding the quarter's end ;

(3) The "International Market Price" becomes effective upon its publication by order of the Minister in charge of pricing.

Section 93

If, for a given quarter, the State or its designated representative and the license holder fail to agree on the "International Market Price" within the specified time frame outlined in the preceding section, the provisional price to be adopted will be the mean of all average Dated Brent quotes, or another benchmark crude oil mutually selected, over the reference period, adjusted by the differential previously agreed upon for the final month of the preceding quarter. This provisional price shall remain in effect for the reference quarter until the State or its designated representative and the license holder reach a consensus on the "international market price". This consensus must be achieved by the end of the quarter after the one under review.

Section 94

If the State and the license holder are unable to concur on the "International Market Price" for hydrocarbons, the disagreement shall be treated as a technical matter. Consequently, either party is entitled to seek an expert determination in line with Article 119 of this Decree.

Given the above, the "International Market Price", termed the "Official Price", is proposed to the government by the Joint Official Prices Committee, on which SNH represents the State of Cameroon. The committee's price proposals are forwarded by SNH to the Government, which confirms them by order of the Minister in charge of prices.

N.B : The Petroleum Code was amended in 2019 (Law No. 2019/008 of 25 April 2019) and its Implementing Decree No. 2023/232 of 4 May 2023 maintained the above provisions, in particular sections 113, 114(1), 115(1), 116 and 117.