EAST AFRICA: WHO DARES, WINS

The energy industry may never see an oil and gas boom such as that in east Africa with its promise of handsome returns. Emran Hussain finds the stakes are high here, then again so are the rewards

The past few years have seen a flurry of activity among many companies in east Africa – some local but mostly foreign – drawn to the idyllic Indian Ocean shores of the region which is some of the poorest anywhere that continues to attract them.

But they come not in search of developing the next tourist hotspot, as with much of the African story in recent times, it is the vast oil and gas potential lying beneath the soil and further offshore east Africa.

In terms of hydrocarbons, the region should be seen as part of a larger African narrative, the continent produced some 12.4 per cent of the world's overall crude output in 2010, exported 20 per cent of global oil exports and 8.8 per cent of the world's proven oil reserves. All this without even beginning to exploit the up and coming east African region.

Natural gas deposits off the coast of east Africa – Kenya, Tanzania and Mozambique – put Nigeria, Africa's largest energy producer, quite easily in the shade.

This promises to be a blessing for the region where average annual incomes are below US$600 and life expectancy is less than 60 years. Other hurdles - which vary from country to country – that have until now been the reason for outside investors to shun the region have been a poor business climate that has tended to be inward-looking coupled with the lack of good infrastructure and logistics.

However one thing any new entrant to Africa should expect, is the unexpected, says Charlie Benson chief operating officer of Abu Dhabi based multi-sector investment firm Hayaat Group, a company that has recently entered the east African upstream energy industry through a 10 per cent acquisition of Australian company Swala Energy which operates there.

"So many things can happen…some of the challenges we have faced revolve around logistical challenges in the areas that we are operating in… but that breeds opportunities," he explains.

He believes that it is for this very fact that many businesses choose not to invest in Africa but in the same breath says that many others do for precisely this reason – it is an opportunist's market for sure.

> "In my opinion, I think the east coast of Africa is going to become an enormous international player"
>
> **Charlie Benson, COO, Hayaat Group**

Massive growth potential

The good news is that the region has huge growth potential, countries like Kenya, Tanzania, Mozambique and Uganda are home to some of the world's fastest-growing economies. All of these countries have either discovered vast deposits of oil and gas in the last few years, for the time being it is the latter that is drawing a huge amount of attention from the likes of Statoil, Shell and ExxonMobil.

Tanzania which has east Africa's second biggest economy, is expected to see its gas resources grow fivefold, the country's energy and minerals ministry said last August. The country which is most famous for being home to Mount Kilimanjaro and its vast Serengeti planes, is estimated to currently hold 43.1 trillion cubic feet (tcf) of recoverable natural gas. This latest announcement predicts that in the coming two years alone, Tanzania's gas reserves could rise to 200 tcf.

With plans to drill 17 new wells in the current fiscal year running from July 2013 to June 2014 and costing nearly $700 million, Tanzania is on course to find more 'high-impact' gas finds.

Going further south in neighbouring Mozambique, the rosy outlook continues and on an even bigger scale. Mozambique's prolific offshore Rovuma basin which borders Tanzania is said to hold 200 tcf of gas and in 2013 was the setting for six major deals worth $9.3 billion by exploration and production companies from major gas importing countries China and India.

Ticking clock for LNG exports

With such major gas finds in the region, east Africa is being billed as the third-largest natural gas exporter in the world, a rather exclusive club that includes major gas exporting nations such as Russia, Qatar, Australia and soon the United States on the back of its shale gas boom.

With natural gas growing in importance as part of the global energy mix well into the foreseeable future, east Africa's gas boom seems quite timely especially as gas derived from the region is expected to be competitively priced compared to other regions.

Consultants at Wood Mackenzie in 2012 estimated that east African liquefied natural gas destined for the hugely lucrative Asian market would likely be priced at $7 per million British thermal units (BTUs) in order to break even compared to LNG from Australia which would require $10 per million BTUs.

Now that east Africa is seeing its gas producing potential grow beyond its wildest expectations, the next logical step is to export the product, and quickly.

Statoil and Britain's gas explorer, BG Group that have considerable acreage in Tanzania's offshore blocks have announced plans to build a two-train LNG plant on the Tanzanian coast. Italian oil and gas firm Eni and US independent Anadarko Petroleum have similar plans to build a LNG export facility in northern Mozambique.

However in both cases, the clock is ticking as US shale gas exports are set to begin in 2015 potentially causing a glut in the already volatile global gas market, driving down the price of the commodity.

Given that construction of these LNG terminals – which can usually take around five years – has not even started, suffice to say that any export of east African natural gas in the future will begin at a lower than expected price point.

Much like the rest of the continent, the considerably higher logistics costs compared to other more developed parts of the world, are already starting to make heads sweat.

"If you look at where they're building the large LNG terminal up in northern Mozambique… it is a relatively small town, right up in the north of the country. Just logistically investing the sums of money that they're talking about investing, depending on who you're talking to, varies from anything between $20 to $40 billion. That's a huge amount of challenges," Hayaat Group's Benson tells *Pipeline Magazine*.

Benson does not rule out that the challenging onshore logistical landscape is a key reason why much of the hydrocarbon finds in east Africa have been offshore.

"You're carving through roads for seismic [equipment], you're having to cut through bush and go into areas that are very difficult to get the seismic and drilling equipment into. Whether that's the sole reason, I'm not sure," he says, "I think it's possibly part of it."

Although he concedes that as his company is not directly involved in upstream activities, it is hard to say.

Kenya oil boom

Kenya's success in east Africa's hydrocarbon bonanza has been mainly in significant crude oil discoveries allowing many industry watchers to speculate an entry of the oil majors in this part of the world.

Two new onshore discoveries for Africa-focused UK oil and gas exploration company, Tullow Oil in mid January, brought the revised total of its discovered resources in that particular block to 600 million barrels (mmbo). At the time of this announcement, the company said that reserves in its 10BB Block in the north of the country could be in excess of 1 billion barrels.

What's more, each of Tullow's seven wells drilled at the block thus far have resulted in discoveries.

"Exploration results to date from the first basin, amongst a chain of basins, have proven that Tullow's onshore acreage in northern Kenya has the potential to become a significant new hydrocarbon province," said Angus McCoss, Exploration director, Tullow Oil.

BG Group is one of the leaders in east Africa's offshore fields

"The programme of over 20 wells we have planned across our licences over the next twenty four months should materially add to the 600 mmbo discovered to date through a combination of exploration and appraisal. With up to five other analogous basins being tested during this programme, Tullow has the opportunity to increase Kenya's resources significantly beyond today's estimates."

His colleague and chief operating officer, Paul McDade said: "The results to date are extremely positive for achieving a commercial development from the discoveries made in this basin. There is clearly scope for the development to be expanded if there is further exploration success in other basins."

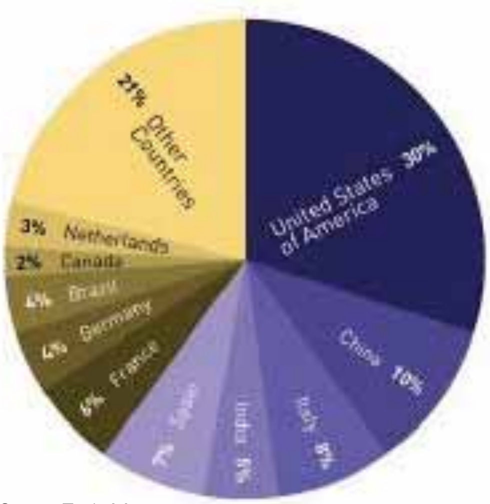
Enormous international player

"In my opinion, I think the east coast of Africa is going to become an enormous international player- and it already has – but in the fullness of time it will become an international player within the gas production market and hopefully the oil production market without a shadow of a doubt," says Benson.

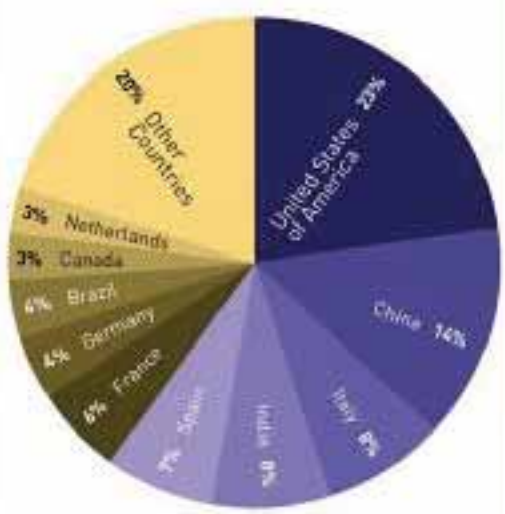
There is every indication that relatively small energy players like Hayaat Group and Swala Energy have just as much to gain as their local counterparts and bigger international explorers in east Africa. The international energy industry may perhaps not see an energy boom such as east Africa with its promise to handsomely reward any company small or large, ever again – the stakes are high here but then again so are the rewards.

ASIA IS A GROWING DESTINATION FOR AFRICAN OIL

AFRICA OIL EXPORT DESTINATION 2007



AFRICA OIL EXPORT DESTINATION 2011



Source: Trade Map

MAURITIUS TO BE REGIONAL ARBITRATION CENTRE FOR AFRICA

Mauritius has taken significant steps towards establishing itself as a centre for Africa related international arbitration, and the Mauritian government has repeatedly demonstrated its commitment to achieving this aim. This process began with the adoption of the Mauritian International Arbitration Act in 2008, which was based on the UNCITRAL (United Nations Commission on International Trade Law) model arbitration law and thus in conformity with international norms.

The Mauritian courts have a reputation for impartiality and are generally regarded as being supportive of arbitration, particularly since the Act came into force. Mauritius is a member of the New York Convention, and has a number of bilateral investment treaties in place. Its status as a regional offshore financial centre potentially also simplifies enforcement of arbitral awards, as companies will frequently hold assets in Mauritius.

African arbitration has, with the exception of some West African "OHADA" arbitration, generally been handled by the leading international arbitration centres in London, Paris and Singapore, and there appears to be a clear demand for a regional arbitration hub. Mauritius' role as a major offshore jurisdiction militates in its favour in this regard, and South Africa's relative underdevelopment as an arbitration centre, together with its recent revocation of many of its bilateral investment treaties, may also help to make Mauritius the most likely candidate for this role.

Key features of the Act include:

- a provision giving default jurisdiction over appointments of arbitrators and administrative matters to the Permanent Court of Arbitration;
- provisions expressly permitting foreign lawyers to act as both counsel and arbitrators in Mauritius;

Partner Nick Greenwood and senior associate Richard Ellison in the Dispute Resolution group are at the London office of global law firm Morgan Lewis