



East Africa Oil and Gas : The Next Epicentre

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The East Africa region, which was never on the radar of the international oil and gas industry, is now fast emerging as a hot zone for oil and gas exploration. The recent spate of discoveries in the East African Rift, which includes countries such as Uganda, Kenya, Somalia, Ethiopia, Tanzania and Mozambique, has attracted the attention of oil companies from around the world including Indian companies.

Experts believe that East African oil may soon beat Middle East oil in the global market. This is evident from the way some of the East African countries have been steadily stating their oil and gas reserves and demonstrating their willingness to work with foreign companies. The oil and gas sector of the region is currently being projected as the growth engine of Africa, as the hydrocarbon resources seem to have the potential to stimulate economic growth both in Africa and globally. For India, fresh discoveries in this region bring much hope. However, amidst all this enthusiasm it is important to assess how real the opportunities are and what the hurdles are that the region and the interested oil companies need to overcome, in order to harness this new energy source.

Given the oil and gas potential of the region, investment opportunities are immense. It is stated that East African region energy resources may be at least 28 billion barrels (bbl) of recoverable oil, and 440 trillion cubic feet (tcf) of gas. It is projected that the total oil production

in the region (excluding Sudan) could reach approximately 210,000 barrels per day (bpd) by 2015, and nearly 389,000 bpd by 2020.

Industry leaders opine that East Africa is ‘the new West Africa’ in terms of oil exploration. In Uganda, Tullow Oil estimates oil reserves of approx 2.4 bbl in Lake Albert Basin. Likewise, in Kenya, prospectors are increasingly confident about its oil and gas potential. Experts say that the geological profile of Kenya’s northern Rift Valley is similar to that of Uganda’s Lake Albert Basin. Further north in Somali Puntland, two exploration wells have already been drilled and the initial results have been quite encouraging. Somalia and its offshore may also become attractive once the security and political situation normalises. Energy companies have started prospecting for oil in Ethiopia, Democratic Republic of Congo (DRC) and Eritrea.

Although the oil discoveries look promising, it is gas that is causing the most excitement in the East African energy market. The entire East African region including the East Africa Rift as well as the Indian Ocean coastline of Tanzania and Mozambique have high prospects in gas. Gas discoveries are estimated to stand over 100 tcf; Mozambique has potential recoverable reserves of 30 tcf, and Tanzania has nearly 7.5 bcf of gas reserves, with 70 million cubic feet /day capacity. Ethiopia’s Ogaden basin–has estimated reserve of 4 tcf of gas. It’s not just the geology that makes East Africa so exciting – it is also the geography. East Africa’s hydrocarbon resources offer the lucrative market for India and the Far East.

However, exploiting these resources in East Africa is not without challenges. The major impediments are poor infrastructure and high political risks. Significant investment is required to build energy supply chains including pipelines, refineries, LNG plants, and roads. The political risks are very high, such as corruption, weak regulatory mechanisms, competing political interests, and threat of being afflicted with ‘resource curse’, which is witnessed in many African countries having abundant natural resources.

However, oil and gas exploration is generally a challenging business. The hurdles and risks need to be overcome to reap the benefits. The East African countries are gradually realizing that they need to work together to deal with the challenges, so that they avoid unnecessary competition and find a common approach, which is cost effective. Ideas such as, a centrally

located major refinery facility and one common pipeline having different channels have been shared by various stakeholders in the region. Besides infrastructure challenges, to minimize political risks, the countries are taking measures to have energy regulatory bodies and management policies aimed at ensuring equitable distribution of oil revenues, while taking into account the interests of the communities in oil-producing regions.

There is little doubt that East Africa is well on its way to becoming a major new oil and gas exporting territory. If the current obstacles are surmounted, it will become a major global hub with far reaching consequences for the region. In fact, the rush has already begun. Currently there is a mix of independent and medium-sized oil companies. However, a different picture may emerge soon.

For countries like India and China, the geography of this region looks certainly more attractive, because transportation routes to Asia are much easier compared with Middle East, where tankers have to go through choke points at the Strait of Hormuz. Indian companies like Bharat Petroleum and Videocon have already made inroads into the gas sector in Mozambique. But given the challenges, it is no more 'easy oil and gas' for the Indian companies. Will the Indian companies be able to deal with these challenges and harness the potential of the energy markets of East Africa? It is fair to argue that there is little choice otherwise. With India's energy demand growing, India cannot afford to ignore the hydrocarbon potential of the region.

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