

## East Africa: Oil Companies Scrambling for East Africa?

By Sadat Muhammad Ssemakula



**KAMPALA, Uganda, July 05, 2012 (The Observer)** - Africa's new scramble for oil is heading east, where the potential could be huge and the risks are far higher than in the well-established sector on the continent's west coast.

Waters off East Africa have yet to produce a commercially viable oil source but gas discoveries off Mozambique and Tanzania have prompted lots of interest. On shore, Uganda discovered commercial quantities of hydrocarbons in the Lake Albert basin along its western border with the Democratic Republic of Congo (DRC), and exploration firms, including Tullow Oil, estimate reserves of up to 2.5 billion barrels.

"Oil remains the prize in offshore East Africa. Gas has been found but no commercial oil has been found yet, despite increasing evidence for its potential presence," says Mike Rego, Exploration Director for Aminex, which is active in the area.

Africa's west coast is a mature oil region that includes the continent's leading oil producers Nigeria and Angola. Their combined output is about four million barrels per day (bpd). Plenty of reserves probably lie in deep waters off the steamy West African coast while in North Africa, plunged into popular unrest this year, there are oil reserve holders and producers Libya, Algeria and Egypt, which supply most of their crude to Europe.

But the potential for a new African oil region to the east could have profound implications for global supplies, not to mention economies, right from Ethiopia to Mozambique.

"Oil interest in East Africa is huge. That whole area is of enormous interest to junior and medium-ranked companies. In fact, it has been a long time since so many oil companies that size were so active exploring a region," says Tara O'Connor, Managing Director of Africa Risk Consulting.

The risks for oil companies in the region are numerous.

"You have governments who don't have the experience of the oil sector unlike West Africa which is a mature oil province. The very mention of oil raises popular expectations and these are probably unreal expectations," says O'Connor.

London-listed Heritage Oil has been locked in a long-standing dispute with the Ugandan government, for example, over capital gains tax that accrued from its sale of exploration property to Tullow Oil. Elsewhere, there are concerns ranging from graft to piracy.

"The major risks facing investors is entrenched corruption in Kenya and Tanzania, arbitrary taxation in Uganda and piracy along the Indian Ocean," says Robert Besseling, Senior Africa Forecaster for Exclusive Analysis, a London-based risk consultancy firm.

US policy too has muddied the waters. Besseling says conflict-mineral provisions in America's Wall Street Reform Act could deter US listed companies from oil extraction in Uganda.

"Because Uganda borders DRC, US-listed companies will have to show that the oil came from legitimate activities and was not funding rebels across the border... This could push investors away," he says.

American policy is also seen deterring US companies from the newly independent nation of South Sudan, which has proven oil reserves. This is because their operations there could breach US sanctions that still apply to 'North' Sudan.

Given how interconnected the two countries' oil industries are, it is almost impossible for US companies not to violate these sanctions if they set up shop in the south and so Chinese, Indian and Malaysian companies could beat American ones to the punch.

But the United States is drawing up guidelines to permit US oil companies to operate in South Sudan without violating sanctions and Besseling says they would have a big advantage over the Chinese because of past diplomacy. "US companies will have a strategic advantage ... the South may be suspicious of Chinese companies because they have been doing business with the North."

On-shore, there are risks not found off-shore. Angola, for example, has had little trouble securing its oil industry because virtually all of it is off-shore while in Nigeria's Niger Delta, the industry has frequently suffered from attacks on infrastructure and the kidnapping of workers.

Rego says the coastal margins of Tanzania and Mozambique had seen only limited exploration and "better quality data was needed" to get a grip on the petroleum geology. But he says shallow reefs and other aspects of the coastal geography made it difficult to explore.

Much of Mozambique's pristine coastline is being developed for diving and eco-tourism purposes and environmental groups are sure to raise alarms if drilling comes into shallow waters and is perceived to threaten reefs and marine life. (END)

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