

The black gold rush

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World interest may be focused on the dramatic political changes taking place in North Africa, but the continent's energy industries are still booming. Africa's oil and gas landscape is changing fast, with commercial battling taking place between Western companies and Asian players. Ghana, Kenya, Nigeria and Angola have become sites of intense oil and gas exploration. With more companies entering the continent each year, investment commitments and numbers of projects executed are rising.

Pipeline spoke to Michael Diaz Jr., a lawyer with Diaz Reus & Targ, the international law firm with offices around the world including Dubai, UAE.

Pipeline: How would you describe the current oil and gas landscape in Africa? Are we really seeing an "African black gold rush"?

Michael Diaz, Jr: Although there are still large areas which are essentially unexploited, it has become a promising new frontier for oil exploration and major multinationals are jostling for search rights. We believe investments into Africa will continue to rise. In our practice, we have seen a sharp increase in inquiries, by established clients, and potential new clients, with respect to legal and consulting services offered in Africa. We have seen cycles of growth in Latin America, China, and now Africa.



However, the African oil and gas sector is not immune to the global recession and the uncertain oil price, which has resulted in cancellation and deferral of certain projects, layoffs, cost cutting measures and a general re-valuation of many companies' strategies. Oil and gas companies continue to weigh the risks versus benefits of new projects and how much capital to invest. Yet Africa is generally steady in the oil and gas sector and is expected to grow. This means the strategy and long range planning are going to play an important role as international oil and gas companies must control costs to bolster growth.

Pipeline: Is competition tough?

MD: Today, oil and gas companies in Africa number more than 100 and come from 20 countries – a far cry from a decade ago, when this industry was dominated by a few major western companies. Africa has witnessed an immense multiplication of competition, with Chinese and Indian companies joining European and US majors. Traditionally, oil production was controlled by big players whose monopoly was seen as unhealthy. New oil minnows in Africa have made it easier for African governments to negotiate terms. Chinese and Indian companies are becoming more aggressive in attempts to influence political and economic decision-making in Africa. It appears that Africa is able to negotiate better deals from Asian countries as compared to their Western competitors.

Asian companies are offering assistance that western majors have so far shied away from – including show-stopping commercial offers. For example, in Ghana, Chinese companies are offering things no big player would want to contemplate; including integrated packages that require technical skills and deep pockets. China and

India have demonstrated a keen interest in injecting a considerable amount of cash into the region and financing oil infrastructure. Traditionally, western oil companies were not in the business of helping to set up oil and gas industries, usually exploiting their reserves and going on their way.

Much of the running in recent times has been done by the minnows which are more willing to take the risk. There are great incentives for oil minnows which can take advantage of unexplored oil regions in Africa and use their reserves to grow into genuine players. Competition is expected to intensify over time as more players compete and the foreign oil companies add to the overall portfolio. Another recent trend is that African players are becoming increasingly prominent in the sector – a result of the evolution of a greater foreign–local partnership matrix.

Pipeline: What is the biggest challenge Africa faces in developing oil and gas resources?

MD: As is the case in any emerging market, doing business in Africa can be fraught with challenges and pitfalls. Civil unrest in Libya, Egypt, and other African countries is one of the major challenges now. As much as 1 million barrels of Libyan output has been disrupted by clashes between Ghaddafi and rebels, or about two-thirds of normal production. Major US oil companies have halted trade with Libya, and big banks are pulling back from funding such deals because of US sanctions, in moves that will further disrupt oil flows. In terms of security, there is a strong need for protection from factors such as terrorist attacks, sabotage, and theft, that could compromise personnel and business continuity. Notwithstanding all of this, many new opportunities will be borne from this upheaval as the reshuffling of power may open the doors for new players.

Regulatory concerns pose another major challenge for the continent, with many industry participants adopting a “wait-and-see” approach. Some have a more optimistic view and see regulation as a genuine attempt by African governments to ensure a fairer deal for access to their assets. A slowly accelerating reform programme is improving the sector. Despite this, the reform programme has caused some confusion, particularly among foreign investors. Shifting regulations and procedures have not inspired market confidence.

The oil and gas industry is slowly moving from centralised state control, to becoming more engaged with privatisation, although so far progress has been uneven. Most foreign companies enter into partnerships with governments, but such partnerships cannot be taken for granted on a continent where the quest for natural resources has fuelled decades of violent conflict. Genuine partnership is difficult when resource-rich countries view foreign drilling companies as adversaries, seeking unfair contracting agreements. From a company perspective, partnership is unattractive when they are forced to incur large losses owing to project disruptions and contract renegotiations. Many governments in Africa simply don't have the capacity to negotiate complex contracts that require a wide range of in-depth knowledge of law. In this regard, we have seen a dramatic increase in requests for legal assistance from government entities, international oil and gas companies, and private consortia working in these areas.

Other constraints to growth include the traditional African limitations of poor infrastructure, corruption, attracting and retaining key talent and high set-up costs. Yet despite the challenges, it is obvious that Africa offers potentially rich trade and investment opportunities that cannot be ignored.

Pipeline: How successful are Chinese and Indian companies in developing a new “silk route” for oil? Are they a force to reckon with?

MD: We have witnessed first-hand China and India becoming among the most active foreign oil and gas players on the African continent. This has to do with the search for more secure oil supplies in the face of static, if not declining, domestic oil production in both China and India. There will be significant competition, after significant new finds in all the African regions encompassing countries such as Libya, Uganda, Angola, Ghana and Mozambique. This is spurred on by increasing competition from China and India who have made significant investments and commitments across Africa to secure access to oil and gas. Both have been maintaining diplomatic and economic ties with African countries since 1950s.

India's largest state run oil exploration firm, ONGC Videsh Limited, has invested in assets in Sudan, Ivory Coast,

Libya, Egypt, Nigeria and Gabon. Private Indian firms such as Reliance Industries Limited have invested in Sudan and East Africa. The state owned Indian Oil Corp (IOC) and private entity Essar Group have invested in Nigeria and Sudan. Egypt has invited two Indian companies, Alkor and state entity Gujarat State Petroleum Corporation Limited (GSPC), to invest in areas of geological surveys, exploration and production of oil and gas.

China has also aggressively entered into offshore oil industry in heavyweight oil producing African countries such as Angola and Nigeria, ventured into high risk areas such as Chad, Sudan, Mauritania, Niger and Equatorial Guinea, and is looking for new exploration opportunities in Ethiopia, Kenya, Madagascar and Uganda. Establishing joint ventures with local state owned oil companies is another facet of Chinese engagement to remain strategically close to political decision makers in the energy arena. China's three largest oil companies, CNPC, Sinopec and CNOOC, have been boosting spending on oil exploration and production in Africa.

As some of the traditional super-majors divest in areas in Africa it will lead to even further opportunities for Indian and Chinese companies to further expand in Africa. The change in mix will cause the existing Asian energy companies to become more agile in order to respond to greater competition and emerging trends.

Pipeline: Are we seeing investments in upstream, downstream and midstream sectors?

MD: The African oil and gas industry is on the verge of significant growth in upstream sector development due to the increasing number of oil and gas discoveries and explorations. This is largely attributed to the fact that Western oil companies are increasingly exploring other regions besides the Middle East and Russia. Moreover, rising oil prices have further accelerated activities in the region. Africa is today witness to frequent new basin openings with relatively high discovery success. Central and Western Africa is widely believed to hold some of the world's best prospects for the remaining areas of unlicensed oil and mineral exploration. New seismic data and changing technology have made deep water offshore oil prospects in the region viable, generating serious interest by major oil companies.

Downstream in Africa is undergoing significant upheaval with BP, Chevron and Royal Dutch Shell recently announcing exits from smaller African markets. Some of these assets have been snapped up by competitors and new entrants in this segment are leading to a change in the traditional competitive landscape. While significant expansion of refining capacity is under debate across the continent, the complex issues surrounding the debate will take some time to resolve. Governments across Africa and other key stakeholders recognise the need for additional refining capacity to mitigate the risk of ageing refineries.

To support the growing upstream and downstream industries, we also expect significant growth in the African midstream sector to pump produced hydrocarbons from subsea developments to the shore and to transport energy to other markets.

Pipeline: Despite the presence of supermajors, NOCs, independents, and local companies, would you agree that Africa remains a frontier region? What are the opportunities?

MD: With the ever-increasing discoveries of new oil and gas and prospected fields in many African countries, the oil and gas sector offers a unique opportunity that can be harnessed by both local and foreign companies. Africa is actively developing the oil and gas market and encouraging international involvement in the upstream, downstream and midstream sectors. Foreign investors are taking advantage of enormous opportunities that are created in these sectors. We have received numerous inquiries from various companies that are interested to conduct business in this region of the world.

The large number of new oil and gas infrastructure projects in the pipeline also offer real opportunities for foreign investors, both large and small. These opportunities are not just limited to oil and gas sector, opportunities also lie in tourism, agriculture, manufacturing, trade, information technology and the financial services sector. There will also be an expected demand for contractors, engineers, operators, equipment suppliers, utility suppliers and many other businesses across various sectors. Understandably, therefore, foreign

players are now realizing that potentially high returns make Africa's risks worth tackling.

Pipeline: In your opinion, which fast and rising African countries should the industry watch out for? Why?

MD: Although Africa is currently rife with civil unrest in Egypt and Libya and several oil reserves are at the beginning of the end of their lives as oil producers, we believe there is still a bright future for the African continent in the oil and gas sector. The primary reason is because there are several new finds in many regions of Africa that the industry should watch out for.

There is also a flurry of activity in West African offshore and Central African onshore. West Africa, particularly Ghana is expected to be a lead producer of oil and gas. In fact to promote the region as an attractive oil producer, the government in Ghana has recently issued new laws on extractive industries and freedom of information is being readied to ensure transactions are transparent.

Sub-Saharan Africa – which includes Nigeria, Angola and Equatorial Guinea – is widely believed to hold some of the world's best prospects for the remaining areas of unlicensed oil and mineral exploration. New seismic data and changing technology have made deep water offshore oil prospects in Sub-Saharan Africa viable, generating serious interest by major oil companies. Sub-Saharan Africa also benefits from a good degree of regional co-operation. Businessmen are negotiating with these countries for access to oil and bolstering their case with financial aid and investment in these regions.

East Africa is a growing market which has become increasingly attractive, offering major business opportunities to both exporters and investors alike. Kenya's economy is fully liberalized and has free flow of trade and foreign investment. Oil Exploration interest in Kenyan blocks have also increased recently and several companies are expected to start seismic studies in Kenya.

****Carlos F. Gonzalez (partner) and Ms. Arti Sangar (partner) of Diaz Reus & Targ in Miami, Florida also contributed in this report exclusive for Pipeline*