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OIL AND GAS PRODUCTION IN EAST AFRICA: OPPORTUNITIES AND CHALLENGES

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Abstract

Oil and Gas exploration and production in East African Countries of Ethiopia, Uganda, Tanzania, South Sudan and Kenya has been there for a considerable time. It goes back as far as 1930. However, there was no breakthrough on hydrocarbon as it is in recently years. There are a lot of opportunities which the region could greatly utilize for its economic and social development. History taught us that the region has been leveled as one of the poorest in the world, but has a great potential of resources which has not been well exploited.

Currently, East Africa is a home of 238.1 Million populations and more people outside the continent will soon move in as the oil and gas production is materializing. It is therefore going to be a huge market if governments focus on developing Infrastructure, Roads and Bridges to boost movement and communication within the region and beyond. The new opportunity face however, numerous of challenges, if leaders in the region could not learn lesson from the other regions where oil resources have not only brought wealth but also more disadvantages than advantages or the `Dutch Disease`.

The region luck enough regulatory frameworks and technical know-how in the sector. This state of affairs may be exploited by international oil investors. The local content in the sector must be given priority as well as investment in other resources such as agriculture and water. Environmental and social issues may pose danger as result of exploration and production. Responsible governments, companies and civil society organizations must work hand in hand for sustainable development in the region. This paper will focus on those issues mentioned about.

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Introduction

East Africa is in a critical movement in its development history. The recently discovery of Oil and Gas in Kenya, Uganda, Tanzania and South Sudan may attract International Oil Majors to invest in the Region. Billions of United Dollars are expected to come to the region in the coming years. However, the commercial production of oil and gas may take five to ten years to materialize. Most of the countries are currently busy drafting legislation, policies as well as developing infrastructure in oil and gas industry.

Experts are of the opinion that if the region could not learn lessons from the other regions, it may miss the opportunity to uses the revenues for promotion of economic and social growth. The most critical areas for the region to focus on in oil industry include environmental disasters, social problems and corruption[1]. With the discovery of Oil and Gas there a good number of investors world over who are ready to move to the region. It is expected to become a focal point for international energy industries. The recently international increased demand for natural resources like gas and oil will surely attract foreign investors not only from China which already is busy in the region, but as far as Europe. By 2025 the global energy needs will rise by 57 %. If leaders from East Africa pay a greater attention by putting necessary legal framework, trained enough skilled people and diversified their economic development, the region could become the 3rd largest global natural gas exporter. Due to this development, the net foreign direct investment inflow into sub-Saharan Africa is said to have reached a record of 43 USD billion in 2013[2]. According to Manuel Jil, most of the east African countries pose potential hydrocarbon reserves which underwent exploration for several years.

The first east Africa exploration of hydrocarbon was in Uganda in 1930, followed by the discovery in Zanzibar in 1950.Kenya discovered her oil in 1950, while Uganda did that in 1930.Ethopia began exploration as late as 1950.The government of Somalia Puntland issued the first exploration license in 2012 for the Dharoor oil block. More exploration will be carried out in 2015. South Sudan was the youngest in oil exploration as it discovered her first oil in 1978 and kicked off the production in 1999. It is currently the biggest oil exporting country in East Africa. By 2012 the country was expected to produce around 527,000 bpd[3]. Ethiopia and Somalia are expected to have oil reserve although not did confirm formally. The United Republic of Tanzania has confirmed the existence of natural Gas Resource and is the largest producer of Gold[4].

Economic Expansion

As result of oil discovery and possible production in East Africa oil exports will boost local currency and therefore reduce spending on imports as well as stimulate investment on Infrastructure. However, there is a fear that a stronger currency could damage the non-oil sector in those countries. Stronger currency can post difficulties to exports and therefore create what is called "DUTCH DIESEASE". For instant, Kenya spends about $ 8 Million per a day on importing oil. This can be avoided if the country starts producing her own oil and build necessary infrastructure such as refineries[5]. Kenya and Ethiopia are believed to be economic regional leaders in East Africa if not in Africa at large. Kenya is ranked as the regional leader by Oxford University. It is the largest economy in the East and Central Africa. Her GDP stood in 2012 at 22 billion Euro.

Despise this huge GDP and good development there are numbers of social issues such as high levels of poverty (46% in 2009) and youth unemployment which is about 25%[6]. If we look to economic development in Tanzania as result of Gas production, the country has a capacity of 35-38 trillion cubic feet (TCF) of gas. It has licensed in May 2014 about seven additional blocks which includes one on Lake Tanganyika. So far, there are about 70 wells drilled in the United Republic of Tanzania. International oil and gas investors are operating in the country.

We have a quite a great number of European companies locally incorporated subsidiaries or national branches, for instant: Ophir, BP(UK), Shell(Netherlands), Norwegian Energy(Norway), Manuel et Prom(France) just to mention a few. Tanzania economy growth rate is reported in 2013 by 7.1%. The key drivers are services, industries and construction sector. Agriculture is still the most important sector of economy as it share make up of 27.7 % and employed 75 % of the population in the country[7].

South Sudan

The Republic of South Sudan became independent from Sudan in 2011. A part of the Sudan until July 2011, the country produces and export oil. Its economy depends heavily on Oil which make up of 98% of her annual budget. The government has been attempting to invest on Agriculture, Water, Fisheries as well as Roads and Bridges, education and health. However, the outbreak of the conflict in 2013 has slow down the government focus on most of these key projects. Currently South Sudan is the only east African country which has exported oil to the world market. Unemployment is very high, especially among the youth.

The Republic of South Sudan is populated by 8.26 million People, out of which 4.29 million are male and 3.97 million are female. The population is a very young 16% which are under the age of 5, 32%, and 51% of the population of South Sudan live below the poverty line. 78% of households depend on traditional agriculture and animal husbandry as primary source of their livelihood. While 55 % of population has access to drinking water[8]. If the crisis in South Sudan ends peacefully the government will be able to concentrate the resources in development as it tried to do before the crisis. It is absolutely important to invest more in agriculture, education, health and infrastructure.

wOil and it importance to Sudan and South Sudan

The governments of the two Sudans heavily rely on oil for their economic. South Sudan depends on oil and received 98% of its revenue (2 billion United States dollars). This shows that the country is the most oil-dependent economy in the world. By 2011, Sudan and South Sudan produced about 486,000 barrels of oil per day (bpd). It has proven oil reserves of 6.9 billion barrels. The oil production in the two Sudans is expected to last after 38 years if the production continues at this rate[9].

Oil, Social impact and Political Risk in East Africa emerging economy

Oil discovery in many part of the world has two sides for the population living around the area and the country at large. The Niger Delta in Nigeria is one of the best example in our time.The discovery of oil in South Sudan in 1974 led to great tension between north and South of the Sudan. Because of the political disputes caused by the discovery of oil in South Sudan in Bentiu district, President Numeria renamed Bentiu to Unity or Al Wihda province and later upgraded the district to a ful state. The whole idea was to claim ownership of all resources which were found in the mainland of the former southern sudan. The scramble for resources of the South Sudan led finally to the cancellation of the 1972 agreement and division of the south into smaller and weaker administrative units. There was also a power struggle between the communities around the border areas. During the civil war from1983 to 2005 millions of people in the oil areas

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in Nuerland, Dinkaland and Shilluk Kingdom were massively displaced. No compensation was done to them.

The US based Oil company, the Chevron which began producing about 35,000 barrels per a day from the Unity Field and another 15,000 from Heglig was attacked by the Sudan People's Liberation Army (SPLA) and forced to give up the business in the country. Today, the environmental impact is still great in Unity and Upper Nile State due to Oil exploration and production[10].

According to Moro: "The discovery of oil in Southern Sudan, at a time the region was recovering from 17 years of war, by Chevron oil Company was both a curse and blessing to the country. It played a big role in the return to war in 1983, and the subsequent displacement of most of the inhabitants of the oil areas. But it was also behind the recent spectacular economic recovery, which could underpin the CPA reached by the SPLM/A and the government in 2005 "[11].

In general the political risk and social impact of the exploration is a great challenge to all the East African countries where oil and gas resources were or are being discovered. Somalia is still not in peace with herself. Oil exploitation and production may be difficult if not impossible in Somalia. The Kenya region of Turkana has been described as one of the poorest in the northern part of the country and has a history of being drought-prone. Non-Governmental Organizations raised humanitarian concerns in 2014 and warned that about 300,000 people were in need of food as well as clean water, because of delayed in rain. There is also a fear that many people in Turkana area will be displaced by the oil activities. At the same time the people are expecting quick development, such as construction of roads, bridges, schools and hospitals as well as wealth and employment. If this is not met soon, can lead to social problem if not conflict[12].

"The Oil Company Tullow however, claimed that it is committed to bridging the existing skills gap to ensure that Kenya's emerging oil and gas industry brings real, lasting benefits to the country's people. At the end of 2013, there were approximately 100 permanent employees in Kenya, over 70% of whom are Kenyan nationals. To date Kenya, has achieved 100% localisation of its HR, External Affairs and Legal roles. Tullow is said to be actively looking at development opportunities for graduates and experienced personnel to drive the localization programme both nationally and with respect to the area of operation. The company also believes that its spending with Kenyan suppliers has been growing in line with our increased operational activity and also due to sensitization of contractors on the need to optimise local content. In addition to the KES4.1 billion Tullow spent with local suppliers in 2013 (2012: KES2.4 billion), Tullow's contractors also spent KES 4.1 billion with Kenyan businesses in 2013, KES 259 million of which was with Turkana businesses. KES 4.1 Billion" [13].

In Tanzania and Kenya violent protest was reported in Mtwara and Turkana Area in 2013. Community in these two areas complained of lack of benefits despite the discovery of oil in their regions. Many local protestors stormed the Tullow Oil Compounds in Turkana demanding jobs from the company. The government was therefore forced to provide huge security at the drilling sites and forced the company to increase its financial commitment to social development in the area. Local community in Tanzania were not happy with how the benefit-sharing agreement with the

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government and aimed to prevent Gas exploration and production until their concerns was addressed by the authorities. A good number of people die during the protests homes were burnt down.

In Uganda, the government has acted early to provide protection to the oil field in the country. It has been reported that the son of President Yoweri Museveni is leading the Special Forces Unit which is tasked to protect natural resources. Private Security Company, owned by Ugandan President brother, is working side by side with the government forces in protection of oil fields in the country[14].

Risks face by Oil and Gas producing countries in East Africa

One of the other Risks faced by the producing countries in East Africa is the so-called "Resource Curse" theory. History taught that countries whose economies are depended on natural resources often suffer from high levels of poverty and lack of economic development. The following factors described the theory:

- `Dutch Disease`. That is agriculture resources which is the backbone of most of countries in East Africa may become less important or supported.
- Increased spending. That is income from natural resources drives spending(Infrastructure investment).
- Rentierism. That is revenue generated from natural resources may replaces tax revenues.
- Lack of diversifying the economy because of oil revenue may cause economic problem in long term[15].

Regulatory Framework in some of East African Oil Resource

Kenya, Uganda, South Sudan, Tanzania and Ethiopia have established policies, laws and regulations for upstream, midstream and downstream operations on oil and gas industry. However, there are challenges of effective implementation and enforcement. Two main key factors support this fear. One is the capacity of the regulatory bodies in those countries. Secondly is the corruption of some of those responsible for supervision as well as luck of technical know-how in dealing with the sector[16]. In Tanzania the highest regulatory body is the Ministry of Energy and Mineral (MEM).The aims of the Ministry is said to have created necessary conditions for energy industry and the development of social-economic sector in particular and to reduce poverty as laid down in the Tanzania Development Vision 2025.Besides, the MEM the country has established the Energy and Water Utilities Regulatory Authority in 2001 whose mandate is to promote competition, protect consumers and environment. In 2013, Tanzania adopted Natural Gas Policy that aims to set out national objectives and priorities to be achieved.

In Kenya the energy development is regulated by the Ministry of Energy and Petroleum. The country has established a number of institutions for the upstream, midstream and downstream oil production. It has Kenya Petroleum Refineries Ltd, National Oil Corporation of Kenya which is 100% owned by the Government of Kenya, and Kenya Pipeline Company. The Republic of Kenya has developed her 2030 Vision which prioritized Infrastructure development. One of the major projects is the Lamu-South Sudan-Ethiopia Transport Corridor as well as Railway

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Uganda regulates her oil and gas sector through the Ministry of Energy and Mineral Development. It has created a number of regulatory bodies which operates under the Ministry, but are partly independent. Between 2008 and 2014, the country has established a number of laws, regulations and policies for upstream, midstream and downstream operations[18]. For Instant, Uganda has adopted in 2012 the Uganda Vision 2040. With that Vision, the government of Uganda wanted to transform the country from transforming it from agriculture based to an industrial nation. It has identified the weaknesses of the country as: Weak public sector management and administration, weak policy, legal and regulatory framework, weak institutions structures and systems, weak civil society organizations and civic participation, weak management of environment and climate change[19].

In South Sudan oil sector is regulated by the Ministry of Energy and Mining. The young nation has enacted a number of laws in recent years. In 2013, South Sudan Petroleum Revenue Management Act was passed into law, the Mining Act came into effect in 2012 and in 2009 the investment promotion Act and Taxation Act 2009 were enacted by the Parliament and signed into laws by the President[20].

Conclusions and Recommendations

East Africa will be the third largest oil and Gas Producer in the world by 2025. If the region utilizes the opportunities availed by the natural resources for her development in infrastructure job creation, training of professionals in the sector as well as avoiding corruption, political instability and Dutch Disease, the region could become a centre for economic progress and the life its population can changes positively.

Governments, civil society organizations, international and national Oil companies should work hand in hand for sustainable development whose priority should be preservation of the environment and local content.

East Africa has the potential to be the largest producer of hydrocarbon in the world. South Sudan alone has according to the country Ministry of Energy and Mining, has Over 1.14 billion barrels in proven reserves, ranking among the largest reserves in Sub-Saharan Africa. There are still untapped oil reserves in known areas as well as opportunities for new exploration.

End Notes

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