AFRICA Oil & Gas

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Potential rewards for indigenous groups in Nigeria, such as Egbert Imomoh's Afren, have been raised by the proposed Petroleum Industry Bill, write **Tom Burgis** and **William Wallis** **Page 4**

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New scramble deals a stronger hand

Governments are responding to the surge of interest by asking what's in it for them. **Tom Burgis** reports

African countries with oil and gas reserves have grown accustomed to hearing how exciting they are. Less explored and than the Middle East, possessed of sweeter crude than Latin America and in no position to imitate Russia's strong-arm tactics, they are, energy experts keep telling them, the future.

Explorers have opened up new swathes of the continent, from Lake Albert in the east to the 1,100km offshore frontier discovered in the Gulf of Guinea. Ghana and Niger are due to pump their first barrels in the coming months.

Billions of dollars have poured into deepwater and natural gas developments in Nigeria and Angola, the industry's linchpins.

"In the past 10 years, African oil producers have become the beautiful brides," says Charles Ukeje, an international relations specialist at Nigeria's Obafemi Awolowo University. "We are witnessing a new scramble."

But crude is trading at roughly three times the average of the previous two decades and African governments have begun to respond to the surge of interest by asking with increasing vehemence: "What's in it for us?"

Their hand is certainly strengthening. US dependence on African crude is projected to hit 25 per cent by 2015. Late last year, Nigeria surpassed Saudi Arabia as the third biggest supplier of crude to the US.

In April, China imported more oil from Angola than anywhere else. Europe is hoping a gas pipeline across the Sahara will reduce its dependence on Russian oil – and was rattled when Gazprom tried to muscle in on the project.

But the days when international institutions exhorted African countries to offer incentives to lure investment at all costs are gone.

"African states are entitled to receive a fair deal for the exploitation of their natural resources," said the authors of a survey of the continent's economies last month by the African Development Bank (AfDB) and the Organisation for Economic Co-operation and Development.

Oil investors' ability to strike workable bargains in Africa will go some way to deciding whether what are believed to be the world's biggest untapped hydrocarbon stocks will remain in the ground or whether the region will shoulder a greater share of global production.

Nigeria, home to 60 per cent of sub-Saharan Africa's proven oil reserves and 70 per cent of its gas, although hampered by graft and mismanagement, has been the most abrasive battleground for this renewed reckoning.

In January, Ann Pickard, Royal Dutch Shell's outgoing Africa chief, used a valedictory speech in Abuja, the capital, to warn of dire consequences if Nigeria pushed ahead with plans to impose tougher fiscal terms on oil companies.

Citing industry analysis, Ms Pickard warned that planned investments worth $50bn would be shelved if Nigeria proceeded to tighten generous terms for deepwater projects. Deepwater production has grown to one-third of Nigeria's 2.3m b/d total, but plans for development are on hold.

"New players are entering the market, which will increase competition still further," Ms Pickard went on. "Nigeria's position in global oil and gas markets cannot be taken for granted."

Ghana, long regarded as an African success story, will shortly join the oil producer club. But not all is plain sailing there either, with the government locked in a dispute with Kosmos that has held up the sale of the US explorer's stake in the world-class Jubilee field.

If there are more potential brides, there are also new suitors. They come from China and other rising Asian powers; they have deep pockets; and their advances have emboldened the countries they are courting.

Such confidence seemed incarnate in Pedro van Meurs, a top adviser to the Nigerian government on its reform plans, as he countered Ms Pickard's claims.

"Statements were made that investment will go to Angola or Ghana," Mr van Meurs said. "Nothing is further from the truth."

Under the latest government proposals, he said, "the fiscal terms… will be better than most of the states of the US" and more competitive than those offered by Angola or Norway.

His argument chimes with the AfDB report, which advised: "Multinational enterprises may threaten to leave but they are unlikely to actually abandon the exploitation of mines because of a reasonable rise in taxes or royalties."

Indeed, Ms Pickard was at pains to scotch speculation of Shell's imminent departure

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Turning the taps: explorers have opened up new swathes of the continent from Lake Albert in the east to the offshore frontier in the Gulf of Guinea Alamy

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China and African oil

Jon Marks reports on relationships that sometimes suit both sides, but not always

Sub-Saharan Africa has woken up to its upstream oil and gas potential over the past decade – to find Chinese groups jostling for territory with the continent's other big beasts.

China's fast-growing oil companies have sought to book reserves to feed their hungry domestic market. China National Petroleum Corporation (CNPC), CNOOC International and China Petroleum and Chemical Corporation (Sinopec) have emerged as big operators in frontier territory such as Sudan.

They are big in Angola too, which vies with Nigeria to be sub-Saharan Africa's top crude producer, and have entered a significant number of frontier territories, such as Mali and Niger.

By looking to Beijing, African governments are able to play off China and other resource-hungry emerging economies against their traditional partners when licensing oil blocks and negotiating minerals rights.

Chinese participation has created whole new industries: when western companies retrenched in Sudan, CNPC and partners developed the oil fields and export infrastructure which have made the troubled country sub-Saharan Africa's third biggest oil exporter.

Data from China's General Administration of Customs show that Angola remained the country's largest source of crude imports in April, at 4.3m tonnes of oil, ahead of Saudi Arabia and Iran. Transparency campaigners complain that the Sino-African relationship is too often based on opaque political bonds.

In jurisdictions where data is in short supply and personalised relationships count for much, western analysts spend considerable time trying to understand the role in some big deals of groups such as the Hong Kong-based China International Fund.

The CIF has emerged as a parallel source of financing for Angola to the big Chinese state-owned companies. Some Chinese officials have been quoted as seeking to distance themselves from the company and its affiliates, which have secured oil prospecting rights in Guinea, mining deals in Zimbabwe and real estate in Manhattan. But a report for the US Congress found evidence that "key personnel" among its owners "have ties to Chinese state-owned enterprises ... and possibly China's intelligence apparatus".

Increasing academic research and Chinese entities' growing willingness to publish data suggest that some African countries benefit from this opacity more than their Chinese partners.

A recent study by Global Witness found a big discrepancy between CNPC's published data for 2009 oil production from its operated blocks in Sudan's Upper Nile State with the Khartoum government's figures.

Rosie Sharpe, a campaigner at the UK-based group, put the gap at 12m barrels, "worth $370m". The suspicion, most acute among southern Sudanese, is that Khartoum is "under-reporting the volume of oil produced in order to transfer less money to the southern government than is due under the peace agreement" between north and south.

Chinese companies can also operate in the same way as their western counterparts, forming alliances or competing with each in deals on the continent.

This was apparent in Marathon Oil Corporation's attempt to sell 20 per cent of its interest in Angola's block 32 for $1.3bn to CNOOC and Sinopec, which came together to buy the stake. CNPC – anxious to get into Angola – had bid against them.

In a demonstration that things do not always go China's way, Luanda blocked the deal so Sonangol, the national oil company, could take the stake.

Chinese investors' strategies have become more sophisticated. Sinopec's estimated $7.2bn acquisition of Addax Petroleum bought it reserves in west Africa and Iraqi Kurdistan.

Chinese companies can also be exposed to the same local difficulties and big-man politics as their western rivals.

Olusegun Obasanjo, Nigeria's president until 2007, announced $20bn worth of oil-for-infrastructure deals. But a report by London's Royal Institute of International Affairs disclosed that Chinese funds were diverted into unreliable local partners' pockets via local content vehicles and to support "the unspoken need to generate funds for President Obasanjo's [ultimately unsuccessful] bid... to run for a third term".

The government of Goodluck Jonathan, Nigeria's current president, is pushing ahead with efforts to overhaul the country's ailing energy industry and has signed a $23bn memorandum of understanding with Beijing for the construction of three refineries, a petrochemical complex.

China appears to hope that establishing itself in Nigeria's struggling downstream sector will advance its cause in securing more upstream assets.

Jon Marks is editorial director of African Energy. Additional reporting by Tom Burgis

Newcomer on the oil block anxious to avoid mistakes

Ghana

William Wallis looks at some of the pitfalls of being an object of desire

John Kufuor, Ghana's former president, was a deputy foreign minister when his country first discovered oil in 1971.

Because of the huge expectations raised by the "Salt Pond" discovery, in shallow waters along the Cape coast, international creditors declined to reschedule Ghana's then ballooning debt, he says. As it turned out, there was no fortune to be had – the Salt pond produced only a trickle of oil. Lessons were learnt.

As the country prepares to start producing far greater quantities – 120,000 b/d in a first phase due to begin by the end of the year – managing expectations remains one of the biggest headaches for the government of President John Evans Atta Mills.

Revenues from the most advanced in a string of offshore discoveries, the Jubilee field – discovered in 2007 by Texan wildcatters Kosmos – will quickly surpass foreign exchange harvested by hundreds of thousands of smallholding cocoa farmers. In a second phase of development, production would double. Yet, the reserves proven so far, cannot alone transform Ghana.

According to estimates by the state Ghana National Petroleum Corporation, GNPC, the Jubilee's current proven reserves of 800m barrels will deliver just over $800m a year at a price of $60 a barrel. Even if that were distributed directly to Ghanaians, it would mean a mere $75 a head at its 2017 peak. Only if the more optimistic scenarios come to pass, and a second field, Tweneboa, proves as substantial as Jubilee, will earnings begin to soar.

The question preying this year on Ghanaian minds is whether their country – with a more advanced democracy than many African states and relatively solid institutions – can use the revenue judiciously to propel them to middle-income status.

"The discovery of oil poses a sacred responsibility on us," President John Evans Atta Mills told the FT in an interview late last year.

"We cannot afford to repeat the mistakes that other countries have unfortunately made. We must make sure oil and gas becomes a blessing. We must get competent people to manage the resources, to account for the resources, and we must use them to build a stronger economy and invest in our people," he said.

With only a few months to go before production starts the country is still deliberating on how best to manage the income. Related legislation has yet to go to parliament.

The debate is essentially between those who favour a "big push" – where oil income is spent directly on social and physical infrastructure – and those who believe a significant proportion should be saved along the lines of models developed in Norway, and Trinidad.

"We are better off leaving roads and a sound educational system rather than just a pile of money. But the level of earnings we are expecting cannot do a fraction of what's needed. We need to use it as leverage to raise bigger amounts," says a senior official involved in economic planning.

Ghanaians are also preoccupied with ensuring that, as oil flows, local companies profit from technology transfer and local content provisions.

This too is a somewhat vexed issue, after the previous government awarded small stakes in oil blocks to a number of Ghanaians – ostensibly to promote local participation – some of whom had close ties to Mr Kufuor and the former ruling party.

At least one of these stakes is now worth upwards of $200m. Investigations into the stake in both the US and Ghana have played into a simmering dispute between the government and Kosmos. The US department of Justice has recently called off its probe. But Attorney General, Betty Mould Idrissu, told the FT last month that Ghana continued to investigate whether Ghanaian partners in the block had broken national laws.

Since October, Ghana has blocked Kosmos from selling its stake on to Exxon Mobil in a deal valued at $4bn, alleging that the company was in breach of regulations when it disclosed sensitive geological data to potential bidders without informing the state oil company first.

Kosmos officials said allegations of wrongdoing against the company were untrue and were designed by some factions within government to force it to sell its stake at below market value to the GNPC.

The dispute with Kosmos, if it drags on, risks damaging Ghana's reputation, with lobby groups in the US waging an increasingly shrill campaign against the country's investment environment. Sources close to President Mills, said a resolution is now imminent.

Officials say they have tried to ensure the best possible platform for the country's future oil production.

"If you look at what has happened in the Gulf of Mexico, [with the BP spill] it shows how important it is to enforce laws. We have to establish ground rules from the word go," says Nana Asafo-Adjaye, managing director of the GNPC.

The prospect of oil and the possibility that there is even lots of it situated a convenient boat ride across the Atlantic from the world's most prolific consumer, has heightened Ghana's allure. But Ghanaians are fast learning that being the object of international desire has its complications.

Flag flying: managing expectations is one of government's biggest headaches

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2nd July	Members' Meeting	EAA Dar-es-Salaam
28th July	Members' Meeting	EAA Nairobi
20th August	Members' Meeting	EAA Rwanda
15th September	Members' Meeting	EAA Nairobi
12th October	Members' Meeting	EAA Ethiopia
14th October	Members' Meeting	EAA Dar es Salaam
19th October	Members' Meeting	EAA Kigali
21st October	Members' Meeting	EAA Kampala
27th October	Members' Meeting	EAA Nairobi
8th December	Members' Meeting	EAA Nairobi
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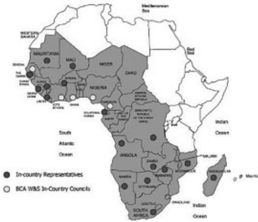

23rd June	Visit by PM & Ministers of Cameroon	Royal Garden Hotel, London
30th June RioTinto	"Rio Tinto – A Special African Success Story" **Hosted by Rio Tinto**	Rio Tinto, 2 Eastbourne Terrace London W2 6LG
8th July EVERSHEDS	Angola, Ghana, Guinea, Nigeria & Senegal Lunchtime Briefing with HE Mr Richard Wildash, HE Dr Nick Westcott CMG, HE Mr Ian Felton, HE Mr Bob Dewar CMG & HE Mr Chris Trott. **Hosted by Eversheds**	Eversheds 1 Wood Street London EC2V 7WS
14th July *	VIP Brief of South Africa	South Africa High Commission London
14th July *	"Travelex's Pan- African Experience". With Mark Smith, Regional Divisional Director, Travelex. **Hosted by Travelex**	Travelex, Kingsway London
22nd July	"New Implications for Business of the Bribery Act 2010" with Flip Stander – Deloitte. **Hosted by Deloitte**	Deloitte 2 New Street Square, London
23 September *	"British American Tobacco's Pan-African Experience"	Venue: TBC, London
15th October	African Music Awards In partnership with BCA W&S	Wembley Arena, London www.africamusicawards.com

** Date to be confirmed.*

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New scramble deals a stronger hand

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from a country that has been an important source of profit for 50 years.

For all their public warnings, foreign groups are pushing hard in private to retain their Nigerian assets. That is partly because the government is making concessions.

China's interest – most audaciously expressed in last year's offer worth up to $50bn to buy 6bn barrels of reserves – is also a factor. Exxon Mobil paid $600m just to renew leases it had operated for 40 years. Shell and Chevron are expected to follow suit.

Other new operators are joining the fray. "There is a massive opportunity in Africa for people who know how to work in that environment," says Osman Shahenshah, chief executive of Afren, a fast-growing pan-African producer.

"Some people can do it quite well and others don't have a clue."

The new confidence is not without limits, however. Angola broke the world record for a signature bonus in 2006 when Chinese competition drove Eni of Italy to part with $902m for a deepwater block.

But five years of rising output came to a halt last year, as Angola's quota under Opec, the oil-producers' cartel, began to bite.

The fall in Angolan output was partly offset by Nigeria, where an amnesty for militants who have targeted oil installations in the Niger delta oil province saw production increase for the first time since 2005.

Nonetheless, sub-Saharan Africa's liquids production of 5.8 b/d represented slower year-on-year growth than previous years.

The 1bn barrels of oil equivalent brought onstream amounts to a steep decline from the 2.1bn boe average of the past five years, according to Wood Mackenzie, an energy consultancy.

However, the 22 new gas ventures brought into production last year added to the continent's rapidly expanding output. That will cheer western students of energy security. But the dependency is not one-way.

Ann Pickard warned against plans to impose tougher terms

The treasuries of African oil producers are typically highly dependent on petroleum revenues. Last year, west Africa relied on oil and gas – a commodity whose use climate change scientists are urging the world to curb – for 80 per cent of foreign direct investment, mostly spent expanding existing projects.

There are plenty of sources of friction. The spilt oil that is traumatising fishermen in Louisiana is a fact of life for their counterparts in the Niger delta.

The African Union estimates that the costs of corruption amount to 10 per cent of the continent's resource-generated wealth.

Tougher international oversight has made bribery – or, at least, getting away with it – harder.

The $579m in fines paid by Halliburton, the oil services group, and KBR, its former subsidiary, last year after admitting that KBR paid $180m in bribes in Nigeria, set a US record.

Newcomers such as Ghana and Uganda are seeking to devise policies to head off the conflict and corruption that have bedevilled Nigeria, Angola and others. They will be put to the test once the crude starts to flow.

Minnows lead the way on lucrative frontiers

Well testing: Kosmos Energy tests an appraisal well in the Jubilee field off the coast of Ghana, the US independent's main asset and the largest find in the past decade

Wildcatters

Sheila McNulty on smaller companies that have piqued majors' interest

Despite its long-time reputation as an oil-producing continent, Africa is now on industry radars as an important global frontier area.

The investors who have worked hard to stake a claim in these areas are mostly the small, independents, who have continued high exploration activities in recent years as the majors have looked to partnerships, acquisitions and their legacy assets for growth. But that is changing.

The success of these wildcatters is leading the majors to take another look. "Recent discoveries announced in Uganda, offshore Sierra Leone and deepwater Mozambique have validated a number of independents' strategies of targeting frontier acreage in sub-Saharan Africa," says PFC Energy, the consultancy, in a recent report.

"Lightly explored by the majors several decades ago, with limited and non-commercial success, these discoveries are material to companies such as Tullow, Kosmos Energy and Heritage."

Indeed, these companies, along with Anadarko Petroleum, have been some of the most successful wildcatters in the region.

Tullow Oil is one of the largest independent exploration and production companies in Europe. A main area of focus for the company is Africa, where it has had a very high exploration and appraisal success rate. In 2009, Tullow drilled a total of 15 exploration and appraisal wells, achieving an 87 per cent success rate.

So far this year, three wells have been successfully drilled in Ghana, Uganda and Gabon.

The next stage of the company's African production growth story will be when first oil is delivered from the Jubilee field in Ghana by the end of the year, and the Ugandan discoveries are commercialised. In the longer term, the group has a strong exploration portfolio in 13 countries.

Kosmos Energy, an independent private equity-backed US producer, has made headlines in this past year after ExxonMobil offered $4bn for Kosmos's stake in the Jubilee Field – its main asset and one of the largest oil finds in the past decade off the coast of west Africa, which established a new, significant oil province. Kosmos owns 23.5 per cent of Jubilee, which has proven reserves of 800m barrels of oil that could be much larger, and will begin production in the second half of next year. The other main shareholders are Tullow and Anadarko.

The sale is being blocked by the Ghanaian government but Kosmos is not stopping there. It believes west Africa is offers multiple premier exploration opportunities. It is targeting prospects not only in Ghana but also in Cameroon and Morocco – primarily targeting offshore oil operations in frontier and emerging basins.

Heritage Oil is a Canadian-based independent oil and gas production and exploration company, with a focus on Africa, the Middle East and Russia. It has had great success in Uganda in recent years, where the Albert Basin is considered among the most exciting new oil and gas operations in sub-Saharan Africa in the past decade. With what it estimates is a multi-million barrel reserve potential, the area has been one of the main focus areas for Heritage. Its agreement to sell these to Tullow leaves the company to focus on other areas, including the Democratic Republic of Congo, Mali, and Tanzania.

Anadarko, a global oil and gas company based in the US, has investments worldwide. Its African interests are spread in west Africa, east Africa and Algeria.

It is not only in on the Jubilee field but also showing recent successes in Sierra Leone with the Venus B-1 deepwater well, which PFC says solidifies the opening of a new deepwater province along the non-established marginal territory of west Africa.

Hyperdynamics, a US independent, holds one of the largest exploration and production licences in west Africa in the Republic of Guinea, covering 9,650 square miles.

Its plan, like that followed by others, is to limit risk and increase its ability to continue exploring and finding new prospects by finding development partners among other operators. It also has formed strategic relationships with offshore drilling contractors and equipment providers to ensure timely prospecting.

There is no doubt the wildcatters have piqued the interests of the majors. "ExxonMobil's recent moves to acquire Kosmos Energy's assets in Ghana, Eni's interest in farming into Heritage's Albert Basin position in Uganda before it was pre-empted by Tullow, interest by CNOOC and Total in farming into Tullow's Uganda acreage and Repsol's recent move into offshore Guinea with Hyperdynamics underscore the accelerating activity in the region,'' PFC says.

Voluntary transparency scheme faces scrutiny

Regulation

The credibility of an extractive industry initiative is on the line, writes **Martin Sandbu**

Can a voluntary effort between corporations, governments, and non-governmental organisations relieve the pressure from activists for tighter regulation of the oil and gas industry's operations in Africa and other developing countries? Or will it increasingly be seen as a rubber stamp?

That is the burning issue, as the Extractive Industries Transparency Initiative approaches the decisive moment of its eight years of existence. All but one of 20 participating countries – most of them in Africa – with an important reporting deadline last March failed to meet it.

"These countries must really deliver if they want to prove they are not free-riding on the EITI brand," says Radhika Sarin of Publish What You Pay, an umbrella for transparency advocacy groups.

The EITI was set up in 2002, after NGOs' criticism of the oil and gas industry took a fresh turn. Mounting evidence that resource revenue to producing states was not spent for the benefit of their populations fuelled campaigns against the secrecy of resource companies' payments to governments.

For example, the NGO Global Witness, alleged in a report that billions in payments from oil companies to the Angolan government were unaccounted for.

Public investigations, such as those of Riggs Bank in the US and Elf in France, further exposed the scale at which oil and gas-related revenues were siphoned off for political leaders' benefit.

EITI is the most high-profile initative to encourage the publication of extractive revenues. To "implement" EITI, governments, civil society organisations, and the companies extracting the oil and gas, must voluntarily come together to commission a report on company payments to governments. The report is then submitted for external "validation".

So far, 32 countries, 20 of them in Africa, have joined the initative but only two – Liberia and Azerbaijan – have fulfilled all the requirements. In April, for the first time, two countries – Equatorial Guinea and São Tomé and Príncipe – were kicked out of EITI. A third, Guinea, was granted a voluntary suspension because of recent political troubles.

The EITI board postponed the hard decision for the bulk of the countries by granting 11 African states an extension of their reporting deadline until September.

Some reasons for missing the March deadline were deemed beyond the countries' control, as when they ran up against their own procurement rules or a lack of funding made it harder to reach what was an ambitious deadline from the start.

But the EITI's credibility will hinge on how lenient it chooses to be at the next crossroads.

"EITI implementation has made progress in Ghana, Nigeria and Liberia," says Keith Slack of Oxfam America "[but] many of the most difficult African countries have shown little or no progress [or remain outside EITI altogether]."

The voluntary nature of EITI has also split the NGO community since its inception. Many NGOs, such as PWYP and Oxfam America, think EITI must be matched with legal requirements.

Ms Sarin says: "It is only a starting point, not the finish line, and needs to be part of a comprehensive package of both voluntary and regulatory approaches." Oxfam supports the Energy Security Through Transparency Act introduced in the US Senate, which would make payments disclosure mandatory for companies listed on US stock exchanges.

Oil and gas companies resist tighter compulsory rules.

Jack Gerard, president of the American Petroleum Institute, the industry's US trade association, argues that stricter legal requirements put US-listed companies at a competitive disadvantage against national oil companies such as Russia's Gazprom and China's CNPC.

As well as hurting the industry, this would "undermine existing transparency efforts" such as EITI by lowering producing countries' incentive to participate, argues the API.

In spite of differences between industry and NGOs on whether EITI is enough, there is common ground in the view that EITI has made a positive contribution. Mr Gerard has boasted that "the oil and gas industry has been a leader in the creation of EITI". Campaigners emphasise that the initiative opens a space for discussing topics that could not previously be mentioned.

The broader effect of EITI may be felt beyond the narrow confines of the initiative. Jonas Moberg, head of EITI's secretariat, points out that what started as a voluntary standard is rapidly becoming hard law.

"In Nigeria and [elsewhere], EITI reporting has become mandated by law. Regardless of whether a company supports the EITI or not, they still have to report and follow the rules of the EITI."

In Ghana, says Daniel Owusu-Koranteng, an activist, EITI has strengthened campaigners' efforts to object to mining rules they perceive as bringing "minimal benefits" to the country. As Ghana boosts oil production, it will soon be clear whether having an EITI process will help it benefit more from oil wealth than many of its neighbours.

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'The days when groups could simply produce and export a country's oil are long gone'

Interview
Caudio Descalzi

Eni chief gives **Carola Hoyos** tips on how to operate in difficult territory

Caudio Descalzi has spent much of his early career among Eni's African oil fields. After dodging civil war in the Democratic Republic of Congo and insurgency in Nigeria, he is now head of Eni's entire production and exploration business.

Though he is most animated when he talks about Eni's two biggest projects, in Iraq and Venezuela, his heart remains in Africa. He often calls Eni, his distinctly Italian company, nearly a third of which is owned by the Italian state, an African company.

Mr Descalzi believes Eni has figured out how to do swift business while escaping the backlash often faced by oil companies that operate in a continent plagued by the resource curse. "You can protect yourself by doing something for the country," he says. "You risk some money building a power plant, but it is a big plus from a social point."

Doing good for the host country by, for example, producing its otherwise stranded gas and providing local communities with electricity, is an important issue that will become increasingly formalised within Eni, Mr Descalzi says. He says the days when oil companies could simply produce and export a country's oil are long gone. Eni will wave a double flag, he says, "one for the company and one for the country".

The company produces more than half of its 1.8m b/d of oil from Africa and has doubled production since 1998. While north African countries, such as Libya, are important legacy areas, providing the company with solid cash flow, west Africa is its region of promise and growth.

Congo, Gabon, Angola and Ghana are all countries in which Eni is hoping to grow by combining the development of conventional oil, unconventional oil and natural gas. East Africa is Eni's long shot, especially since the company lost to Tullow the bitter battle to take over Heritage's Ugandan oil fields.

One of the main problems with Uganda is that it lies far away from a port. That means companies wanting to exploit its fields need to build and finance a costly pipeline. Eni was willing and keen to do so. But Mr Descalzi quips that the company is also happy to explore Uganda and neighbouring Democratic Republic of Congo – and eventually send its oil to market via a pipeline built and financed by one of its competitors.

But Eni is more interested in quick turnarounds: Creating value now rather than focusing too heavily on replacing oil and gas reserves for later. West Africa, in particular, offers that potential.

> Companies are aware they need to give host countries more than revenue and royalties

"You have to create value in a reasonable amount of time. It doesn't make sense to have millions of reserves that won't create value for 20 or 30 years. You are throwing away your investors' money," he says.

Instead, he is looking for a two- to three-year progression from exploration to production – warp speed for an industry that often takes two to three times that long.

Such short-time horizons generally work best in less complex projects, so Eni is looking to conventional fields, rather than those that need more technology and energy to tap. It is keeping a light presence in deep-water drilling, an area other companies, many with better expertise than Eni, have ventured.

But as BP fights for its survival after the explosion of Deepwater Horizon, which killed 11 people and caused the Gulf of Mexico's worst ever oil spill, Eni's decision to steer clear from the hot, but technologically difficult, new area, appears to have been vindicated, at least for now.

But its investments come with their own risks. Africa is politically tricky and plagued by corruption, while Venezuela has a president whose nationalist policies have chased many of Eni's competitors out of the country, and post-war Iraq is still far from ridding itself of the dangers of insurgency.

For the company, Iraq and Venezuela have production potential too big to ignore, while Africa is all about heritage.

Claudio Descalzi: he calls distinctly italian company African

It was in the mid-1900s that Enrico Mattei, founder of Eni's predecessor company, cracked the stranglehold the bigger companies of the day had on the world oil market and on resource-rich states. He did it by offering countries such as Morocco and Tunisia more generous terms than those of his competitors.

In undercutting his rivals, he not only transformed Eni's fortunes and made himself very popular within Italy, but also changed an industry that was dominated by the so-called "Seven Sisters" – a now-famous phrase Mr Matttei first used dismissively to refer to the big, mostly US, companies that ruled the industry at the time.

"If you are so lucky to have a good heritage, you should build on it," Mr Descalzi says.

Eni, is of course, just one of a number of international majors operating on the continent.

Crowding the field even more are Chinese companies, which are being driven to invest in Africa by a government in Beijing intent on reducing its dependence on the Middle East.

Many of Eni's competitors are also aware that they need to give their oil-rich, but under-developed host countries something more than revenue and royalties in return for working there.

For Eni, the trick will be persuading African politicians and ordinary people that it is their partner of choice, without succumbing to the crippling corruption that has plagued the continent for so long and eventually come back to haunt oil companies in terms of insurgency and political insecurity.

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Time for African operators to stop being middlemen

Independents

Tom Burgis and **William Wallis** take a look at the locals

Sooner or later, ambitious African oil companies have tended to face a stark choice: stop being ambitious, or stop being African.

In Nigeria, home to three in every five barrels of sub-Saharan Africa's crude and dominated by western groups, a handful of indigenous operators have spent decades amassing only a few thousand barrels a day of production. Other ventures have proved little more than vehicles for political favours.

For those who do seek to develop fields, raising capital from local banks is "close to impossible", says one Lagos financier. Each time an indigenous company opts for the alternative – selling up to foreigners – the prospects of a private African group graduating to the big league recedes.

That may be about to change. The potential rewards for indigenous groups in Nigeria have been raised significantly by the proposed Petroleum Industry Bill. One of its aims is to make many more so-called marginal fields – assets held by foreign groups that deem them too small to develop – available to home-grown companies.

Yet those rewards will depend on being both big enough to take on the job and Nigerian enough to benefit from the new policies.

London-listed Afren is trying to build an African oil producer in reverse. Osman Shahenshah, Afren's chief executive, born in Pakistan to an American mother and an Indian father, raised in New York and a naturalised Briton with an Italian wife, is from almost everywhere except Africa.

But he spent the 1990s working on oil and gas projects in west Africa for the World Bank. On a snowy London day in December 2004, alongside a Liberian entrepreneur and guided by Rilwanu Lukman, a former Nigerian oil minister and Opec boss, Mr Shahenshah says he set about creating "an oil company ... that will come to be seen effectively as an indigenous company in Africa".

Today, Afren is a FTSE 250 company. Most of its 20,000 b/d production comes from Nigeria, but it is developing assets in Cote d'Ivoire, Ghana and the Republic of Congo. Its £75m acquisition this month of Canada's Black Marlin took it into east Africa and pushed up its prospective resources to 1.2bn barrels of oil equivalent.

Afren's chairman is Egbert Imomoh, formerly of Royal Dutch Shell and one of Nigeria's most charismatic oilmen, and it has poached other Africans from the majors. Mr Lukman put his small holding into blind trust when he returned to government.

Egbert Imomoh (left), Afren's chairman, has poached other Africans from major oil companies

"It's not a bunch of white guys flying in from London to run this," Mr Shahenshah says.

What particularly sets Afren apart is its plans for First Hydrocarbon Nigeria. FHN was created with Afren as 40 per cent shareholder, manager and operator. The remaining equity is held by two Nigerian banks.

For now, FHN is a shell, as Afren scouts for assets for it. Once it finds some, the idea is to put the banks' 60 per cent of the company in Nigerian investors' hands via a private placement and then an initial public offering in Lagos, qualifying it as indigenous under the country's definition.

"It depends on the acquisitions, but my expectation is that FHN will be a multi-billion dollar company within the next three or four years," says Mr Shahenshah.

Afren is not the only company hoping to benefit from an expected licensing round for marginal fields.

Oando has long depended on Nigeria's biggest economic paradox. Such is the dire state of its refineries that the continent's biggest energy producer imports almost all its fuel and pays through the nose to subsidise it.

Under Wale Tinubu, its chief executive, Oando is seeking to transform itself from a leading fuel importer to a serious oil producer – even an "African major".

In recent years it has built a sizeable oil services business and invested heavily in tapping Nigeria's large, underdeveloped gas stocks to help address chronic electricity shortages.

It has bought producing assets from Shell and others, but petrol sales still account for 80 per cent of group revenues. Mr Tinubu aims to be pumping 100,000 b/d by 2013 and wants to raise $1.3bn to get there.

He may face a dilemma. Oando's competitive advantage in Nigeria is being Nigerian. But it is already listed in Johannesburg as well as Lagos and there is talk of a London equity offering, although Mr Tinubu saus this is not a priority. To fund the expansion, Oando will need foreign capital. If it dilutes its Nigerian owners too much, it risks eroding that advantage.

Nonethless, Mr Tinubu sees himself as part of a vanguard. "It is time that indigenous players stopped being middlemen ... and become legitimate equity partners," he says.

With other, smaller players emerging alongside Afren and Oando, it may be that some African ambitions are at long last about to be fulfilled.

Clear policies may set stalled projects free

Gas

Many schemes have stayed on hold, says **Jon Marks**

Long flared away or ignored altogether by international oil companies, natural gas has emerged as an important export for sub-Saharan producers.

It also forms an increasingly important element in many governments' plans to improve domestic electricity supplies.

Reduced forecasts of global gas use and new sources of rival "unconventional gas", led by shale deposits in the US, have subdued market enthusiasm.

But the long-term trend of rising demand means projects are stacking up around the continent.

The advent of US shale gas production has transformed the Atlantic Basin market.

With companies also planning to exploit non-conventional resources in big gas importers such as France and Poland, securing sales contracts for new liquefied natural gas projects may get tougher still.

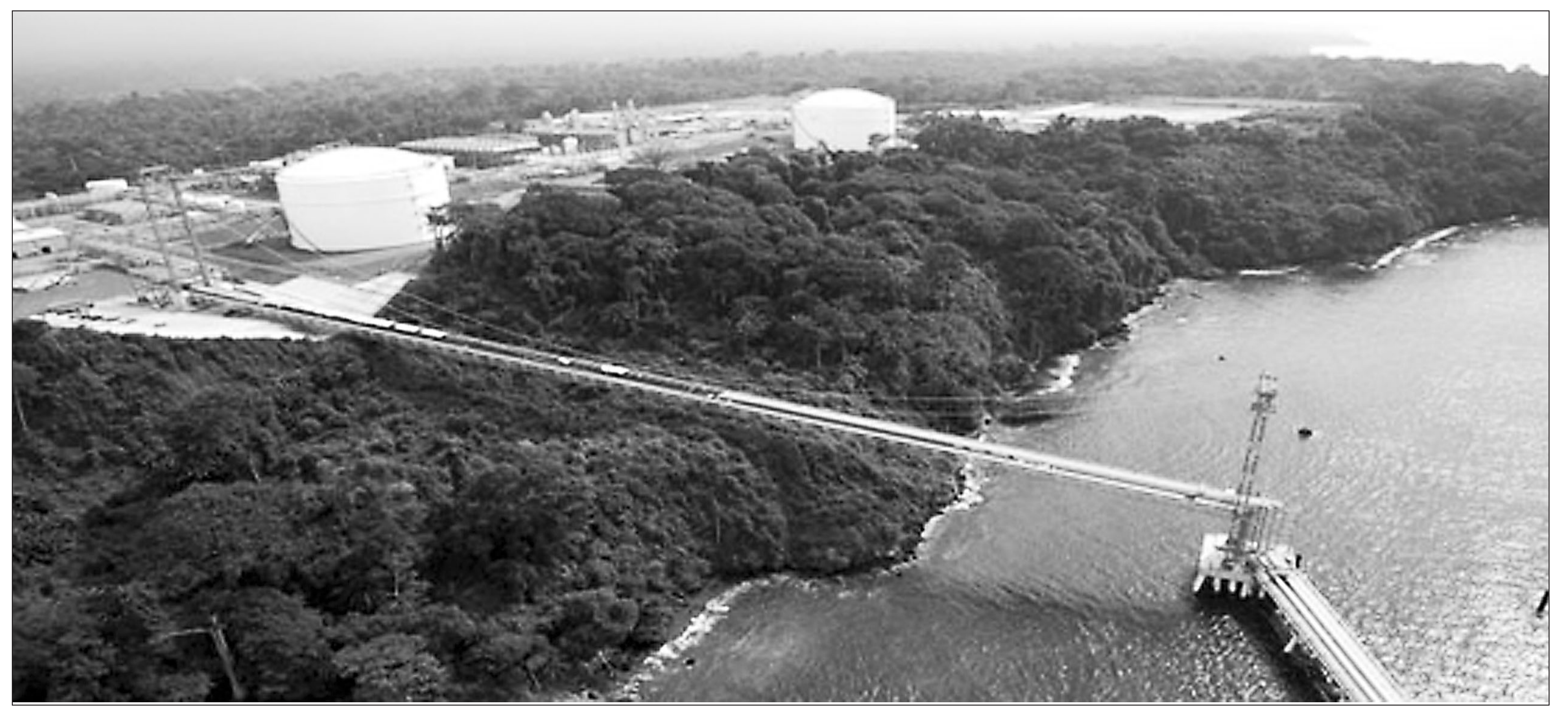
Botswana and South Africa are among those hoping to exploit their own shale gas, coal bed methane, and tight gas resources.

But conventional reserves will remain an important element, especially in markets such as Europe.

European officials, troubled by Russia's readiness to use its gas supplies as a tool of foreign policy, are enthusiastic about a proposed trans-Saharan pipeline from Nigeria to the Mediterranean.

It will be difficult to build and secure, however, and Russia's Gazprom is seeking a big role in the project.

The west coast and north Africa have been the focus for development so far.



Gas plan: Equatorial Guinea exports LNG to north America. Its second production facility is planned as a multinational scheme tapping gas hitherto flared

Despite the Niger delta crisis in Nigeria and financial scandals surrounding construction of its first production unit, Nigeria Liquefied Natural Gas has launched six production facilities with a seventh on the horizon.

Equatorial Guinea exports LNG to north America.

Its second production facility is planned as a multinational scheme tapping gas that has hitherto been burned off during oil production in Cameroon and Nigeria.

The global recession has forced many operators to prune their demand calculations and revise cost estimates but projects under construction, such as Angola Liquefied Natural Gas, being built by Bechtel, the US engineering group, at Soyo, still expect to find buyers for their product and have built in potential for expansion.

To secure markets, Africa's longest established exporter, Algeria's Sonatrach, has been building a re-gasification and marketing presence in markets such as Portugal and Spain.

There is potential for considerable growth along the east coast, where gas has until now mainly gone into domestic power projects or, in the case of Mozambique, been exported to South Africa.

BG Group's purchase from Ophir Energy of stakes in three blocks off the coast of Tanzania has provoked considerable interest.

Development of a gas find could make the UK operator the country's first LNG exporter, tie it into regional pipeline initiatives or lead to new domestic gas-to-power schemes. Rising domestic demand is a trend across the continent.

"Nigerian power stations could be fed with 12 gigawatts of electricity if gas that is still flared could be gathered successfully," says Kai Uwe Braekler, executive director of Evonik Industries, a Germany-based chemicals and energy group.

Africa's most populous nation and the continent's leading energy producer has one of the world's lowest rates of per capita electricity generation.

Even functioning power stations often go idle for lack of gas.

However, with declining violence in the Niger delta and new fields being linked to the grid, the government hopes to increase supply for domestic use and power generation.

"The big question about Nigerian gas projects is not if they will happen, but when," says Antony Goldman of Nigeria-focused PM Consulting.

> With the right tariffs, domestic projects may be as bankable as export schemes

Tensions over policy – especially the amount of gas allocated for export rather than domestic development – and lack of a coherent legal framework and implementation of the government's "gas masterplan" mean that many schemes remain on the drawing board.

Until the government's proposed Petroleum Industry Bill is passed, the Nigerian industry will lack direction.

With the legislative reforms and gas masterplan in place, "a clear set of policy ideas can be implemented, which, for the gas industry, means finally creating an integrated gas-gathering system," Mr Goldman says.

This would provide sufficient feedstock for the export and domestic projects that are now on hold, he says.

But with power generation accounting for just under half of African gas use, the pressure to redirect feedstock for domestic use will rise further – and so will the pressure from oil companies on governments to raise the tariffs they pay for gas so domestic projects become as bankable as export schemes.

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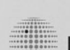

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A willingness to venture where oil majors fear to tread

In the search for oil, as the oilman's maxim goes, there are no longer any low hanging fruit.

With established exploration areas returning ever more slender rewards, oil companies are forced to accomplish increasingly complicated technological feats, or take on more political risk.

For small, independent companies, the expense and risk of technology such as deep water drilling is too great – especially after BP's spill in the Gulf of Mexico.

These companies, however, have a tool in their armoury that their larger peers lack: a willingness to go where many majors fear to tread.

A plucky set of UK-listed independent explorers are increasingly being drawn to some of the last remaining energy frontiers in sub-Saharan Africa in an attempt to replicate the success companies such as Tullow Oil have enjoyed in Uganda.

One frontier attracting increasing attention from investors is the Democratic Republic of Congo, where London-listed Soco International is preparing to drill exploratory wells at the Nganzi block in western DRC next month.

Anthony Lobo, head of oil and gas at KPMG, says that Tullow's experience has drawn many more smaller companies to the areas of the DRC bordering
the hydrocarbon-rich parts of Uganda's Lake Albert.

"We have seen an uptick in demand for our services in the region, with many oil and gas companies interested in pursuing opportunities in neighbouring DRC in particular," he says.

As a civil-war torn country with a sliver of coastline, the DRC presents London-listed independent oil companies working there – Soco International, Dominion Petroleum, and Tullow – with a set of logistical and political challenges that are light years away from the working environment seen in the North Sea.

While the sea to the west of the country provides an outlet for any oil discovered, any future exports from the Albertine basin to the east are hostage to the fate of the Ugandan pipeline to be built by Total and China's CNOOC. But for the companies exploring there, what the DRC lacks in infrastructure and political stability it makes up for in raw potential. They estimate that the east and west of the country could contain several billion barrels of oil.

Ed Story, chief executive of Soco International, which is drilling in the North Congo Basin in the west of the DRC, argues that the country presents his company with an opportunity that is hard to find anywhere else in the world.

The Democratic Republic of Congo offers opportunity hard to find anywhere else in the world, says Ed Story (left), at Soco

"We have been the first serious oil and gas company to take a position onshore in the DRC for 40-odd years," he says. "When we went to DRC, no one except arms merchants and gun runners had done anything there. There were contested elections, and a vast number of UN troops there. You have to take a leap of faith that it is going to work."

For Tullow Oil, which has become the poster child for UK exploration and production
companies operating in Africa after its success in Uganda's Albertine basin and in Ghana, life in the DRC has been more difficult.

Tullow has two blocks on the DRC side of Lake Albert, but is still waiting for these to be ratified by presidential decree after the licences were contested by a South African company.

"Our DRC operations are currently in limbo," says Aidan Heavey, Tullow Oil's chief executive. "There is an impasse there, and that's being caused by interference from other companies. We take the view we have a contract and that is in the long-term best interest of the country for that to be honoured."

Mr Heavey also argues that the most promsing areas of the DRC – in the middle of the country covered in dense forest and largely with no road access – are too remote to justify exploration. "Shooting seismic there is going to be a nightmare, and incredibly expensive. Whether the oil prices will ever warrant that kind of expense, I don't know."

In spite of such challenges, independent oil companies argue that their relatively small size and reliance on employing the local population means they can succeed where majors have failed.

For undeveloped areas, the smaller size of independent explorers compared with the majors means they can be less intimidating to host countries.

"Some of the majors have earnings greater than their host countries' GDP," Mr Story says. DRC's gross domestic product is a little over $20bn, compared with a $45.2bn annual profit for ExxonMobil in 2008.

Ultimately, these companies argue, ensuring host governments and communities benefit from oil exploration is the best way to manage the risks of operating in frontier locations.

"There can be good synergies between what we are doing, and the local people," Mr Story says. "But you can only achieve that if you go about things the right way."

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Job security would ease oil region rebellions

Communities

Tom Burgis and **William Wallis** on how social projects and employment can ease local unrest

Amalete Abalo learned about Africa's simmering oil wars the hard way. The assistant coach of Togo's national football team was one of three people shot dead when rebels in Cabinda opened fire on the bus carrying the Togolese squad as it arrived in the Angolan enclave to compete in January's African cup of nations.

The attack by a separatist faction in the highly militarised province, birthplace of Angola's booming oil industry, added weight to the argument that conflicts in the continent's oil-producing regions will never be resolved by force of arms alone.

Nowhere is that lesson more apparent than further up the continent's west coast, in the Niger delta. Home to the bulk of Nigeria's oil reserves – the world's 10th biggest – the delta has felt the full might of military force.

Most recently, a year ago helicopters from a task force permanently stationed in the delta rained bullets on villages and militant camps in an area controlled by Government Ekpemupolo, known as Tompolo, a kingpin of the delta's insurgency.

The show of force may have persuaded wavering militants to accept a government amnesty that followed, Mr Ekpemupolo among them. But kidnappings and attacks on oil installations have since restarted.

The nexus of security forces, politicians and criminal gangs involved in crude theft appears largely undisturbed. Many former militants complain that the government is failing to meet promises of stipends and training.

At its peaks in recent years the unrest contributed to cutting Nigeria's production by an estimated 1m b/d – equivalent to the total imported daily by the US from its third-biggest supplier.

The motivation for young men to take up arms is simple. "There are no jobs, nothing for us," says Paul, 22, a fighter in Bayelsa state. Crude spills have poisoned long stretches of the creeks where locals fish, wash and worship.

The delta is not poor for a lack of money. The oil-producing states receive a bigger slice of federal revenues than the rest of the country. Corruption diverts much of it, however.

Emmanuel Egbogah, special adviser to the president on petroleum matters, has devised a plan to give oil-producing areas 10 per cent of the net profits from the joint ventures between the government and the foreign groups that pump Nigeria's oil. The scheme could pay out about $555m a year – or $20 a year per person in a region where most live on less than $1.50 a day – and bypass the graft-ridden bureaucracy.

However, the proposals are tied to contentious efforts to overhaul oil industry legislation. Identifying beneficiaries and ensuring they receive the cash will be difficult.

Foreign oil companies such as Royal Dutch Shell, Exxon Mobil and Chevron seek to assuage public wrath with social projects. But oil company money also finds its way to informal security contracts for settlements to guard facilities, setting village against village, locals say.

Newer arrivals on the continent have tried to head off such anger before it boils over. Even then, there are pitfalls. Aidan Heavey, chief executive of Tullow, an Irish explorer that has made some of Africa's most promising discoveries in recent years, says it has built a clinic on the Ugandan side of Lake Albert in tandem with drilling for crude. But 35km across the lake lies the deprived eastern region of the Democratic Republic of Congo.

Amnesty: militants surrendered last year but hostilities have since resumed

"What you are looking at are two communities beside each other," says Mr Heavey. "One is already getting all the benefits – schools, hospitals, infrastructure. It's going to have massive employment and training programmes. The other side is a community with nothing – no roads, no schools. Unless there are facilities on both sides of the lake it will be destabilising." Tullow has pledged an extra **$7m** for community projects on the Congolese side.

Cash and clinics are doubtless welcome. But what most people seem to want is jobs. In Nigeria, they are supposed to have them already. But a long-honed "local content" policy is only slowly beginning to show results. "Over the years, people have paid lip service to this idea," says Ernest Nwapa, the top official in charge of local content policy. "The oil and gas industry was operating in silos."

In March, the policy was signed into law. Decisions on granting licences will henceforth take into account oil groups' compliance with targets.

The quotas range from sourcing 80 per cent of storage tanks in Nigeria, to 85 per cent of seismic testing and 100 per cent of laundry services. Where Nigerians with the requisite skills cannot be found, expatriates may be used until the job is "Nigerianised" through apprenticeships.

There has been progress already. In 2005, Nigerians accounted for 250,000 man hours of engineering design, Mr Nwapa says. Last year, they clocked up 5m man hours.

Officials from countries such as Ghana and Niger, both crafting policies to manage nascent oil industries, are watching closely.

As Mr Nwapa concludes: "When you build hospitals, give scholarships, give them equity in the oil you are adding something. But the cap to everything is to create places where people can work for a lifetime."

NNPC Where power depends on patronage

The year is 2020. Resplendent above the other skyscrapers of Abuja, Nigeria's capital, the headquarters of the national oil company is a monument to the confidence and financial firepower of one of the world's premier energy groups. The company has stakes in oil ventures from Ecuador to Iraq. Executives brandishing audited annual accounts hail the vast profits earned for the nation and recall the days when the company was a byword for corruption.

Such is the vision for the reinvention of the Nigerian National Petroleum Corporation, the centrepiece of sweeping legislative proposals designed to reverse the mismanagement and underinvestment that have left Nigeria pumping only half its target of 4m barrels of oil a day. "The entire energy reform agenda largely depends on the successful transformation of the NNPC," Mohammed Barkindo, then its managing director, told an oil conference in Abuja in January.

Within five years, Mr Barkindo vowed, the NNPC, which today leaves operations to its foreign partners, would be "an operator par excellence". By the end of a decade, it would be a "major international player . . . the pride of everyone".

With no small understatement, he concluded: "We are under no illusions that this transformation journey is going to come with severe challenges."

The NNPC presides over the sector that generates about 80 per cent of government income and 98 per cent of export revenues. Its sorry story symbolises Nigeria's failure to capitalise on its prodigious natural wealth by fostering a state-owned energy champion.

The fortunes of national oil companies tend to mirror resource-dependent countries' economic performance. Between 1980 and 2008, gross domestic product per capita rose four-fold in Brazil, where Petrobras has become an "operator par excellence" in some of the planet's trickiest fields, and five-fold in Malaysia, which has benefited from canny management of Petronas. Nigeria's has not even doubled.

On behalf of the state, the NNPC is the main shareholder in joint ventures with Royal Dutch Shell, Exxon Mobil, Chevron and the other foreign groups that pump Nigeria's oil. Its share of the crude and funding obligations are proportional to those holdings.

The group is financed through the national budget and its earnings flow to the government. Cashflows in both directions are usually tardy and frequently disputed. Last year, the foreign groups had to lend the NNPC $1.69bn after it fell short of its cash calls. Investment plans are routinely scaled back for lack of funds.

One industry consultant describes the NNPC as "unauditable". The picture is hardly made clearer by the foreign groups' refusal to publish revenues for Nigeria.

The reforms, on which the World Bank and McKinsey, the consultancy, have advised the government, would seek to make NNPC a commercially driven entity, albeit still state-owned. It would meet its spending commitments from its own earnings, supplemented by borrowing on the international capital markets, and pay dividends to the state.

"Think Petronas if you want to understand where they want to go," says a senior foreign official. He adds: "The most important thing to do first is corporate governance arrangements that very clearly shield the company from day-to-day political interference."

Here the plans run into their main obstacle: the NNPC itself. "It's not designed to be Petronas," says Chudi Offodile, a former legislator and lawyer specialising in energy, "it's designed for patronage. Until that has changed, NNPC will remain what it is."

Goodluck Jonathan, the new president, has publicly backed the reform plans. One of his first acts on taking over following the death in office of Umaru Yar'Adua in March was to remove Mr Barkindo. His successor, Shehu Ladan, lasted 41 days before he, too, was replaced by Austin Oniwon, previously in charge of NNPC's largely defunct refineries.

Financiers say that, in its current state, even if the NNPC is reconstituted to allow it to borrow independently, no one will lend to it. Under the reform proposals, the joint ventures with the foreign groups are supposed to be formalised. Privately, foreign executives quake at the prospect.

A sign in the foyer of NNPC's warren-like headquarters pledges to harness the nation's oil wealth "for the benefit of all Nigerians". For now, that remains a distant prospect.

Tom Burgis

Mohammed Barkindo: transformation is the key

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