



## **Despite troubles, Africa beckons as oil frontier**

January 7, 2013

By Jeannie Kever

The Deepwater Millennium drillship works on an Anadarko project off the coast of Mozambique, one of a dozen African countries Anadarko has interests in. The Layton Corp. expects to invest \$1 billion in sub-Saharan Africa over the next few years.

"It's really one of the last frontiers," said Daniel Layton, whose energy investment firm is making its first move into Africa.

The attraction hasn't changed since Anadarko Petroleum entered the continent 25 years ago: Energy companies follow oil and gas.

"In a resource-constrained world, finding large fields becomes more challenging," said Anadarko spokesman John Christiansen. "We see a lot of opportunities (in Africa)."

But in a region with a history of corruption, violence and political conflict, balancing risk and reward requires research, money and patience.

"Turmoil with insurrection, terrorism, piracy – those things all have to be taken into account before companies go to work in Africa or any place overseas," said Kerry Williams, an attorney with Chamberlain Hrdlicka who works with American companies operating in West Africa.

Some countries are safer than others; all say they want to curb corruption and violence.

"It's still pretty risky," Williams said. "As the countries start to develop oil wealth, it becomes imperative for the country to protect that wealth and the people developing that wealth, but it also ... increases the turmoil and the acts that people will take to get a piece of the wealth."

Pitfalls include the Foreign Corrupt Practices Act, which prohibits payments by U.S. business executives to foreign officials to secure contracts; rules requiring payment in local currency rather than dollars; unexpected tax implications; and rules on exporting equipment out of the United States, he said.

### **New competition**

It's hard to generalize about Africa because each country is different, said Bill Arnold, a professor of energy management at Rice University's Jones Graduate School of Business. He formerly worked at Royal Dutch Shell as director of international government relations and senior counsel for the Middle East, Latin America and North Africa.

But Arnold said common themes include emerging competition from China and ongoing problems with corruption and security, including theft from pipelines in nations where oil production is long-established, especially Nigeria.

Terence McCulley, the U.S. ambassador to Nigeria, said during a recent trip to Houston that Nigeria's newly elected government has promised to tackle corruption. But he said it remains a serious problem, as does violence in northern Nigeria and the Niger Delta.

"The oil curse meant that from the '90s, Nigeria became a rogue economy," McCulley said. "The revenue from oil – that was all people were interested in."

The country has begun trying to diversify its economy and make it easier for citizens to see how oil money is spent, the ambassador said, but a 2011 effort to establish an independent regulatory agency to oversee the national oil company failed.

### **'Rich become richer'**

After decades as West Africa's primary oil-producing nation, Nigeria suddenly has competition.

Ghana, Ivory Coast, Equatorial Guinea, Gabon, Sierra Leone and Angola are among the countries where companies are exploring or have reported discoveries of oil and natural gas. Huge deposits of natural gas have been discovered offshore in Mozambique, on the continent's east coast.

"We are hopeful we can change things for the better," said Mohammed Amin Adam, executive director of the Africa Centre for Energy Policy in Ghana.

Adam, in Houston recently to speak at the University of Houston Law Center, acknowledged that Africa long has been plagued by corruption, with billions of dollars in oil wealth siphoned from the continent while millions of people still live in poverty.

"The rich become richer and richer and richer," Adam said.

Exploration companies generally contract with a national oil company, usually with additional partners.

"If you talk to the ordinary African on the street, they will tell you the governments are selling the oil for nothing," Adam said. "They don't believe the government is making the best deals."

He testified before the U.S. Congress in favor of a provision in the Dodd-Frank financial regulation overhaul that requires publicly traded companies to disclose what they pay to harvest crude oil, natural gas and minerals in other countries.

A coalition of oil industry trade groups has sued in federal court to block Securities and Exchange Commission rules requiring companies to report payments exceeding \$100,000, broken down by project.

Adam agreed that the rules could put U.S. companies at a disadvantage and might even diminish U.S. investment in Africa.

“We would not get the Western investment, the Western technology, which we need,” he said.

But in the long run, Adam said, the disclosures would help Africa. Some non-U.S. companies, including Canada’s Talisman Energy and Norway’s Statoil, already make similar disclosures, he noted.

### **Chinese investments**

The major oil companies have been in Africa for decades, occasionally pulling back when violence in Libya, Nigeria or elsewhere became too dangerous, and independents have been there for almost as long.

The latest competition is coming from China.

Adam said Chinese investment in Africa totaled \$150 billion in 2010, up from \$5 billion in 1995.

Some African leaders prefer Chinese investors because they avoid lectures about human rights and other issues raised by American and European investors, he said.

But he said Western companies continue to have an advantage with technology and better adherence to environmental standards.

Robert Gerry, the CEO of Vaalco Energy, a Houston-based independent company operating in West Africa, agreed that Western technology dominates in Africa and elsewhere, despite the competition from China.

“There’s not a country I’m aware of that doesn’t look to the Western countries for their science,” Gerry said.

Vaalco signed its first contract in Gabon in 1995. It also operates in Angola and participates in an offshore project in Equatorial Guinea.

Working in Africa requires patience and risk analysis, Gerry said, but the potential rewards loom large.

“There’s been activity for many years in Africa, but it’s really the last (of the) remaining large potential basins in the world,” he said.

Operating costs are high, partly because of security needs.

Vaalco’s chief financial officer, Gregory Hullinger, said working in Africa also requires a larger inventory because it can be difficult to replace equipment.

“It’s frustrating for Westerners who can pick up the phone and get something done the day after tomorrow,” Gerry said. “It takes a long time over there. But eventually, if you’re persistent, you’ll accomplish something.”

### **Excitement contagious**

Many African countries export crude oil and then import gasoline, heating oil and other refined petroleum products.

That's what attracted the Layton Corp., which will invest in midstream and downstream projects, including a refinery project in West Africa.

Despite the risks, CEO Daniel Layton said the excitement is contagious.

"Your goal, for a company like ours, is to get in early on the infrastructure part of the play," he said. "Think about being in Texas 70 or 80 years ago. The technology is more advanced, but it's that same level of excitement."

### **Parallels to Gulf**

Anadarko, one of the largest independent exploration companies, operates around the world and holds interests in 40 million acres in a dozen African countries.

It was one of the first U.S. companies to enter Mozambique, in 2006, drawn by the region's geologic resemblance to the deep-water Gulf of Mexico, said Christiansen, the Anadarko spokesman.

The company and its partners have since reported major natural gas discoveries.

Anadarko also is involved in building a liquefied natural gas development onshore, with plans to begin exporting in 2018.

"We see countries that are achieving greater stability," Christiansen said. "Mozambique is one of them. Ghana is another. There are lessons to be learned from what has not been done correctly historically, so there is the opportunity to learn but also to create a better future."