

Potential Economic Effect of Oil and Gas in East African Countries

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Abstract

Discoveries of oil and gas in East African Countries (EAC) has attracted the attention of many MNCs and EMNCs. EAC governments of northern corridor countries have come together, not only to strengthen the Northern Corridor Transport System (NCTS), but also to establish a new transport corridor project called Lamu Port, Southern Sudan, and Ethiopia Transport (LAPSSET). The project will transport crude oil to be refined at Lamu and to bring back refined oil and gas products to the hinterland countries. It consists of Roads, Railways, and Pipelines running through the Northern Corridor countries. This study was conducted to find out business opportunities created by the discovery of oil and gas in EAC countries, and to determine what other socioeconomic benefits will accrue to the citizens of Southern Sudan, Rwanda, Uganda, Ethiopia, and Kenya. This was an exploratory study conducted in the relevant ministries of the five governments. The interviews conducted provided qualitative information that was analyzed through content analysis. The results of the study indicated that the joint venture of the five governments was a new uncharted territory for cooperation and that if the member states could match their political support and enthusiasm with financial backup, then the discovery of oil and gas in EAC countries will be a boon in the near and distant future.

Key words: oil exploration, first mover advantage, exploration blocks, Great Rift Valley system

1. Introduction

Exploration for oil and gas in East African Community (EAC) countries was started in 1930s and 1940 by colonial Britain, but serious interest and concerted efforts begun 1980s and early 1990s' (Page, 2013). Many multinational corporations took a lot of interest and applied for licenses for prospecting for oil and gas in EAC region. Most of the sunken wells were dry but in early 2000 some wells in western Uganda begun to show the presence of oil. Later in Kenya wells in Turkana were confirmed to have oil of commercial proportions. By 2013, the presence of oil that could be commercially exploited were confirmed in western Uganda around Lake Albert and in Turkana in North Western Kenya. These discoveries were in addition to confirmed presence of oil in Southern Sudan. The EAC countries of the northern corridor transport system of Rwanda, Kenya and Uganda had formed an alliance to improve on the road and rail network from Mombasa, Nairobi, Kampala, Kigali and Goma. The southern corridor transport system starts from the port of Dar-es-Salaam, Morogoro, Tabora and on to Kigoma and hence to Burundi. This southern transport connection had not been well developed by the Tanzanian and Burundian governments.

The discovery of oil in Southern Sudan in 1987 and in Kenya in 2013 has made this part of East Africa the investment destination for international oil companies. Chevron had been in northern and in north-eastern Kenya prospecting for oil since 1980s, British companies had been in Uganda since 1970s, and also other British companies had been in Tanzania since 1990s.

The long wait and persistent continued investment by these companies has at last born fruit in the discovery of oil and gas in East African region. Those who pioneered the oil exploration in EAC now have the first mover advantages accruing to them. The Jonny come lately are now rushing for a slice of the remaining exploration blocks in the EAC region. And maybe they may be lucky to strike oil on their first well.

There are few oil and gas reserves that have been confirmed in EAC, but Table 1 show the estimates by the US Energy Information Administration in 2013.

Table 1: Estimated Oil and Gas Reserves in EAC

Country	Oil Reserves in Billion Barrels (2013 estimates)	Gas Reserves in Billion cubic feet(2013 estimates)
Burundi	Not known	Not known
Kenya	0.428	7.78
Rwanda	0.018	10.57
Tanzania	0.324	32.75
Uganda	0.784	12.45
Total Estimates	1.554	63.55

Source: US Energy Information Administration (EIA)

Table 1 shows that most of EAC countries have little oil and gas resources that have been proven to exist as compared to leading African countries such as Angola, Nigeria, Algeria and Libya. Tanzania has the greatest potential for gas together with Mozambique, and Uganda has the greatest potentials for oil. But between January and June 2014, Tallow Oil Company prospecting in northwestern Kenya reported to have discovered the presence of oil in South Lokichar Basin in Turkana County in excess of 600 million barrels with a potential of over 1 billion barrels. If this is confirmed, then Kenya will be leading in EAC for having the largest amount of oil. The continuing exploration and drilling of more wells in on-shore and off-shore means that more discoveries will be made in the next few years.

The EAC region has a natural fault of Great Rift Valley running from the Red Sea in the north to Lake Malawi in the south. Satellite images, aerial surveys and geological exploration have revealed that there might be oil and gas along these rift valley faults (Hyne, 2012). The western arm of the Great Rift Valley running from Lake Tanganyika through Burundi and on to Lake Albert in Uganda contain Albertine Graben Rocks where oil has been discovered. The Turkana region in north western Kenya has been proven to have oil deposits that can be commercially exploited. There seems to be underneath oil basing in the borders of the four countries of Kenya, Uganda, Southern Sudan and Ethiopia (Orban, 2012). The governments of these connected countries came together and formed a strategic alliance to exploit opportunities given by this discovery of oil within their borders, and also to exploit other opportunities given by these natural resources.

To start with, Kenya, Uganda, Southern Sudan and Ethiopia established the Lamu Port South Sudan, Ethiopia Transport (LAPSSET) project to actualize their aspirations. LAPSSET was established in 2012 as a complex joint venture project that was based on the exploitation of oil, transportation, refining and distribution among the EAC countries. It was envisaged to have four main subprojects that were interconnected with the main LAPSSET project. These were the building of Lamu Port on Indian Ocean Kenyan coast, Railway line to Southern Sudan and a branch to Ethiopia, highway road from Lamu to Southern Sudan and a branch to Ethiopia, a number of international standard Airports along the LAPSSET transport corridor.

2. Research Objectives

The LAPSSET transport corridor project was commissioned by the four heads of state of the northern corridor countries of Southern Sudan, Uganda, Rwanda, Ethiopia, and Kenya in 2012. LAPSSET will bring other benefits to towns, people, and to the four alliance countries. Any grandiose infrastructure of the magnitude of LAPSSET project will bring a lot of benefits to those living along the corridor of the LAPSSET project. This study therefore was undertaken to find out what business opportunities have been created by the discovery of oil and gas in EAC countries, and to determine what other socioeconomic benefits will accrue to the citizens of Southern Sudan, Rwanda, Uganda, Ethiopia, and Kenya. It will be also of interest to find out what other benefits can this project bring to the towns, people and the region as a whole.

3. Literature review

From Adam Smith (1776) to Michael Porter (1985) international trade theories have been proposed to explain why do nations trade. The theories of natural advantage, factor proportions and national competitive advantage of nations explains the basis for countries endowed by nature to have minerals, oil and gas can exploit these resources and participate in international business (Yabs, 2006). Many countries in emerging economies have not fully explored their territories for the presence of these minerals, and East African countries are among the countries that are discovering what is underneath their territories (Downey, 2012). Although the latest studies on the discovery of oil in EAC were those done by international consulting firms of KPMG (2010) and PWC (2012), by 2014 May, these studies had become obsolete due to the rate and phase at which oil and gas discoveries are being made. If the contracted firms continue to work on the given exploration blocks with vigor and enthusiasm onshore and off-shore fields, then it will be interesting to see if new oil and gas finds will emerge.

4. Methodology

The methodology adopted was a census survey of the ministries of East African Countries. We used a questionnaire to collect quantitative data and an interview guide to collect qualitative data. Respondents were the senior government officials in charge of EAC cooperation's desks, as well as the ministries of EAC. We also looked at the long term plans of different countries and in Kenya we used Vision 2030. In Rwanda we used Vision 2020, and the long term plans of Uganda and Tanzania. Data analysis was done using statistical methods for quantitative data and we used content analysis for qualitative data.

5. Results of the study

The results of the study indicated that the exploration and discovery of oil and gas in EAC has already given direct benefits to member countries in form of many inquiries and interests in investments in the economic sub-region of Africa. The Oil and Gas Summits I, II, and III organized by Global Event Partners has created a lot of

interest in EAC. In Summit one (2010) there were over 60 participants from different countries of the world interested in oil and gas in EAC. In Summit II and III the number of participants increased exponentially to over 200 participants from different international companies and individuals interested in oil and gas in EAC. Among them were representatives of oil companies in USA, Great Britain, Germany, Norway, Australia and Indonesia. The direct benefits are already seen in construction of infrastructure facilities near the oil and gas wells in Uganda, in Kenya and in Tanzania. In Kenya, Tallow Oil Company has invested heavily in the long term projects of infrastructure facilities and in corporate social responsibility. The oil was discovered in the most remote area of Kenya and the people around there are really poor and behind in education and standard of living. Tallow oil has even started building schools and colleges for the future because they have imported a lot of labor from other parts of Kenya. It has invested in provision of water and electricity and community development projects, especially in the growing of food.

Since the whole LAPSSET project is still new and is just starting, it will take a while before it is fully operational. Once it is operational, it will bring a lot of benefits to the communities along the transport corridor from Lamu to Addis Ababa and to Juba and to Kigali. New towns will come up along the way, new airports, new businesses and business opportunities to the citizens of EAC countries. There is also the possibility of foreign businesses as well as benefit spillover to the other EAC member-states who are not directly linked by the LAPSSET project. It will contribute immensely to the improvement of the standard of living of people and the quality of life.

There are challenges associated with the LAPSSET project. At the time of conducting this study, there were complaints from different interested quarters for not being involved in the initial stages of planning the project. There were also claims of corruption in the awarding of tenders to different foreign firms in disregard of local competent companies. There were issues of land grabbing, land speculators, and a frenzy acquisition of properties around Lamu and along the corridor of the LAPSSET project.

6. Conclusion

The study indicated that this LAPSSET projects was a new joint venture of the governments of EAC in unchartered territory that has no precedent in the history of the involved countries. There will be need to relook into the evolving relations between the involved countries. The discovery of oil and gas and the possibility of still finding out more as well as other types of minerals, has brought these countries together to cooperate in these ventures and other matters. But most of these EAC countries are among the poorest in the world. They will have to rely on the support of international community and MNCs as well as EMNCs to exploit these discoveries of oil and gas. The natural advantage trade theory based on the endowment of nature to have minerals and other natural resources, is not adequate to explain participation of countries in international business. The success of LAPSSET projects and all related sub-projects will require governments resolve, political will, financial might, and may be a bit of lack, for these EAC countries to prosper in the near and distant future based on oil and gas.

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