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East Africa's highway to oil

By Robert Kappel,
GIGA German Institute of Global and Area Studies &
Babette Never,
German Development Institute /
Deutsches Institut für Entwicklungspolitik (DIE)

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East Africa's highway to oil

Bonn, Hamburg, 26 January 2015. A wave of oil and gas euphoria is sweeping Uganda, Kenya and Tanzania. In February 2015, the Ugandan Government will decide who will build the country's only refinery. European, Chinese and Canadian oil companies intend to begin oil production in Kenya as early as 2016 and in Uganda two years later. Once export and/or processing activities begin in the two countries, they will be able to significantly increase their gross domestic product, enabling them to go from being nations with few natural resources to commodity-exporting countries. However, there is a very real risk of them falling under the Nigerian resource curse, of widespread environmental damage, and of uncertain price trends on the global market.

The East African countries are pushing ahead with the expansion of fossil-fuel energy production in order to maximise state revenues. They also plan to develop their own oil and gas markets, as they all currently depend on imports. When oil and gas prices were high, these states had to spend more foreign currency on energy imports. For instance, Kenya imported over 1.5 million tonnes of crude oil and more than 1 million tonnes of oil products (including petrol and kerosene) in 2012. Estimates put oil reserves at 3.5 to 4 billion (159-litre) barrels on the Ugandan side of Lake Albert and around 2 billion on the Congolese side, while Kenya's 1 billion or so barrels worth of oil is spread across several oil fields in the north of the country. At the same time, 1.4 trillion cubic metres of natural gas reserves have been discovered in Tanzania.

Huge investment will be needed if the country is to forge ahead with developing its own fossil-fuel energy supplies; experts estimate that identifying and developing crude-oil and natural-gas fields will cost somewhere in the region of USD 100 billion. The planned Uganda-Kenya pipeline, set to stretch some 1,300 km to the port of Lamu, will be an expensive (at least USD 4 billion) and technically demanding undertaking. The wax-like oil will have to be constantly heated to around 40 °C to make it flow. For this region, these tremendous investments represent an economic programme of epic proportions.

Nigerian resource curse strikes again?

As seen in Nigeria, oil and gas can quickly become a curse. Corruption, crime and poverty spread within the country, and its hopes of reaping the benefits of its massive oil reserves were utterly dashed. 70% of its population now lives in poverty. Nigeria has also gone from being a self-sufficient agrarian state to a country that has no industry to speak of and has to import food. Barely any jobs have been created.

The only way for the East African countries to avoid history repeating itself is for them to take complemen-

tary measures and ensure that they use foreign currency flows to boost industrial and agricultural production as well. A strategic, targeted approach that includes the setting up of commodity funds and an examination of the expected economic consequences (such as the risk of currency appreciation) and environmental damage is more likely to be seen in Uganda than in Kenya. The governments of both nations are getting ahead of themselves with their expectations.

Impending environmental damage

Located in the vicinity of Lake Albert, DR Congo's Virunga National Park and Uganda's Queen Elizabeth National Park and Murchison Falls National Park protect some of the world's unique natural treasures. As well as elephants and lions, those driving through Murchison Falls can now marvel at an airstrip belonging to French oil company Total, which is carrying out exploratory drilling in the area. British firm Soco discontinued its activities in Virunga in June 2014, but only after massive international pressure was applied, and the region's flora and fauna are still at risk. The oil reserves were discovered right on the borders of the national parks. The Uganda-Kenya pipeline also poses an environmental threat through potential leaks and theft. Neither past global experience with oil companies in poor countries nor the relatively weak and corrupt local environmental authorities give great cause for optimism regarding the likelihood of strict monitoring.

Volatile energy markets

To what extent are the East African governments factoring the potential risks of energy market volatility into their strategies? The low prices at which crude oil is currently trading indicate that the oil investment programme may not be profitable, and this could see production postponed until a later date. Rising energy prices also make it necessary to analyse the effects of appreciation in national currencies and to set up commodity funds to make provisions for the future, as Botswana has done with its diamond revenues. Given the current oil rush in East Africa, it is unlikely that such a forward-planning approach will gain currency or that prudent decision-makers will be able to influence proceedings.

In addition to conducting cost-benefit analyses, governments should devote more attention to the environmental problems posed by oil and gas production. Oil offers higher incomes in the short term, but has environmental consequences in the long term which may also destabilise the tourism industry, the region's economic mainstay. While all East African countries are also investing in renewable energy sources, having crude oil is still a status symbol.