

The Development of Hydrocarbons in East Africa

Political and Security Challenges



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December 2019

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This study has been carried out within the partnership between the French Institute of International Relations (Ifri) and Policy Center for the New South.

ISBN: 979-10-373-0112-3
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How to quote this document:

Benjamin Augé, “The Development of Hydrocarbons in East Africa: Political and Security Challenges”, *Notes de l’Ifri*, Ifri, December 2019.

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Executive Summary

- East Africa has the potential to experience a gas and liquefied natural gas (LNG) export boom in the coming years due to several projects that have been released. Mozambique has approved two projects totaling more than 15 million tons per year (Mt/yr.) of liquefied gas and a third should be started by the end of 2019. The first ENI Floating Liquefied Natural Gas plant (FLNG) will come onto the market in 2022 and four other onshore liquefaction trains, two of which will produce 6.44 Mt (Anadarko/Total) and two of which will produce 7.6 Mt (ExxonMobil/ENI), will be available around 2025. However, with the recoverable reserves, the companies involved are counting on 50 or even 60 Mt/yr. by 2030. This volume will help this East African country to achieve the world's fourth-largest LNG export capacity in the medium term after the United States, Qatar and Australia. As for Tanzania, no development should be approved before 2020 in the best-case scenario.
- With regard to oil, no project in Uganda or Kenya has been formally launched. No final investment decision should be made before 2020. In Uganda, the relationship between the oil companies and the government remains very difficult, postponing the implementation of developments.
- Oil discoveries in East Africa are important at regional level (potentially up to 300,000 barrels per day, or 0.3% of the current global total), but their development is related to factors specific to each country, with each one having different political-economic trajectories from the other.
- The governance of the hydrocarbon sector in countries, where discoveries have been detected (Uganda, Kenya, Tanzania and Mozambique), is struggling to be implemented as there are too few competent civil servants in this field.
- Demands that maximize state control over the oil sector – a refinery in Uganda or the use of local arbitration courts in Tanzania – are likely to hinder the development of oil projects, even though these countries need the income as quickly as possible, in order to build basic infrastructure for their populations and demographic pressure is often extremely intense.

- The politicization of the sector, as in Uganda and Tanzania, makes projects even more complex to finance. In Kenya, it is more local and ethnic dynamics in the future production area that complicate their development.
- Although these security challenges seem largely contained in Uganda, nevertheless they are a key topic in Kenya (Al-Shabab) and in Mozambique (Ansar al Sunna), and perhaps soon in Tanzania with penetration by Islamist movements in the province where the LNG trains will be located.
- The presence of hydrocarbons in the most disadvantaged regions in the countries considered in this paper – Uganda/Lake Albert, Kenya/Turkana, Mozambique/Cabo Delgado, Tanzania/Lindi-Mtwara, makes the oil and gas development very complex because of the increasing social demands. Water stress, land use, distribution of economic and financial benefits, and electricity are equally conflicting issues.

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Introduction

After a boom period in the late 2000s, the hydrocarbon sector in East Africa slowly became bogged down. Despite large discoveries in the Maghreb (Algeria and Libya) and in the Gulf of Guinea (Nigeria, Congo, Gabon and Angola) since the 1950s, this area has been little explored by the oil companies since Tanzania's (1961), Uganda's (1962) and Kenya's (1963) and then Mozambique's (1975) independence. However, the rapid rise in oil prices from 2003, has led the *juniors* to target the vast basins with a still largely unknown potential. Positive results soon followed with the discovery of more than a billion recoverable barrels in the west of Uganda, near Lake Albert, by two *juniors*, Heritage Oil and Tullow Oil. This result helped to encourage other firms to carry out exploration activities in this area of East Africa, leading Kenya in its turn to exploit several hundreds of millions of barrels near Lake Turkana (in the west of the country). As for gas, low production started in Tanzania in 2004 (Songo Songo field) and in Mozambique (Pande and Temane fields) to supply power plants or industrial projects in South Africa, *via* the small-sized fields discovered in the 1960-1970s. However, it was not until 2010 that giant offshore fields were discovered. Currently, Tanzania has 36 trillion cubic feet (1,019 billion cubic meters)¹ and Mozambique 160 trillion cubic feet (4,530 billion cubic meters)² of gas reserves. This volume puts Mozambique on a level close to Nigeria, which up until now, could boast of being the leader with the largest reserves in Africa ahead of Algeria.

While a significant hydrocarbon potential has indeed been identified, at the time of writing this report in September 2019, only two projects were launched in Mozambique (Coral's FLNG of 3.4 Mt/yr. in 2017) and Anadarko's two liquefaction trains³ (12.8 Mt/yr.) in June 2019. The two other ExxonMobil/Eni trains (15.2 Mt/yr.) should be launched in late 2019 or even early 2020, *via* the Mozambican offshore fields.

This research paper aims to clarify the reasons for the delay of projects (mainly in Uganda and Tanzania) and to analyze the security, geopolitical

1. Volume obtained by combining Shell's (16 tcf) and Equinor's (20 tcf) figures. More information at: www.shell.co.tz and www.equinor.com.

2. Volume obtained by adding up Anadarko's (75 tcf) and ENI's (95 tcf) figures. More information at: www.anadarko.com and www.eni.com.

3. The latter was bought out in May 2019 by Occidental Petroleum and Anadarko's African assets were taken over by Total for USD \$ 8.8 billion.

and organizational challenges of the hydrocarbon sector in East Africa. This paper is organized into two major parts. Firstly, a point about the governance of the four states in order to understand their respective organization of this new sector and the explanation for delays in the development of projects. This analysis will be complemented by an attempt to put the state of exploration in other East African countries, like Somalia, Comoros or Madagascar into perspective. Secondly, this paper will concentrate on security and political issues. While for some countries, the risks still seem limited at the moment (Uganda and Tanzania), for others like Kenya and Mozambique, concerns are growing and require the oil companies to take specific measures.

Governance of the hydrocarbon sector in East Africa

Why is Uganda lagging behind?

Uganda is the first East African country to have discovered exploitable quantities of oil.⁴ The two *juniors*, Tullow Oil and Heritage Oil, were the only ones to make sufficient efforts to discover these billion recoverable barrels. After the purchase of Heritage's stakes by Tullow Oil for USD \$ 1.35 billion in 2010, which were then sold in two stages to Total and Cnooc (2012 and 2019),⁵ the blocks located around Lake Albert are currently distributed as follows: Cnooc (33%), Total (33%) and Tullow (33%). However, although several fields have been given the go-ahead for development by the authorities, the final investment decision by the three oil companies is still far from being made after the failure at the end of August 2019 to sell Tullow Oil's majority stakes to its two partners, Total and Cnooc.⁶

There are many reasons for this delay. Firstly, at each stage of change of stake ownership in the blocks, long battles have set the oil companies' tax advisors against those of the Ministry of Finance, as well as the Uganda Revenue Authority (URA). When Heritage Oil disposed of its stake, the URA asked them for USD \$404 million for capital gains tax on a USD \$ 1.35 billion transaction. The Canadian firm refused to pay putting Tullow Oil in a difficult situation; it was forced to advance the sum and then initiate arbitration proceedings in London to be reimbursed by Heritage Oil. A similar negotiation occurred during the failed sale by Tullow Oil to Total and Cnooc in 2018-2019. The URA asked for USD \$ 167 million out of a USD \$ 900 million transaction. Tullow Oil did not have this sum and Total finally agreed to advance part of the USD \$ 167 million to obtain the

4. Sudan/South Sudan is a separate case, because Chevron's oil discoveries date back to the 1970s and production with the CNPC, ONGC and Petronas trio began in 1999.

5. However, negotiations are still ongoing for the sale of Tullow Oil's remaining stakes to Total and Cnooc.

6. Total's website, "Ouganda: Expiration de l'accord avec Tullow", 29 August 2019, available at: www.total.com.

Ministry of Energy's approval of the sale of the stakes as soon as possible. However, this was not enough.

The issue of capital gains tax is obviously not the only reason to explain why thirteen years after the initial discovery, no drop of oil has yet flowed in Uganda. But it is, in many respects, symptomatic of the Ugandan state, which firstly imposed this tax on capital gains while no law specifically regulated this practice. In 2006, when the first discoveries were made, the laws governing the sector, which however only dated back to 2000, were completely obsolete. So, new regulations needed to be implemented to organize the sector. However, taxes on capital gains are immediate in the event of a sale. *On the other hand*, the oil revenues are far off for heads of state wanting to quickly benefit from money, despite the fact these taxes significantly hinder the progress of projects, because of long legal battles and possible arbitration. The sector is currently governed in Uganda by the *National Oil and Gas Policy* since 2008 and then *The Petroleum (Exploration, Development and Production) Act* in 2013 that determines the role of the regulatory authority, which has the power to grant the blocks and ensure compliance with contracts, as well as that of the state-owned oil company which will hold Uganda's stakes in each block and the Ministry of Energy and Mineral Development, which remains the sector's regulator. In 2019, and despite President Yoweri Museveni's promise, there is still no dedicated Minister of Oil. In 2012, the *Oil and Gas Revenue Management Policy* also provided a framework for the use of future revenue; they will all have to be redirected to a single account. It is rather difficult to pass judgment on the relevance of the organization of the sector, as the country has not yet produced oil. However, the worrying factor is the lack of a counterweight. In 2011 and 2012, when parliament wanted to become involved in writing the future law, which was finally adopted in 2013, the Ugandan president reacted strongly by launching expulsion procedures against the parliamentary leaders of the debate, including within his own party, the National Resistance Movement (NRM).⁷

All the legislation in Uganda has one thing in common: it is largely based on Norwegian cooperation (Norwegian Agency for Development Cooperation – NORAD) through its *Oil for Development* (OfD) program. NORAD has made Norwegian executives available to the Ministry of Energy and Mineral Development to help civil servants negotiate and draft regulations to meet international best practices.

7. "UGANDA: Tullow in a Fighting Mood", *Africa Energy Intelligence*, No. 662, 1st November 2011; "UGANDA: MPs Frighten Museveni", *Africa Energy Intelligence*, No. 669, 14 February 2012.

The slowness of the legislative process and the change in ownership of the stakes in the blocks largely explain the delay in Uganda's oil development. And yet, power is extraordinarily concentrated in this country. President Yoweri Museveni bypasses a large part of his administration by relying on a few officials approved by him. This is the case of the most influential among them, the Permanent Secretary of the Ministry of Energy and Mineral Development between the late 1990s and 2016, Fred Kabagambe Kaliisa. The latter is an oil geologist by training who has worked directly with the president without going through the various successive Ministers of Energy. Most of them, like Irene Muloni, who has occupied this key post since 2011, are politicians, rewarded with a government post for having regularly campaigned for the president in their home district. Since 2016, Kaliisa has been presidential advisor and retains a key role – his replacement at the Ministry of Energy, Robert Kasande, cannot say the same playing a traditional civil servant's role without significant political impact. In addition to having monitored all the exploration campaigns since the 1980s, Kaliisa has the advantage of originally coming from the Lake Albert region and of understanding the local rationales which sometimes elude the central government.

Another factor contributing to the delay in the Ugandan project: the requirement imposed on oil companies operating the reserves around Lake Albert to build a refinery. For over ten years, this has been an obsession of President Yoweri Museveni, who has finally won. The consortium of GE, Saipem and Yaatra Ventures was chosen in 2018 to build a 60,000 barrel per day (b/d) plant, which will be located in the village of Kaabale, close to the area where production from all the fields will meet in the city of Hoïma before being sent to Tanzania via a single pipeline. So, out of some 200,000 – 250,000 b/d that will be produced in Uganda, only 140,000 – 200,000 b/d will be exported⁸. The goal, for President Museveni, is for his country above all to be completely independent in petroleum products. These currently come in from the port of Mombasa in Kenya. He also wants a significant portion of Kaabale refinery's production to be exported in the sub-region. Based on the latest available figures, Uganda currently consumes some 32,000 b/d⁹ and therefore would be able to export almost half of the products processed at its refinery. The oil companies, including Total, are aware that the Ugandan president would not give this project up

8. "Uganda Expects First Oil Production to Be Delayed to 2022 – Minister", Reuters, 13 February 2019, available at: www.reuters.com.

9. According to the CIA Factbook's figures.

and have decided to propose having a stake in this future plant which will be financed partly by public, but also private, funding.¹⁰

Finally, the last point to still explain the slowness of the process now is the export pipeline's route. After long discussions with Kenya, Ugandan crude should finally transit through Tanzania and would theoretically be exported *via* the port of Tanga.¹¹ The Kenyans, first and foremost President Uhuru Kenyatta, have always felt that Uganda had no other choice than to transit via its territory for cost reasons. However, Kenya's obstinacy in choosing the northern port of Lamu – near the Somali border – alarmed Total, which fearing security problems with the Somali Al-Shabaab (see Part II), quickly favored Tanzania. While the route to Tanga (1, 443 kilometers) is longer than that to Kenya, the additional cost would be largely offset in the long term by lower transit fees than those required by Kenya. This route to Tanzania was approved in 2015,¹² but negotiations for the purchase of land along the route, particularly in Uganda, are still ongoing now in 2019 and are extremely difficult. Indeed, Uganda's specific feature is that it is divided into six kingdoms, which often have jurisdiction over the land. The oil area is partly in the kingdom of Bunyoro where the local authorities are party to discussions with the government to compensate locals evicted from their land. Nearly four years after starting the negotiations, this topic is still not resolved. In Tanzania, the evictions fall within the government's remit and control to secure land to accommodate the future pipeline has progressed much more quickly. Furthermore, and in order to accommodate some infrastructure along the route, the strip of land around the future pipeline – likely to be doubled in future in the event of new discoveries particularly on the other side of the border in the Democratic Republic of Congo – has increased from 30 to 133 meters in some segments, making the project even more complicated.¹³ This last point has raised difficulties in the discussions by increasing the actors involved.

10. This proposal by Total was confirmed by Total's CEO, Patrick Pouyanné, during his visit with the Ugandan president on 18 January 2019. Read "UGANDA: Total Boss Seeks Action from Secret Meeting with Museveni", *Africa Energy Intelligence*, No. 833, 29 January 2019.

11. After the failure of discussions on the sale of Tullow Oil's assets by Total and Cnooc, Total decided to reconsider the entire project, including the export pipeline's route through Tanzania which could be questioned.

12. "UGANDA: Museveni Plays a Wicked Poker Hand on Tanga", *Africa Energy Intelligence*, No. 756, 27 October 2015.

13. "Uganda Seeks More Land for Oil Pipeline", *The East African*, 5 September 2017, available at: www.theeastafrican.co.ke.

Kenya: an entirely pro-business environment, but with influential local characteristics

In 2012, Tullow Oil and its partners Africa Oil Corp and Maersk Oil, discovered several hundred million barrels in the 13T and 10BB blocks located in north-eastern Kenya, near Lake Turkana. Total bought out Maersk Oil in 2018 and now holds 25% of these blocks. While the final investment decision should be made either in late 2019 or during 2020, the Kenyan government's development strategy has been very different from that of Uganda. The objective has been to produce as quickly as possible, mainly for electoral reasons, without waiting for an export pipeline to be built. For this reason, President Uhuru Kenyatta encouraged an *Early Oil Pilot Scheme*, or transport by truck from the production area to the port city of Mombasa, or nearly 1,000 kilometers. Despite his efforts, this goal could not be achieved before the October 2017 elections, when he stood again and won a second term. The reasons for this delay are mainly due to the disagreement between the Kenyan president and the governor of Turkana *county*, Josphat Nanok, where the reserves are concentrated. Nanok is in another party (Orange Democratic Movement) to the president (Jubilee Party) and a political disagreement between the two men focused specifically on the share of the oil revenue to go to the *counties*.¹⁴ To complicate the transport process, other local issues have also prevented trucks from leaving the production area. The dominant eponymous tribe in Turkana *county* held several dozen Tullow Oil employees hostage in January 2018 in order to put pressure on the oil company and to fully benefit from the oil returns in terms of employment, contracts and revenue.¹⁵ Turkana is the poorest *county* and one of the most rural in Kenya striving for development.¹⁶ So, the oil is a potential godsend that members of the community do not want to miss out on.

After a delay of a year and following agreements between the communities and Tullow Oil, the trucks finally started to transport crude oil from June 2018 at a rate of 600 b/d. The goal is to go from 600 in 2019 to 2,000 b/d from five fields: Amosing 1, Amosing 2A, Ngamia 3, Ngamia 6

14. The 2017 oil law was amended so that the central government will only receive 75% of the revenue, the *counties* 20% and the local communities 5%. Read "KENYA: Cornered Kenyatta dishes out concessions to salvage oil output", *Africa Energy Intelligence*, No. 821, 17 July 2018.

15. "KENYA: Is Turkana Beginning to Bog Down Tullow Oil?", *Africa Energy Intelligence*, No. 809, 23 January 2018.

16. "Oil in the Cradle of Mankind: A Glimpse of Africa's Future", *The Economist*, 11 July 2015, available at: www.economist.com.

and Ngamia 8.¹⁷ In August 2019, 200,000 barrels had already been transported to Mombasa where they were stored until they were transhipped on 26 August 2019 onto a vessel bound for China.¹⁸ Before the final investment decision is made, which should take place in 2020, the three partners will have to agree on the export pipeline's route. Future production, estimated around 80,000/100 000 barrels per day in plateau phase, cannot be transported to the coast in trucks. However, the question of the actual route for this infrastructure risks being a source of conflict between the partners. As we have written previously, Total has always shown its reluctance regarding the route from Uganda to Lamu, because of its extreme closeness to the Somali border. As the French *major* is now a stakeholder in Kenya and Uhuru Kenyatta's government is insisting on choosing Lamu instead of Mombasa, further south, a compromise will have to be found. While Total is still opposed to the route to Lamu, it is a minor partner here in Kenya – the opposite of the Ugandan project where it is the largest investor with Cnooc. Tullow Oil, which now controls 50% of the stakes, will have to play the role of intermediary with the government, unless Total buys a share in Tullow Oil's stakes, as in the Ugandan case.

Unlike Uganda, Kenya decided to create a Ministry of Petroleum attached to Mining, but separate from Energy. One of the most influential men is the Principal Secretary to the Ministry, Andrew Kamau Nganga. The latter is a geologist by training and advises the head of state directly on key issues. The Minister and former Senator John Munyes is a politician and is very rarely consulted. John Munyes was appointed to this position, since he is originally from Turkana *county*. He also lost the governor's election against Joshat Nanok and obtained the ministerial portfolio as compensation. In 2017, his appointment was supported to locally offset Nanok. In the oil sector, President Kenyatta also relies on officials from the *President's Delivery Unit* who manage priority issues, which hydrocarbons are a part of, because of the revenue they are likely to generate. In this *President's Delivery Unit*, it is the lawyer Nyamu Githaka who deals more specifically with oil, having previously been one of the directors of the

17. According to the objectives referred to by one of the partners, Africa Oil, in its 2018 annual report, available at; <http://news.africaoilcorp.com>.

18. The three selected carriers to transport the crude oil are all very well connected politically. Firstly, there is Oilfield Movers, whose CFO is the former CEO of the National Oil Corp of Kenya (NOCK), Mwendia Nyaga. The latter has also been an advisor to the Ministry of Energy, as well as a director in the company, Adamantine Energy, a former operator of the Kenyan 11B block. Founded in 2012, with the goal of transporting crude oil, Oilfield Movers's CEO is James Mbote, who is a former Shell engineer in Iraq and a former Schlumberger executive. The second company chosen to transport the crude oil, Primefuels Kenya, is headed by Asif Abdulla (formerly at Shell), a Briton of Indian origin. Finally, the third company is Kenyan businessman, Rajinder Singh Baryan's Multiple Hauliers (1,300 trucks). Sources: "KENYA: Uhuru Kenyatta's Electoral Machine Short on Oil", *Africa Energy Intelligence*, No. 797, 11 July 2017.

Zambian refinery at Ndola.¹⁹ The state oil company, National Oil Corporation of Kenya, which manages petroleum product supply issues, as well as exploration, ultimately has little power in this area, especially as it is undergoing restructuring with a constantly changing management, until recently used to focusing on issues solely relating to petroleum products.

Tanzania: distrust *vis-à-vis* the private sector making LNG projects more difficult

As of 2010, Tanzania has 36 trillion cubic feet of gas (1,019 billion cubic meters) in gas reserves with three offshore licenses: blocks 1 and 4 operated by Shell, Ophir Energy – now Medco – and Pavilion Energy (an investment fund in Singapore), as well as Equinor’s block 2 – in partnership with ExxonMobil. However, nine years after the first discoveries, the project is having a lot of difficulty in progressing because of the Tanzanian government’s great distrust *vis-à-vis* oil companies. Although sociologically, distrust towards the private sector has been a constant since the presidency of the first Tanzanian head of state, Julius Nyerere (1964-1985), who advocated socialism where public power is at the heart of all economic development, the coming to power of John Magufuli in 2015 further complicated the relationship between the state and the private sector. The accumulation of taxes has made the project to build an LNG complex very difficult to make profitable. One law has particularly entrenched the oil companies’ concerns: *The Natural Wealth and Resources Contracts Bill*.²⁰ In this document, which was voted on in 2017, the Tanzanian government requires all exploration contracts to be renegotiated in order to specifically include a provision allowing them to no longer be subject to foreign arbitration courts and to settle any dispute between the contracting party and the government before a Tanzanian court.²¹ This provision is a *casus belli* for the oil companies, who cannot commit several dozens of billions of dollars over two to three decades while being at the mercy of a Tanzanian justice system whose independence *vis-à-vis* the political power is not guaranteed. In 2019, or two years after the law providing for these mandatory renegotiations was adopted, no discussions have begun so far. However, most of the licenses which the discoveries were made under have expired. Block 4 expired as of 2017,

19. “KENYA: Cornered Kenyatta Dishes Out Concessions to Salvage Oil Output”, *Africa Energy Intelligence*, No. 821, 17 July 2018.

20. The latter complements the *Tanzania Petroleum Act 2015* which organizes the sector, as well as the *Oil and Gas Revenue Act 2015* which allows for the management of funds from gas production.

21. “TANZANIA: LNG: Shell/Equinor Fail to Secure Extension and Lose Rights”, *Africa Energy Intelligence*, No. 832, 15 January 2019.

block 2 as of June 2018 and No. 1 is only valid until 2020. However, the Tanzanian government has not left Shell and Equinor without any legal safety net, by sending them “letters of comfort.” Due to these, the state cannot grant new rights to other companies for Shell’s and Equinor’s blocks, nonetheless it is awkward for the two *majors*. However, negotiations began in April 2019 to agree on the finance and taxation conditions for the liquefaction trains planned in Lindi province in the south of the country. After four years of near-standstill, President John Magufuli however needs results, as the 2020 presidential election, in which he will stand again for a second term, is looming. The Tanzanian president has given his negotiators until September 2019 to find a compromise with the operators.

In terms of hydrocarbon governance, Tanzania manages the sector *via* several institutions. Firstly, the Ministry of Energy – which oil and gas are a part of – has been headed by Medard Kalemani since 2017, who is President John Magufuli’s sister’s son.²² Previously, Medard Kalemani was Secretary of State for this same portfolio. Another important institution is the Tanzania Petroleum Development Corp (TPDC) which is responsible for the state’s stake in the blocks. A regulatory authority already exists with the recent Petroleum Upstream Regulatory Authority (PURA). The latter is mainly supposed to allocate the blocks and ensure that the companies’ contractual obligations are respected. Since John Magufuli came to power, a number of sector leaders on the Tanzanian government’s side, have held interim positions. This situation mainly affects the position of CEO of the TPDC which has been held since August 2016 by the interim Kapuulya Musomba. He was finally replaced by James Mataragio in July 2019 who had already held this position in 2016. The Tanzanian president is obsessed with control and thinks that putting the various parties in a difficult situation will allow him to avoid excesses on the government’s side (corruption) and on the company’s side (unacceptable demands in terms of lower taxation). Although no provision in the laws already voted on in 2015 and 2017 has changed, Equinor just like Shell will probably not risk investing. Due to a lack of attractiveness, ExxonMobil, Equinor’s partner in block 2, has already expressed its desire to leave the country. Mozambique is also one of the causes of ExxonMobil’s lack of interest in Tanzania. Its projects in the Mozambican offshore will occupy the US *major* extensively, which only has one expatriate based in Dar-es-Salaam, Tanzania’s economic capital.

22. John Magufuli rules Tanzania with an iron hand, scarcely tolerating political opposition or criticism from civil society. Read C. Maingraud-Martinaud, “Les reconfigurations de l’autoritarisme en Tanzanie”, *Notes de l’Ifri*, March 2019, available at: www.ifri.org.

A *Gas Master Plan* was drafted in 2016 for the use of domestic gas by the Tanzanian government²³ to plan for the different possible uses of this new resource. However, while Shell and Equinor do not agree on the development of offshore gas, no project can be developed. In this document, the Tanzanian government estimates the use of gas for electric consumption to be 8.8 trillion cubic feet (249 billion cubic meters) by 2045 and the use for industry to be 3.6 trillion cubic feet (101 billion cubic meters) over the same period. If the two liquefaction trains are built, each one being five million tons, 11.1 trillion cubic feet (314.3 billion cubic meters) will be needed over 20 years. Therefore, according to the document's authors, it is entirely possible to consider domestic developments at the same time while reserving a majority of the gas for export.

Mozambique: huge potential, but significant challenges

Mozambique has the largest reserves of the four East African countries. With some 160 trillion cubic feet (4, 530 billion cubic meters), the country now has the largest reserves on the continent almost on a par with Nigeria. However, for the time being these volumes are only concentrated in two blocks located in the extreme north of the country, block 1 (Total) and block 4 (ENI-ExxonMobil). As discoveries are made, both operators have welcomed new partners to reduce the financial risk. After buying out Anadarko, Total will only have 26.5% of license 1 along with Mitsui (20%), ONGC Videsh (16%), Bharat PetroResources (10%), PTTEP Mozambique (8.5%) and Oil India (4%) as well as ENH (the state-owned company with 15%). Likewise, for ENI in block 4 (35.7%) which is in cooperation with ExxonMobil (35.7%), CNPC (28.6%) and Kogas, Galp and ENH (10% each). It should be noted that from 2012 each 10% tranche of these two blocks was sold for between USD \$ 1 and 2 billion. The first sale took place in 2012 with the purchase of Cove Energy's 8.5 % by the Thai company PTTEP for £ 1.2 billion.

Currently, two LNG projects have been launched. The first one in June 2017, concerns the development of the Coral field *via* a FLNG in block 4 which will produce 3.3 Mt/yr. by 2022²⁴. Another much larger development was launched in June 2019: the two Anadarko - now Total - trains for a total of 12.8 Mt/yr. A third ExxonMobil/ENI train of 15.2

23. Searchable at this address: <https://aminexunofficial.blogspot.com>.

24. "MOZAMBIQUE: Filipe Nyusi Showcases Launch of Coral Sud FLNG", *Africa Energy Intelligence*, No. 795, 13 June 2017.

million tons should be approved between late 2019 and early 2020. Mozambique should soon have launched projects totaling 30 Mt/yr. of liquefied gas. However, with the recoverable reserves, the oil companies involved are counting on 50 or even 60 Mt/yr. by 2030. This volume will eventually help this East African country to achieve the world's fourth-largest LNG export capacity after the United States, Qatar and Australia. As for future production, a large share of this cargo is already pre-sold. This is the case for ENI's FLNG whose 3.3 Mt/yr. will be bought entirely by BP. Similarly, for the first two Anadarko/Total trains, almost all of the 12.8 Mt/yr. has already been pledged to initiate the final investment decision. Besides some *majors*, like Shell and EDF, almost all the gas purchase offers come from Asian countries already present in Mozambique such as PTTEP (Thailand), Cnooc (China), Tokyo Gas (Japan) and Bharat (India). Mozambique's great advantage is that apart from the Western block operators, the partners all come from countries with a high demand for natural gas and often located in close geographical proximity. The state-owned companies, mainly from Asia, are already involved financially in exploration and development and they will obviously be interested in purchasing this gas.

However, from the Mozambican government's side, the process leading to investment decisions has been extremely slow and sometimes chaotic. There are many reasons for this. Firstly, the country was not prepared for such discoveries. Three times poorer than the African average, Mozambique has had to deal with a serious lack of oil executives in the public sector. Furthermore, the first three years of President Filipe Nyusi's term, who came to power in January 2015, were not used to encourage the gas sector. During his state visits abroad, the president rather increased requests for support in fields such as agriculture or infrastructure. However, in mid-2018, Nyusi finally showed some activism in the sector. He hosted a major conference on 15 August 2018 in Pemba in the Cabo Delgado region – where he comes from – off of whose coast the offshore gas fields are located. Driven by the need to obtain quick results with elections scheduled for October 2019, Nyusi then agreed to concessions – particularly in terms of local content – so that the oil companies would quickly commit to putting their reserves into production²⁵. Another factor in slowness, the ministers of Mineral Resources and Energy, which oil is a part of, have been replaced several times. Ernesto Max Elias Tonela, who has been in charge of this sector since January 2018, is the third holder of the position since 2015. Apart from the ministry, the sector is governed by

25. "MOZAMBIQUE: Nyusi Finally Becomes Gas Head Honcho, Here's Why", *Africa Energy Intelligence*, No. 823, 4 September 2018.

the regulatory authority, Instituto nacional do Petroleo (INP) [National Petroleum Institute], as well as the state-owned company, Empresa Nacional de Hidrocarbonetos (ENH) [National Hydrocarbons Company] which manages the state's stakes in the blocks. The leaders of the latter two institutions have not changed during Nyusi's term. The CEO of ENH, Omar Mithà, has mainly worked on securing the necessary funding to pay for the development of blocks 1 and 4, which his company holds respectively 15 and 10%. Yet, his goal has been considerably complicated by media coverage in late 2015 of the so-called "hidden debts"²⁶ scandal, contracted under the previous President Armando Guebuza. In 2013 and 2014, USD \$ 2 billion of secret loans were taken out – and not declared to the International Monetary Fund (IMF) and the donors community – by the Mozambican government *via* the companies, Proindicus and Mozambique Asset Management (MAM), which financed military ships and port facilities intended to protect the country's coasts.

A part of its loans was then used to pay commission to Mozambican officials. Kroll, the business intelligence company, described this set-up through a long investigation in 2016²⁷ facilitating the blacklisting of some figures, like the former Minister of Finance Manuel Chang. Many donors have since turned away from Mozambique and the IMF has sought an explanation. This atmosphere has considerably hampered the search for funds to finance the state's obligations in the oil sector, but it has also slowed down the machinery of state as a whole. As a result, the invitation to tender offering several offshore exploration blocks, whose winners were known in 2015, was not converted into contracts before 2018. ExxonMobil, Rosneft, ENI, Sasol, were chosen by the government in 2015, but could not sign a contract before the end of 2018, or three years after the announcement of their success. This considerable amount of time led to some companies quitting even though they were selected. They left because of a lack of communication from the Ministry of Mineral Resources, which failed to provide transparency about its block allocation policy.

In terms of revenue, these will be considerable, but it is still too early to pass judgment on the vague governance set up to manage them.²⁸ Nevertheless, the episode of the "hidden debts" is hardly likely to generate optimism in a country where the party in government, Frelimo, has totally

26. T. Coloma and L. Fauvel, "La crise financière du Mozambique. Un pays modèle remis en cause", *Notes de l'Ifri*, July 2017, available at: www.ifri.org.

27. "UNITED KINGDOM: Kroll Launches Armada against Mozambique Loans", *Intelligence Online*, No. 771, 9 November 2016.

28. All the same, President Filipe Nyusi mentioned creating an investment fund on the Norwegian model when he traveled to Oslo. Read "Nyusi Interested in Mozambican Sovereign Fund", *Agencia de Informacao de Mocambique* [Mozambique News Agency], 14 November 2018.

dominated the administration and economy since independence from Portugal in 1975. The leaders of the government tend to manage issues within the party's bodies and the counterweights are rather found in civil society than the opposition – Renamo and MDM – which are often unable to compete with Frelimo.²⁹ Under Filipe Nyusi's presidency, Renamo still managed to weaken Frelimo's control over some provinces. However, the actual implementation of this concession is still not taking place in practice.³⁰ Nyusi won another five years term in October 2019 scoring 73% of the votes.

As regards the use of domestic gas for each project, an agreement between the operator and the government decides the volume going to Maputo. The 2014 *Gas Master Plan*³¹ already lists the electricity and industrial projects that can in theory operate with the country's offshore gas. However, only a handful of them have since been actually allocated. Until now, only three companies have obtained contracts to carry out projects. Yara International (Norway) should be operating a fertilizer production plant (1.2 Mt) with 80 million cubic feet per day. The Anglo-Dutch *major*, Shell, has also won a *Gas to Liquids* project and finally the Kenyan company, GLA, should build a 250 MW power plant.³² An initial gas power plant was commissioned in 2015.

Comoros, Madagascar and Somalia

Besides the discoveries in the countries covered, explorations also affect other East African countries. Comoros awarded their first blocks in 2012 and is waiting on drilling which should be carried out within two years. Tullow Oil entered the archipelago's offshore at the end of 2018 and carried out an initial seismic survey in July 2019. As for Madagascar, only one *major*, BP, still has blocks in the country – but might leave in 2020 – since ExxonMobil left its offshore in 2016 and Total its onshore in 2017. Exploration in the country has declined considerably since the start of the civil unrest in 2009 when Andry Rajoalina – the current president elected in 2018 – controversially succeeded Marc Ralovamanana. The sector has remained relatively lackluster under Hery Rajaonarimampianina's presidency (2014-2018), but the country now seems to want to do more to attract exploration campaigns, using the argument of recent discoveries

29. S. Regalia, "La résurgence du conflit au Mozambique. Fantômes du passé et entraves à une démocratie pacifiée" [The Resurgence of Conflict in Mozambique. Ghosts from the Past and Brakes to Peaceful Democracy], *Notes de l'Ifri*, May 2017, available at: www.ifri.org.

30. Club of Mozambique, "Frelimo, Renamo Differ on New Elected Governors' Powers", 5 March 2019, available at: <https://clubofmozambique.com>.

31. Searchable at this address: www.inp.gov.mz.

32. US Department of Commerce's website about Mozambique: www.export.gov.

made in the area.³³ France, which carried out explorations on the Scattered Islands – which it has sovereignty of – near to Madagascar, especially on Juan de Nova, has now stopped the entire process. During his visit to Paris in late May 2019, the Malagasy president also applied to his French counterpart, Emmanuel Macron, to set up a commission to work on the case of the Scattered Islands, which have been claimed by Madagascar since 1973. Further north, the first Somali invitation to tender since the fall of Siad Barré in 1991, was launched in 2019. Two autonomous areas, Somaliland – which has proclaimed independence from Somalia – and Puntland have however been explored since 1991. The latter have not actually established exploitable reserves of oil and gas in onshore.

33. “Madagascar Unveils New Offshore Acreage”, *Petroleum Economist*, 11 December 2018, available at: www.petroleum-economist.com.

The security and political threats in hydrocarbon areas in East Africa

The oil project in Uganda and Kenya

Due to its army and special forces, Uganda is probably the country in the region that most securely controls its oil area in the west around Lake Albert. The main group likely to destabilize the security of Ugandan crude oil development is the ADF-Nalu³⁴ (Allied Democratic Forces National Army for the Liberation of Uganda). Founded in 1995, this Islamist group's primary objective was to destabilize Ugandan President Yoweri Museveni's government.³⁵ However, very soon after its foundation, the ADF-Nalu moved to the east of the Democratic Republic of Congo (DRC). The group has been accused of numerous abuses and massacres since the late 1990s. Since 2014, it is said to have been responsible for hundreds of murders in North Kivu in the Béni region. Even recently, in April 2019, a dozen people were killed.³⁶ However, apart from the thorny issue of refugee management which affects Uganda, ADF-Nalu's activities have had little direct impact on Ugandan territory.

Although Uganda does not represent a real security threat for the oil companies, the political risk is very real. Yoweri Museveni, who has been president since 1986, has changed the constitution in order to stand for office indefinitely and break down the age barrier that forbade anyone over 75 running for the highest office. However, he was 75 years old in August 2019 and does not intend to let go of the reins of the country, explicitly mentioning his candidacy in 2021. The restriction of democratic freedoms and the lack of transparency of the post-Museveni era, leave the oil companies, which above all fear political unpredictability, wary. While Ugandan oil development will go through long-term amortized investment, it is clear that the short- and medium-term political risks are limited, the head of state has also methodically removed all his competitors in the

34. T. Vircoulon and J. Batory, "L'islam radical en République démocratique du Congo. Entre mythe et manipulation", *Notes de l'Ifri*, February 2017, available at: www.ifri.org.

35. "L'Est du Congo: la rébellion perdue des ADF-Nalu", International Crisis Group, *Briefing 93*, 19 December 2012.

36. "Rebels Kill 12 DR Congo Villagers in Beni", *BBC Monitoring Africa*, 12 April 2019.

opposition – Kizza Besigye, former leader of the Forum for Democratic Change – or even those in his own party (National Resistance Movement), like the former Prime Minister Amama Mbabazi. His succession will however be fraught with uncertainty. However, after the recent sidelining of several leaders in power for decades in Zimbabwe (Robert Mugabe), in Algeria (Abdelaziz Bouteflika) or in Sudan (Omar al Bashir), Yoweri Museveni is far from guaranteed to stay in power *perpetually*.³⁷ His succession plan has been to install his son, Muhoozi Kainerugaba. The latter is a Lieutenant General in the army and an advisor on special operations to his father in the presidency. Kainerugaba was previously a special forces commander from 2008 to 2017, during which time he was responsible for monitoring the oil areas in the Lake Albert region. The difficulty for oil companies in dealing with the Ugandan president is likely to further delay the start of production around Lake Albert. The increase in obstacles forced the Chairman and CEO of Total, Patrick Pouyanné, to travel to meet the Ugandan president twice in January and April 2019.

As for Kenya, although the political issue is less pronounced nationally where the elections take place every five years – President Uhuru Kenyatta should leave office in 2022³⁸ – the ethnic issues are a considerable source of tension locally. As we saw in the previous section, the Turkana, the major ethnic group in the eponymous *county*, have already mobilized to block trucks transporting crude oil to Mombasa. However, the ethnic issue is more complicated, because a significant amount of the water that the oil companies will use to extract the crude oil, will come from neighboring West Pokot *county*. More specifically, Tullow Oil should use the Turkwel Dam located between Turkana and West Pokot *counties*. Yet, the water issue is not only particularly sensitive in an area where water is a scarce commodity, but furthermore, the two ethnic groups impacted by the oil companies' need for water, may suffer from this, which could feed interethnic tensions. Apart from these local matters, the security issue is still important, while the Kenyan government continues to favor the export

37. Following Yoweri Museveni's disputed re-election in 2011, protests called "Walk to Work Protest" were organized in Kampala and then in secondary cities, mainly on the appeal of the leader of the Forum for Democratic Change (FDC), the unsuccessful candidate in the highest election, Kizza Besigye. Since then, one of the independent members of parliament elected in 2017, Robert Kyagulanyi Ssentamu known as "Boni Wine", a music and film star, challenged President Museveni and is constantly intimidated by the police. The area of protest has continually shrunk in Uganda.

38. Elections in Kenya are not devoid of violence and uncertainty. In 2007, many interethnic disputes, following the disputed presidential election results, led to the death of more than 1,500 citizens. In order to restore calm, power-sharing between President Mwai Kibaki's Kikuyus and the future Prime Minister Raila Odinga's Luo was decided on. Since then, the two following elections have not been preceded by such severe violence as in 2007.

port of Lamu³⁹ over Mombasa. As long as the security situation in Somalia is not under control, which is far from being the case today, the closeness of the oil port to the Somali border will expose the project to a permanent threat from the jihadist Al-Shabaab movement.⁴⁰ The latter has perpetrated a number of attacks in Kenya to punish the latter for joining the coalition fighting them in Somalia (AMISOM – African Union Mission in Somalia). A double barbed-wire fence supposed to separate Somalia from Kenya along 700 kilometers was announced in 2014. Currently in mid-2019, only a dozen kilometers have actually been built.⁴¹ Although Mombasa was favored by the oil companies as an export port, it is not certain that the export infrastructure is necessarily safer. Indeed, a very large Somali community lives in Kenya and many of the attacks perpetrated in Kenya, have been from within the country itself. As a result, the attacks affect many areas of the country, including the capital Nairobi (more than 600 kilometers from the Somali border), where a hotel was targeted by a commando in mid-January 2019.⁴² Attacks are far from being excluded even near the port of Mombasa, on the South Kenyan coast, where there are plans for the crude oil from Turkana to be discharged. The Mombasa area has experienced many attacks perpetrated by Kenyan Islamists. One of the members of the commando in the attack against the hotel in Nairobi in January 2019, for example, was born in Mombasa. Great Britain also closed its Consulate there in 2014 mainly for security reasons. In November 2002, a hotel owned by Israelis was targeted by an Islamist group killing 13 people.

Somalia is also disputing the maritime border with Kenya and has brought the dispute before the International Court of Justice (ICJ) in

39. The choice of Lamu was also intended to be used to discharge crude oil from South Sudan *via* another pipeline coming from the northern region of that country. However, South Sudan has made no new discoveries since its independence in 2011 and has just allocated new blocks to small companies, like the Nigerian Oranto Petroleum, which does not have the resources to drill alone – hence new discoveries remain hypothetical. With regard to the country’s current production, which started in 1999 and is located along the border with neighboring Sudan, it is far too low to consider building a new pipeline. The Chinese CNPC, the main crude oil operator in both Sudans, is opposed to any new pipeline, given that it has already financed the two currently in operation that transport the crude oil to Port Sudan. Finally, the security situation in South Sudan, does not encourage new investments. Since 2013, and despite the signature of multiple ceasefires and political agreements between President Salva Kiir and his former Vice President Riek Machar, a violent civil war has largely cut the country’s production. This has been increasing again since 2018, but does not allow for new export investments.

40. To understand the history and ideology of the Al-Shabaab movement and its threat to Kenyan territory, see International Crisis Group, “Al-Shabaab Five Years after Westgate: Still a Menace in East Africa”, Report 265, 21 September 2018.

41. “Scandal over Kenya’s Border Fence that Cost \$35m for just 10km”, *BBC News*, 14 March 2019, available at: www.bbc.com.

42. “Kenya: au moins quinze morts dans l’attaque d’un complexe hôtelier de Nairobi”, *Le Monde*, 15 January 2019.

The Hague. The latter should decide in 2020 after several postponements in 2019 due to Kenyan demands. More than a third of Kenya's sole economic area is likely to be at risk if the ICJ decides in favor of Somalia. In the event of failure at The Hague, Kenya will however be able to argue the presence of more than three million Somalis in order to resume discussions with the Somali government.

Threats to Tanzania's and Mozambique's offshore gas

Tanzania and Mozambique are in a very different situation to Kenya and Uganda: their reserves are mainly offshore and are not subject to the same safety and security risks as onshore fields. However, while the reserves are out at the sea, both countries have planned to liquefy part of the production *via* onshore trains. Therefore, there will be a permanent onshore presence. This will firstly involve logistics to develop the fields, requiring support to carry out drilling and installing subsea gas recovery networks. Then, secondly during the construction period of the LNG trains – like ten in Mozambique and two to four in Tanzania – thousands of people will be onshore. The vulnerability of the areas to be protected will be ongoing for the development period as in production. Yet, in recent years, the security of this border area between Tanzania and Mozambique has been far from guaranteed.

One of the phenomena that is rapidly increasing in Mozambique and directly affects the Cabo Delgado gas province is the Islamist terrorist group Ansar al-Sunna or other Islamist groups whose acts of violence are not always claimed. Ansar al-Sunna, which was founded in 2015, only started acts of violence in October 2017 when several police stations were targeted, causing the death of 17 people. On 13 January 2018, a shooting at a market caused five deaths and then on 27 May, a dozen beheadings occurred in the village of Monjane. Similar attacks increased in June and September 2018, killing several dozen Mozambicans. 2019 saw continued violence. On February 2019, seven men were killed and four women abducted in the village of Piqueue.⁴³ Nevertheless, the various attacks came close to Afungi, the village where the Anadarko/Total liquefaction trains will be located. On 21 February 2019, the road between Mecimboa de Praia and Afungi was the target of armed violence against convoys of companies working for Anadarko. One of them, the Portuguese construction company

43. "Suspected Jihadists Kill 7 in North Mozambique", AFP, 8 February 2019.

Gabriel Couto – responsible for the runway⁴⁴ – was hit and one of its employees was killed. Following this incident, the Mozambican President Filipe Nyusi decided to send the army's special forces to protect the oil sites.⁴⁵ While these Islamist groups, Ansar al-Sunna or other misidentified movements, continue attacks near the future Total/ExxonMobil liquefaction trains, the project costs could be increased. However, it now seems difficult to consider stopping the development. Total, which should continue with the project of trains 1 and 2 in Afungi before the end of year, and the US *major* ExxonMobil are used to working in particularly difficult areas.⁴⁶

The events that have been occurring in Mozambique for three years, may spread to southern Tanzania. Several members of the groups that carried out the attacks are in fact from Tanzania.⁴⁷ However, although the Tanzanian province of Lindi has not been greatly affected yet, it is probably because no construction process is noticeable on the ground. This violent radicalism in Mozambique is a relative novelty for the country which until now enjoyed genuine goodwill between religious communities. Mozambique is largely dominated by Christianity, but the northern provinces like Cabo Delgado have a sizable Moslem population. Cabo Delgado is the current president, Filipe Nyusi's region, who will not want to let the situation escalate without finding a long-term, political-security solution to stop a phenomenon which could prove to be dangerous, or even uncontrollable, in the medium term.

44. "MOZAMBIQUE: Anadarko partner, Couto, the Latest Victim to Insecurity Couto", *Africa Energy Intelligence*, No. 833, 12 March 2019.

45. "Mozambique to Act after Attack Near LNG Site", *Usptream*, 27 February 2019.

46. An Ifri paper will be published before the end of 2019 on the movements prevalent in northern Mozambique.

47. Tanzania and Mozambique signed an agreement in principle to pursue security cooperation between police forces in January 2018. Read "Mozambique and Tanzania Coordinate Interventions to Combat Terrorism and Cross-Border Crime", *Noticias*, 16 January 2018.

Conclusion

East African oil and gas developments are taking many years to become established. The multiple governance and security difficulties make these projects very risky to develop, requiring the oil companies to do a lot of learning. Sometimes, like for Tanzania, the developments are made extremely complicated by the host country's demands. Furthermore, all the infrastructure must be built by the oil companies which operate in oil regions far away from the capitals.

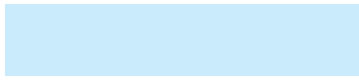
A new area of interest for the oil companies since the mid-2000s, four East African countries are now certain to produce oil (Uganda-Kenya) or gas (Mozambique-Tanzania) in the not too distant future. Deadlines of 2022 are considered for Uganda – probably postponed again after the failure of the sale of Tullow Oil's assets to Total and Cnooc – and Kenya and 2022 for Mozambique. With regard to Tanzania, the subject should be decided on in the current negotiations which should theoretically end in 2019. Although future oil production – around 300,000 b/d with the combined output of Uganda and Kenya – will not have a significant impact on global output (100 million b/d), Mozambique will clearly be a leading actor in the LNG market alongside Qatar, Australia and the United States.

With regard to the issue of revenue, although the laws governing them are often precise and promising, governance on this subject *ultimately* depends on the government. Bypassing the laws is highly possible in countries where the counterweights have been gradually crushed as in Uganda. Countries with traditions of strong local powers, like Kenya, are more likely to redistribute revenue, but with the potential consequences of corruption multiplied by the number of actors involved, as illustrated by the disastrous decentralization of oil revenue in Nigeria. As for Mozambique and Tanzania, the dominance of the presidential parties does not create enthusiasm for revenue transparency (see the hidden debts in Mozambique). It should also be noted that the committed oil companies all have CSR projects to support territorial development in the respective regions. Although some criticism has been made⁴⁸ – it is clear that the oil companies cannot replace governments. It is also obvious that a prerequisite is transparency in the sector's revenue: Mozambique and

48. Some French NGOs criticize oil exploration conditions in Uganda. Read "Devoir de vigilance: Total mis en demeure", *Les Échos*, 25 June 2019, available at: www.lesechos.fr.

Tanzania have been members since 2009 of the Extractive Industries Transparency Initiative (EITI), unlike Kenya and Uganda, which have not yet submitted their application. Finally, the major issue is the proper use of this revenue to foster a development strategy, that involves access to energy and economic services, and infrastructure and improved education. In a context where an Islamist threat exists and is mixed with social and ethnic tensions, the long-term security of infrastructure necessarily requires a development strategy.

Country	Reserves	First oil	Oil companies operating the reserves	GNP per capita	Population	Electrification rate	Human Development Index HDI
Uganda	1.7 billion barrels	?	Total/Cnooc/Tullow Oil	2400 dollars per capita	40 millions	20%	0,516 (162nd)
Kenya	560 million barrels	2022	Total/Tullow Oil	3500 dollars per capita	48 millions	56%	0,590 (142nd)
Tanzania	36 trillion cubic feet	?	Shell/Equinor	3200 dollars per capita	55 millions	33%	0,538 (154th)
Mozambique	160 trillion cubic feet	2021	Total-Anadarko/ENI-ExxonMobil	1300 dollars per capita	27 millions	24,20%	0,437 (180th)



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