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African energy

Eastern El Dorado?

ADDIS ABABA, KAMPALA AND HOMBASA

At long last east Africa is beginning to realise its energy potential

IN ENERGY terms, east Africa has long been the continent's poor cousin. Until last year it was thought to have no more than 6 billion barrels of proven oil reserves, compared with 60 billion in west Africa and even more in the north. Since a third of the region's imports are oil-related, it has been especially vulnerable to oil shocks. The World Bank says that, after poor governance, high energy costs are the biggest drag on east Africa's economy.

All that may be about to change. Kenya, the region's biggest economy, was sent into delirium on March 26th by the announcement of a big oil strike in its wild north. A British oil firm, Tullow, now compares prospects in the Hirkana region and across the border in Ethiopia to Britain's bonanza from the North Sea. More wells will now be drilled across Kenya, which also holds out hopes for off shore exploration blocs.

Kenya's find raised less joy in Uganda, where oil was first struck in 2006. Tullow, together with China's CNOOC and Total of France, will start pumping it next year, initially at a paltry rate of 5,000 barrels a day (b/d). But the Lake Albert basin, which straddles the border between Uganda and Congo, holds over a billion barrels of proven reserves and possibly twice that in potential finds. Uganda has always played Oklahoma to Kenya's Texas. It believed its bonanza had for once put it at an advantage: instead of importing oil through the Kenyan port of Mombasa, it would build a refinery and export petroleum products to

Kenya at a premium. Uganda still has a head start, but Kenyan officials now see their country as a regional hub that combines geographical advantages, and its own newly discovered energy resources, with tax breaks, skills and services.

South Sudan, for years the largest oil producer in the region and locked in an oil dispute with Sudan, now wants to send crude out through Kenya on a pipeline to a proposed new port in Lamu (see map). Such a channel could also serve Ethiopia, which shares Kenya's joy about their joint oil prospects. But their winnings pale next

to those farther south. Tanzania has done well out of gold, earning record receipts of \$2.1 billion last year, a 33% increase on 2010. It will do even better from gas. The past month has seen the discovery of enormous gasfields in Tanzanian offshore waters. That of Britain's BG Group is big, Another, by Norway's Statoil, is bigger. Statoil is recent gas find alone is estimated to hold almost a billion barrels of oil equivalent (boe).

Happily, Tanzania's gasfield extends south to Mozambique, where Italy's Eni last month unveiled a find of 1.3 billion boe, matching similar finds by an American firm, Andarko. With plans to build a liquefied natural gas (LNG) terminal, Mozambique could be a big exporter within a decade. At least the vast and impoverished south of Tanzania and north of Mozambique will be opened up to much-needed investment.

Yet the region is not just excited about fossil fuels; a parallel push towards alternative energy is under way. Several east African countries are keen to realise the Rift Valley's geothermal prospects. One of the world's largest wind farms is being built in Kenya not far from the new-found oil in Turkana. Its backers say it will produce 300MW, three times the total output of Rwanda.

That is a drop in the bucket for Ethiopia. Its rivers, plunging from well-watered highlands into deep canyons, have hydro-power potential. Meles Zenawi, the prime minister, has ordered the construction of a series of dams at a total cost of over \$8 billion. The jewel is the \$4.7 billion Grand Ethiopian Renaissance Dam on the Blue Nile. This should generate 5,250MW when finished, increasing electricity production in the country fivefold, providing a surplus for export and allowing Ethiopia to open up as a manufacturer.

The arrival of potential energy wealth ••



- comes with risks. Instead of bringing the region together, petro-rivalry could drive it apart. The continued dispute between South Sudan and Sudan should serve as a warning. South Sudan has cut off its supply of 300,000 b/d to Sudan, most of which is destined for China, complaining that transit fees to Sudan's export terminal are too high. The South Sudanese say Sudan has bombed its oil wells in recent weeks. Sudan whispers that South Sudan wants to replace Chinese oil companies with European ones. This is a sensitive point for Beijing: the Europeans have done especially well in the new scramble for oil in Africa.

Security is another potential problem, underscored by deadly grenade attacks in the Kenyan port of Mombasa this week by jihadists connected with Somalia's al-Qaeda-linked Shabab militia. Heavily armed pastoralists like Kenya's Hirkana

are unlikely to respect oil-company property. Ethiopia has hit gas in the Ogaden desert, and a Chinese company, PetroTrans, wants to invest \$4 billion there. But Mr Zennawi will have to win over the region's restive ethnic Somali population. Many oilmen suspect that Somalia itself may contain the region's energy mother-lode; war and piracy put it beyond reach.

Management is another test. Few of the region's governments have the capacity to strike fair deals with big oil companies. Tanzania is not alone in limping along with out-of-date and unsuitable laws. Nor do many have a good record of managing public accounts for the general good. Uganda's president, Yoweri Museveni, looks increasingly like a dynastic ruler bent on enriching his clan. Still, the region's millions of struggling poor are likely to be better off even if, as usual, the rich skim off the cream. •

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