

Oil Exploration in Namibia

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Source: Outwide

Introduction:

For over a century, Namibia, or the territory today defined as such, has had a strong mineral foundation, starting with the discovery of diamonds in 1908. In the years thereafter, it has developed into the fourth largest exporter of nonfuel minerals in Africa today. This is led by its diamond production, which is the sixth largest in the world by value, uranium production, which is the fifth largest in the world, as well as production of gold, lead, zinc, tin, silver and tungsten.

Adding to the known on-shore and offshore resources to which Namibia's economy is largely pinned, is the possibility of oil reserves. For a number of years there has been interest and activity in prospecting for hydrocarbons, both on and offshore, in Namibian territory. The first prospect wells were drilled in the early 1960s and following a number of dry wells, the Kudu gas fields were discovered in 1974, confirming the presence of hydrocarbons in the geological structures off the Namibian coast. The presence of hydrocarbons further motivated companies to explore coal and oil prospects in the country. However, after 36 coal exploration wells produced negative results and several oil exploration wells were found to be dry, interest in Namibia as an oil frontier waned.

In recent years, however, oil exploration in Namibia has once again started to garner a large amount of international interest due to the continuous rise in the price of oil together with improvements in offshore drilling technology. Large oil companies such as Shell, BP and Repsol have all bought exploration licenses in Namibia, and with that, a major rebound in deep-water drilling has been seen.

Namibia's Potential

The interest in offshore Namibian oil stems from the fact that Namibia and Brazil were once connected as one continent and that the geographical formations in Namibia's offshore basins are similar to those of Brazil, as well as the fact that Namibia borders a major oil producer in Angola, both of which have known oil reserves of a sizable magnitude. With the advent of new deep-water technology, Namibia has seen over 13 wells drilled since the start of 2010. Temporary excitement was sparked by an announcement by the Minister of Mines and Energy as to an oil find in 2011, however the announcement turned out to be made in confusion, and the promising Kabeljou prospect well was found to be dry.

Last year, however, a potentially game changing discovery was made when oil was extracted from the Wingat-1 prospect well in the Walvis Basin, confirming the previous speculation as to oil-bearing structures off the Namibian coast. While promising, this discovery was not commercially viable, but continued to sustain prospecting interest, including interest from a number of oil majors. This interest from the oil majors signifies an important step forward for Namibia. Deep-water drilling costs at least USD\$70 million per well, with no guarantee of success. In addition, many wells around the world are being drilled to depths of more than 5,000 metres – significantly deeper than any Namibian drilling projects. Oil majors are more likely to risk these levels of capital and use advanced technology to further test Namibia's oil prospects.

Despite the rising interest, no projects to date in Namibia have found oil in commercial quantities. Scepticism from investors has led the stocks of oil exploration companies that are active in Namibia (such as Chariot and HRT) to drop immensely in the past 2 years.

Resource Curse:

While many Namibians still eagerly anticipate an oil discovery, others are more circumspect. Oil discoveries, particularly in developing countries, have not always yielded positive results for the populous. In many instances, the majority actually end up losing out, while the minority become exorbitantly wealthy. Moreover, competition for control of resources has been known to lead to bloody and pervasive conflict in many developing nations.

Another concern is the environmental impacts of oil exploration. Hydraulic fracturing, a popular method of extracting oil and gas, has been receiving criticism for its environmental harm. It has been shown to pollute the water and air, and possibly trigger earthquakes. In general, a trend towards renewable sources of energy such as solar and wind power is increasing in popularity and viability due to new, cheaper technology. Thus, to many, it is debatable as to whether Namibia should focus on oil exploration instead of developing its solar and wind energy infrastructure.

Box Article: A background on the resource curse

The resource curse is an often counter-intuitive, but increasingly documented, phenomenon in which countries with large quantities of valuable natural resource, such as oil, experience abnormally weak economic and social growth and development. There are several reasons for this: Firstly, as large amounts of revenue from natural resources flow into the country, the value of the currency appreciates. This causes the overall exports of the country to become more expensive, and therefore less competitive. This is particularly true of traditional exports such as agricultural and manufactured goods. This phenomenon is known as Dutch Disease. Oil booms are also often detrimental to democracy and the rule of law. A recent article in the prestigious Foreign Affairs magazine states that "not a single developing country that derives the bulk of its export earnings from oil and gas is a democracy. Rather than fostering an entrepreneurial middle class, oil wealth, when controlled by the government, stifles the emergence of an independent business class and swells the power of the state vis-à-vis civil society". The reason for this is that massive unearned incomes (rents) overshadow taxes as the primary revenue source for government, which incomes are not dependent on the broad business environment nor the good will and support of the government by the populous. As such, the social contract between a population and its government, in which the populous elects and pays taxes to a government which in return services the needs of the people, is severed. It follows that non-tax-revenue from the sale of oil reduces a government's reliance on tax revenues and thus weakens the incentive to serve them.

Moreover, the general populous is often unaware of the amount of revenue being generated from these projects. As a result, the individuals that receive this revenue do not have strong incentives or pressure from the population to use the resources responsibly. This resource curse has plagued Africa in particular for decades. The top oil-producing countries in sub-Saharan Africa – Nigeria and Angola – have 54% and 43% of their population living under \$1 (PPP) per day, respectively, according to the UN.

While there is nothing to say that Namibia will experience the same phenomenon as the rest of the developing world should viable oil reserves be discovered, it remains important to ensure that the correct structures are in place to mitigate the risk and encourage the use of such revenues to serve the populous as a whole, rather than the elite minority. To do this, it is important to ensure transparency regarding oil production and resultant revenues, and to ensure that these revenues are used to benefit the entire population through investments in education, health care, and job creation.

Conclusions:

Despite the hype surrounding the possibility of oil off the Namibian coast, a viable find remains elusive, with the only discovery to date being nothing more than an appetite whether for exploration companies and prospect licence holders. Nevertheless, exploration continues, and with the arrival of oil majors and many upcoming drilling projects, we will begin to see a more clear picture of Namibia's oil potential, and should oil be discovered, only time will tell if it will help or hamper Namibia's development.



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