

Africa

Barack Obama quietly looks to West African oil

US energy policy is now placing an important but unspoken emphasis on overseas oil producers



Barry Parker — New York

AT THE end of last month, US President Barack Obama joined a line of predecessors going back three decades in urging Americans to use less oil, and, by inference, to import less crude from unfriendly foreign suppliers.

Flipping channels on the television (or, these days, pages on a web browser), the presidential speech was bracketed by news clips from Libya, where the US and Europe have now interjected themselves into political developments.

Only a week earlier, during a South American visit, President Obama had gotten into trouble with pro-drilling advocates following a demonstration of support for drilling offshore Brazil,

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including the ongoing litany of about \$2bn of credits issued by the US Export Import Bank in favour of Petrobras in 2009.

Stephen Hayward, an energy scholar at the Republican-leaning American Enterprise Institute, summed it up: “The Obama administration’s energy policy is in the midst of transition from being stubbornly ideological to being wholly incoherent.”

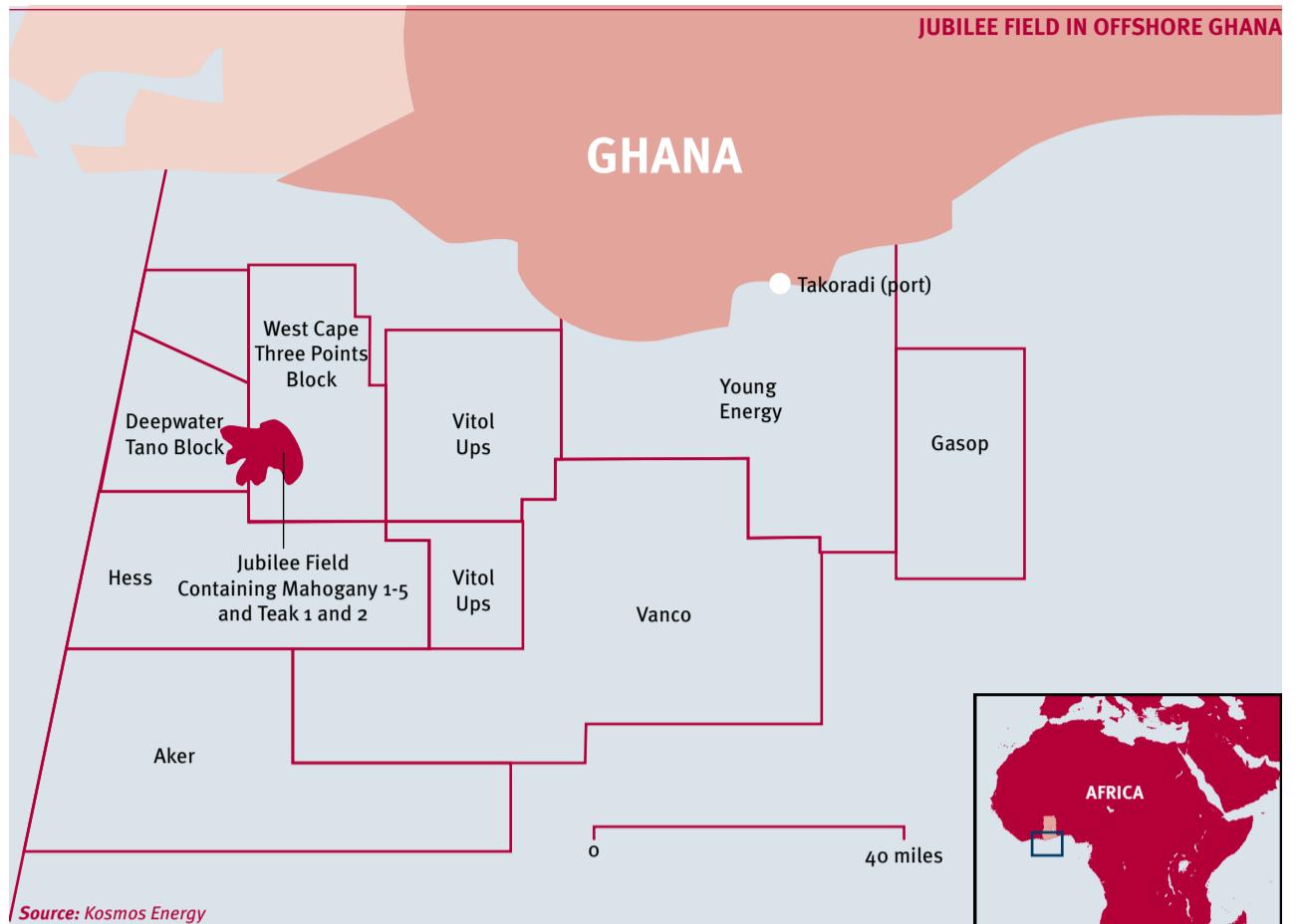
Energy expert Michael Levi, from the more centrist Council of Foreign Relations, described President Obama’s policies, which include increased domestic oil production, as sensible, but cautioned: “To be sure, the speech wasn’t perfect. The president’s warm words for expanded production were not matched with policy detail.”

In the big picture, President Obama is proposing a “Cap and Trade” programme to reduce carbon dioxide by placing a mandatory cap on CO₂ emissions while also auctioning permits to emit the gas that can then be traded. In order to win Republican backing for green policies, he must support production of both onshore shale gas and offshore oil, both of which have met with stiff opposition from environmentalists.

An unspoken part of this complicated policy maelstrom is to encourage imports from geographically near by, and politically less rambunctious, producers. At times, efforts to source oil from offshore West Africa have run into competition from China, which is also staking claims on Brazilian resources.

As the jousting in the US Gulf over drilling permits continues, the US will continue to reach across the oceans for oil — as the comments from President Obama’s Brazil trip suggest. ■

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Source: Kosmos Energy

Battle over Guinea Basin resources

CLASHES of resource politics are apparent off the coast of Ghana, which began pumping oil in late 2010 from the marquee producer — the Jubilee field where Tullow is the commercial operator and Anadarko holds a minority stake, writes Barry Parker.

The action item is the “monetisation” of US-based Kosmos Energy, which owns a much-coveted 23.9% stake in Jubilee.

Typical of an important oil exploration trend, Kosmos is controlled by major private equity investors backing an established executive team. Kosmos’ initial grubstake has come through investment

funds assembled by Blackstone Group and Warburg Pincus. The management group put Kosmos together following the sale of their previous employer, Triton, to Hess in 2001.

Several cargoes of API gravity 37-38 Jubilee crude have now been lifted, the first by Vitol in early January at a \$0.50 discount to dated Brent on board the Geden-owned aframax *Spike*, and a second by Trafigura, reportedly at a \$2.00 per barrel discount. The discounts reflect initial uncertainties of a new supply. A subsequent cargo, lifted by Vitol working on behalf of commercial

operator Tullow in early March, obtained a slight premium to Brent. The cargoes have been sold on, mainly to refiners on the US East Coast. As the market gets comfortable with the new supplier, analysts expect that it will trade at a premium to dated Brent.

Tullow said: “It takes a while for the market, and refiners in particular, to assess the fair value of any new crude oil, since ultimately its value reflects the actual yield and quality of products that a refiner obtains as compared with its formal technical and paper yield.” ■

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Kosmos raises prospect of \$500m IPO

OVER the past year, the Kosmos stake offshore Ghana has been in play as investors shuffle their ownership. Now the latest round in this high-stakes joust is to be an initial public offering that could be close to half a billion dollars, writes Barry Parker.

Investors fighting over the Ghana stake have included ExxonMobil, which tried to buy it last summer but saw a \$4bn-plus deal vetoed by the Ghana National Petroleum Corp, which holds 13.5%.

Shortly thereafter, in the fourth quarter of 2010, GNPC (with backing from Chinese giant CNOOC) offered \$5bn for the stake.

A late March report had Tullow, which owns a 34.7% stake in the huge Jubilee field, in discussions with EO Group, a smaller minority partner, regarding the sale of its 1.75% stake; Reuters reported that \$300m had been bid.

Meanwhile, as Jubilee comes online, Kosmos and its partners must fund capital expenditures for further development at Jubilee and at adjacent fields where discoveries have been made — hence the

IPO. The regulatory fee payments suggest an offering size approaching \$500m.

Jubilee is a massive field straddling two blocks, West Cape Three Points and Deepwater Tano. In WCTP, 16 wells have been drilled, which resulted in hydrocarbon discoveries at Odum, Mahogany East and Teak, with an additional 12 prospects identified. In the nearby DT portion of the Gulf of Guinea, 14 wells have been drilled with discoveries including Tweneboa and Enyenra, with seven additional prospects to be tapped.

Kosmos said: “Our drilling rigs, the Atwood Hunter and the *Deepwater Millennium* along with the Eirik Raude, will test other high-potential identified prospects and appraise our other discoveries offshore Ghana.”

Next on deck will be Mahogany East, where engineering studies are now under way

The Jubilee Field itself, served by the Modoc-owned *Kwame Nkrumah* floating production, storage and offloading vessel, will require further development.

The prospectus offers that: “We estimate Jubilee Field Phase 1 daily gross production to reach the 120,000 barrels per day design capacity of the FPSO facility used to produce from the field, in mid 2011.

“Within the next few years, we intend to expand upon the Jubilee Field Phase 1 development with three additional phases that are designed to maintain production and cash flow from partially de-risked locations.”

Next on deck will be Mahogany East, where engineering studies are now under way; geological studies suggest that light oil of API gravity 31 to 37 might be found, with first oil possibly occurring in 2014.

The company has also described plans to drill onshore Cameroon, during 2011 and 2012, and offshore Morocco some time beyond 2012. ■

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East Africa’s promise sparks flurry of activity

IN WEST Africa, Anadarko has announced its plans for exploratory drilling in the Liberian Basin, bringing the Transocean-owned drillship *Discoverer Spirit* out of the Gulf of Mexico, once it finishes its present completion work at Caesar/Tonga, writes Barry Parker.

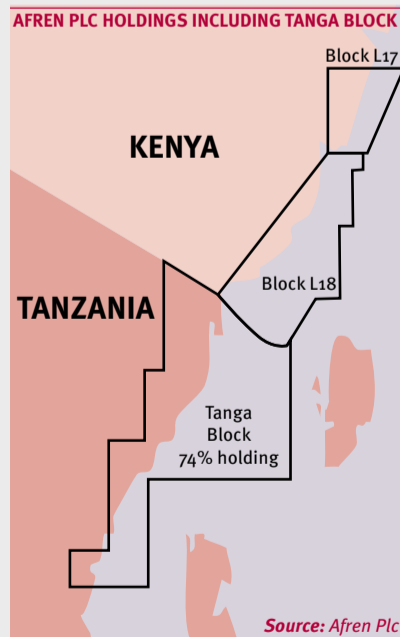
The rig is on charter at \$520,000 per day. Anadarko, whose executives have compared the potential for the Liberian Basin as being similar to the Jubilee Field, will be drilling in waters off Sierra Leone and Liberia, and continuing to analyse seismic data acquired over the past year.

Following Anadarko’s discoveries of gas last year in Mozambique’s Rovuma Basin, East Africa is also seeing a flurry of activity.

Most recently, the UK-based Afren Plc, an independent specialising in African exploration and production, did a deal to acquire a majority interest in a block off the coast of Tanzania.

As explained by the company, the block is contiguous to a pair of blocks to the north, off the coast of Kenya, where Afren already holds a 100% stake, and it is likely to be part of the same geological trends where oil has already been discovered.

Though Afren’s activities during 2011 will consist mainly of seismic assessments, the company mentions that it may begin drilling an exploratory well off Tanzania in late 2011.



Source: Afren Plc

Seabrokers, in its monthly newsletter, reports that Madagascar has delayed its tendering plans for licences to drill in waters off its western coast.

The Stavanger-based broker adds that the island’s “untapped oil reserves have attracted considerable interest from foreign investors and one field alone holds estimated recoverable reserves of 2.5bn barrels which would put Madagascar in the major league of oil producers”. ■

Totting up the costs of exploration

THE Kosmos IPO coincides with a shift from a “development stage” company into a real oil producer, writes Barry Parker.

To date, revenue from oil production has been nil; from 2006 through 2010, Kosmos has accumulated a deficit of \$615.5m, which includes exploration costs, along with the investment in oil properties — on the balance sheet at nearly \$1bn. The balance sheet shows a combination of the Warburg Pincus/Blackstone private equity investments (in roughly \$980m of debt that will convert into shares following the IPO) and bank loans (with roughly \$1.05bn drawn down).

Commercial bank funding available to Kosmos was increased in August last year, from \$750m, arranged during the depths in the financial crisis in summer 2009, to \$1.25bn. Under the existing facilities, Standard Chartered Bank is co-ordinating some \$1.15bn of commercial debt (divided into a senior credit of \$950m and a junior

facility of \$200m), with major participation from BNP Paribas and Société Générale. The International Finance Corporation, part of the World Bank, has kicked in with \$100m.

The funding costs show that such project lending is risky business; margins on the senior facility are 5%-6% above Libor, and 9% - 9.5% on the junior debt. Media reports had Kosmos seeking to organise a lower-priced refinancing, with pricing in the region of 3% over Libor.

Cash flow is set to turn positive. Included in the accumulated deficit is a requisite doubtful accounts expense of nearly \$40m “...related to receivables which became due upon the commencement of oil production from the Jubilee Field in November 2010”. Accounting disclosures show that cash can be released to Kosmos upon completion of the Jubilee field development, in mid-2011.

Regulatory filings provide insights into Kosmos’ anticipated capital expenditures, budgeted at \$400m for 2011 as the cash flow pendulum swings to positive. For Kosmos’ shares of its fields, these break down into \$135m for development in Ghana, \$175m for exploration and appraisal in Ghana, and \$25m for exploration and appraisal in Cameroon. The balance includes a cache for expanding the licence portfolio and for miscellaneous additional drilling.

A drilling contract with Atwood Oceanics revealed in the regulatory filings shows the semi-submersible Atwood Hunter to be on charter to Kosmos at \$537,000 per day, drilling off Ghana, and Noble Energy at \$546,000 per day drilling off Equatorial Guinea, prior to allowed cost escalations; which allocate days between them. Kosmos, in turn, has allocated a portion of its time to Tullow. ■

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