Blog

New gas finds in lower-income Africa – the case of Tanzania

by Alan R. Roe

There has been great excitement in recent years about the huge oil and gas finds, offshore and onshore, in a number of lower- and lower-middle-income countries such as Mozambique, Tanzania, Uganda and, more recently, Kenya. The scale of the potential reserves, future production levels and government revenues associated with these finds is substantial relative to the size of these economies.

The prospective levels of new foreign direct investment (FDI) to develop the fields would dwarf almost any previous investment in those same countries. For example, in Tanzania the prospective investment in offshore gas by just one company — BG Group (now part of Royal Dutch Shell) — could be some 5 times higher in future years than even the highest annual FDI flows seen in the past. But, of course, the excitement has been dampened significantly by the sharp decline in world oil and gas prices during the past 2-3 years: this has already caused significant delays and will inevitably cause some investment plans to be mothballed.

Price declines are not all bad news

However, the news in this new environment of softer prices is not entirely bad. The Tanzanian example shows that the smaller volumes of new onshore and near-shore gas are capable of delivering significant macroeconomic and social benefits quite quickly even if offshore projects are not. Many of the huge offshore projects — such as that being considered by the BG Group and Ophir — require huge scale and for this reason require also that a high percentage of total through-put be sold on world export markets after processing into products, such as liquefied natural gas (LNG). They are also likely to be long delays before production can begin. However, new onshore and near-shore finds by the French–Anglo consortium of Maurel et Prom and Wentworth Resources were able to deliver their first gas from Mnazi Bay in August 2015. They will quickly have the capacity to deliver more than100 mmscfs/d; i.e. significantly more than the existing through-put from the older established Tanzanian field at nearby Songo Songo, which itself is expected to increase its throughput. The gas from Mnazi Bay (south of Dar es Salaam) is already having major impact on Tanzania's capacity to generate electric power and on its macroeconomy.

The domestic energy situation in Tanzania is currently very poor. Power supply is not widely available, and even where available it is unreliable. Most of the country is not connected to the grid, and less than 20% of the population have access to electricity. So the new early stage gas from Mnazi Bay — delivered through a new high-capacity pipeline that was financed by the China Exim Bank — is providing a very significant impact on both the availability and the delivery costs of electric power in Tanzania.

In the *Big Results Now* programme — the centre piece of recent Tanzanian planning — it is anticipated that it will be possible to provide electricity to 5 million more Tanzanians by 2030, thereby alleviating to a degree the shockingly low rate of access to electricity that currently exists.

Good news for the Tanzanian economy

That is extremely good news for the Tanzanian economy in several different ways.

First, it means that TANESCO — the national energy supply company — has already begun to decrease its dependence on expensive imported feed stocks of diesel, and also to reduce its use of aging and unreliable hydro plants.

Second, the commercial operator (Wentworth) has stated that its gas sales agreement with TPDC (the national oil company) means that it will deliver gas at Mtwara at US$3.07 per million cubic feet (mcf) meaning that TPDC should be able to supply to TANESCO (the power-generating company) at US$5 per mcf (Wentworth 2014); much lower than most alternative sources. This in turn should enable TANESCO to produce and supply power at a price per kwh, which is around half the price that is currently necessitated by the use of expensive imported diesel.

Third, as well as increasing availability and lowering prices for some consumers, this would also reduce import bills. A spokesperson for the energy ministry has said that this change of feedstock could save the country some US$1 billion per annum in import costs.

Finally, it should also enable a large reduction in the massive fiscal subsidy paid to TANESCO — a subsidy justified by the company's inability to set prices to fully cover its currently excessive costs. This subsidy payment amounted to Tsh 399 billion (US$181 million) in 2013/14 which compares to total government revenues in the same year of Tsh 10,182 billion (US$4.6 billion); i.e. the energy subsidy was nearly 4% of that total (IMF 2015).

The very large discoveries on offshore and deep water gas in Tanzania in recent years appeared to offer the country a tantalising opportunity for economic transformation and increased revenues that could help to engineer large improvements in living standards and poverty levels. But the post-2012 decline in oil and gas prices have at the very least delayed the huge investments that were necessary to achieve this, and so have dented the hopes that previously were so high. However, in the midst of this somewhat disappointing outcome, there are some seriously positive and tangible developments in the form of less spectacular onshore and near-shore gas projects that are already beginning to improve the situation in Tanzania's energy generation capacity, and so the lives of the many Tanzanians who previously have been so poorly served in this regard.

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