

16:26 22Feb2007 ANALYSIS-Oil profits boost east Africa exploration

By Daniel Wallis

NAIROBI, Feb 22 (Reuters) - Gunmen ambush troops as insurgents fire rockets at military bases and pirates prowl the turquoise Indian Ocean shipping lanes offshore.

Somalia may seem an unlikely prospect for investors seeking untapped oil and gas fields, but that could be about to change as the majors turn their gaze off the beaten track.

Driven by record profits, a race with hungry Asian rivals and fears of growing energy nationalism in South America and Russia, interest in eastern Africa has never been higher.

"Africa across the board has seen a substantial uptake in acreage in recent years by all sizes of companies from the majors to mega-majors, independents and minnows," said Duncan Clarke, chairman and chief executive officer of international energy consultants Global Pacific & Partners.

"Quite a few significant players have moved into position."

Big Western companies including ConocoPhillips <COP.N>, Chevron <CVX.N> and Total <TOTF.PA> held Somali exploration concessions before the country slid into civil war in 1991.

A World Bank and U.N. survey that year of eight northeastern African countries' petroleum potential ranked Somalia second only to Sudan as the top prospective commercial producer.

Northern Somalia lay within a regional oil window reaching south across the Gulf of Aden, the geologists said.

Encouraged by that, explorers hoped to find an extension of the crude-bearing deposits that hold nearly 4 billion barrels under Yemen in the Marib-Hajar and Say'un-Al Masila basins.

APPEAL FOR HELP

Years of warlord-fuelled bloodshed put those plans on hold, but after routing rival Islamists from Mogadishu last month, Somalia's interim government is desperate to attract investors.

"Somalia has a lot of oil, and our ministers have just approved a key exploration law to regulate how concessions are given out," government spokesman Abdirahman Dinari said.

"But what we need now is international support to restore security and build our nation, and we will be noting who helps us and who doesn't when these decisions are taken."

As his administration fights to set up centralised rule for the first time since dictator Mohamed Siad Barre was overthrown 16 years ago, the U.S. majors are watching from the sidelines.

They each have hundreds of millions of dollars from high oil prices to spend on exploration this year, but have been burned in countries like Venezuela, Ecuador, Bolivia and Russia, which are all taking a much tougher stance on production deals.

That has boosted Africa's profile, while factors like growing violence in Nigeria and rising taxes for producers in Algeria have shone a new spotlight on the eastern seaboard.

Much of the interest is from Chinese, Indian and Malaysian firms with deep pockets, technological skills and an appetite for higher insecurity than Western competitors, experts say.

China, the world's second top energy user, already funds oil projects from Angola to Sudan, and is eyeing opportunities in northern Somalia and neighbouring Ethiopia's Ogaden region.

WILDCATTERS PROFIT

"The huge Chinese companies now have full technical expertise, and they no longer ever feel it necessary to take Western partners," said one veteran Western oil executive.

But smaller, fast-moving firms ready to work in difficult areas, often without the protection of mainstream insurance, are getting a slice of the action on the new east African frontier.

Australia's Woodside Petroleum <WPL.AX> is drilling off Kenya, South African independent Ophir Energy is prospecting off Tanzania and Sweden's Lundin Petroleum is surveying in Ethiopia.

Some are even proving that work is possible inside Somalia itself -- albeit in the calmer north.

Australian minnow Range Resources <RRS.AX> won a company-making deal in 2005 giving it concession rights to all minerals and petroleum in semi-autonomous Puntland, home to Somalia's president and former warlord Abdullahi Yusuf.

Unfazed by a mortar duel between rival clans last March on the nearby border with Somaliland, Range is bullish.

Last month, it unveiled a six-year agreement under which Canada's Canmex Minerals <CXM.V> will spend \$50 million on exploration for an 80 percent stake in the project.

Much more controversial in Mogadishu are exploration efforts in Somaliland, a breakaway enclave that split from the rest of Somalia in 1991 and has since enjoyed relative peace. It is also sitting on the most promising geology.

South Africa's Ophir has a coastal block there, and Chinese and Indian companies are also thought to be seeking acreage from the internationally-unrecognised Somaliland government.

"These are issues we have to work out, but we are all Somalis and we will solve them with dialogue," Dinari said.

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Keywords: SOMALIA OIL/

Thursday, 22 February 2007 16:26:13RTRS [nL19219301] {C}ENDS

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