Total Purchases Maersk: Great Opportunity or delays for the Kenyan Project?

Maersk Oil made headlines last week through the decision by its parent company, Danish conglomerate A.P Moller-Maersk, to sell off to Total in a $7.45 Billion deal. The repercussions sent ripples across the oil and gas industry and may have a huge impact here in Kenya. In 2015, Maersk Oil completed a $427 Million farm-in agreement with Africa Oil Corp acquiring 50% of Africa Oil's interests in Blocks 10BA, 10BB & 13T in Turkana County in Kenya. Tullow Oil is the operator of the aforementioned Kenya Blocks with a 50% interest, with Africa Oil Corp (25%) and Maersk Oil (25%) holding the remaining interests (collectively known as the South Lokichar Joint Venture). Preparations are currently ongoing to conduct Front End Engineering and Design studies in preparation for the Field Development project phase of the South Lokichar discoveries.

Total also has its own exploration interests in Kenya. It is the lead operator and holds 100% interest in deep offshore Block L22 after acquiring the licence in 2011, and 30% working interest in offshore Blocks L11A, L11B & L12, which are operated by Anadarko.

What is yet to be known is the impact of the sale of Maersk Oil's global assets , specifically here in Kenya, with the apparent entrance of Total as a key player in the South Lokichar Joint Venture. As the country pushes towards field development and first oil production within the next five years, it is worth understanding how Maersk's Kenya interests stack up against its global assets to get a sense of where Total's priorities may lie.

The table below gives a snapshot of Maersk other key assets:

Country	Location	Hydrocarbon	Asset	Resources in place
Norway	Offshore	Natural Gas	Johan-Sverdrup Development	1.9 – 3 billion BOE
Denmark	Offshore	Natural Gas	Tyra Development	1.4 billion BOE
United Kingdom	Offshore	Natural Gas	Culzean Development	250-300 million BOE
Angola	Offshore	Natural Gas	Chissonga Development	550 million BOE
Kenya	Onshore	Crude Oil	South-Lokichar Development	760 million – 1 billion barrels of Oil

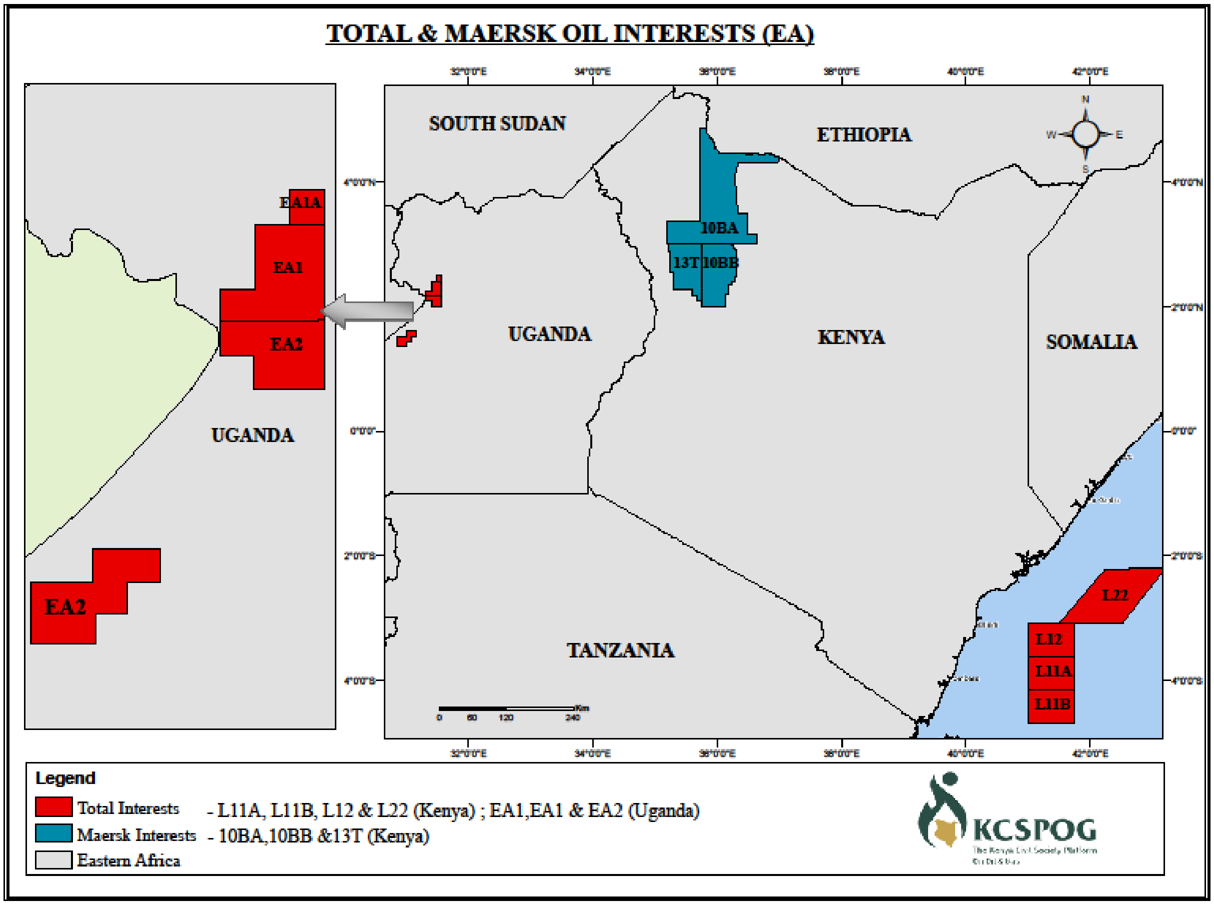
Table 1: A comparison of Maersk Oil's global assets ***BOE – Barrel of Oil Equivalent***

The table shows that Kenya petroleum assets are important, more so for Total, which already has a significant regional footing as an operator in Uganda.It is instructive that the deal seems to have been an outcome of Total beating Maersk to the tender for the Al Shaheen field in Qatar in 2016. Al Shaheen was Maersk's biggest producer at approximately 300,000 barrel per day. The loss of the Qatar field could be considered the catalyst that led to the eventual sale of Maersk Oil.

Closer home, Total has recently been increasing and strengthening its regional foothold in both the upstream (exploration) and downstream (retail) oil and gas sector in the region:

- In Uganda, the French oil major increased its operating stake in the Lake Albert Development Project licences by acquiring 21.57% of Tullow Oil's 33.33% in a $900 Million deal in January 2017. Total is currently the operator with a 54.9% stake, with China National Offshore Oil Company, CNOOC (33.3%) and Tullow Oil (11.76%) holding the remaining interest[1].
- Total reportedly also spearheaded the proposal to route the $3.55 Billion East Africa Crude Oil Pipeline (EACOP) from Hoima (Uganda) to Tanga Port (Tanzania), a decision that did not go over well with the Government of Kenya which had been vying for the Hoima – Lokichar – Lamu Port route.
- Downstream, in the retail market segment (petroleum product distribution and services), Total moved to cement its dominance in East Africa through its acquisition of Gulf Africa Petroleum Corporation (GAPCO) assets from India's Reliance Industries Ltd in a $400 Million deal in march 2017.

[1] CNOOC has exercised its pre-emption rights on the Tullow farm-down with Total. The result, perhaps not yet completely formalized, is that the Tullow farm down shall be allocated equally between Total and CNOOC.



Possible Scenarios

Various questions as well as speculation can be raised out of what the Total-Maersk deal holds for Kenya. Total can play either a supportive role or disruptive role in the Kenyan oil sector. The first scenario is that the relationship between Total and the Government of Kenya could be ambivalent and possibly strained. It will be of interest to see the relationship that Total will have with the Government of Kenya and other stakeholders especially after sidelining Kenya in its decision to opt for the Tanzania route for the EACOP. It is plausible that any attempts by Total to push Kenya to join up with the EACOP are likely to be rebuffed by the Kenyan government, due to the latter's commitment to the LAPSSETT route development.

As one of the global oil majors, Total could bring with it much needed financial muscle and technical experience to push the Lockichar project towards Final Investment Decision and production that the other two JV partners have not yet achieved currently. This will be important as countries in the region vie to reach First Oil as quickly as possible. Although it may be important to note that the additional assets in Total's portfolio in the region could mean a strain on resources especially if oil prices remain depressed

However, Total's entrance into Kenyan petroleum space could also prove disruptive to the project as Total was opposed to the northern pipeline route for the EACOP through Kenya, which the government strongly preferred. Whether Total will have a say in the proposed Kenya crude oil export pipeline route from Lokichar to Lamu Port can only be left to speculation. What is known and what is likely to remain a critical factor are Total's concerns regarding the Kenya route due to security risks stemming from terror threats from Al Shabaab as well as high compensation costs in way-leave rights and land acquisition.

The terms of the Maersk - Africa Oil deal included Maersk carrying Africa Oil towards development. This responsibility now lies with Total and any slowdown on their part could materially impact the project. If frustrated in its attempts, Total could look to offload the Kenyan assets, leading to further delays. A scenario the Kenyan government would want to avoid. However, any offloaded assets may prove to be a boon in tax receipts for the Kenyan government.

A third and yet rather unlikely scenario is that Africa Oils Ethiopian assets prove to be lucrative and the JV partners could seek to link the Ethiopian assets with Kenyan assets, making the northern pipeline route all the more viable within the LAPSETT framework.

Overall it remains to be seen how significant and strategic the Kenyan assets are to Total compared to other assets in the Maersk Oil portfolio. . In the interim period it will be important to keep a keen eye on what this acquisition deal will mean for the South Lokichar Development Project, particularly Total's voice and level of engagement moving forward, Tullow remains the operator in the Kenya development project. It will also be important for Kenyans to keep a close eye on the developments in Uganda's petroleum sector over which Total has significant control as there may be lessons for public and government engagement to be drawn there.

For communities in Kenya's oil rich northern region and for the general citizenry, the entry of Total may not have any immediate material meaning. What remains important is the extent to which the operator and partners will commit to ensuring that they develop this national natural asset for the benefit of Kenyans.