Sierra Leone, Liberia oil finds raise political stakes

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Stronger evidence is emerging that substantial deepwater oil lies off the coasts of Sierra Leone and Liberia. Both countries have a recent history of serious conflict and sit near the bottom of the UN Development Index. While the governments in Freetown and Monrovia have sought to dampen local popular expectations about imminent economic windfalls, their officials are generally optimistic about the prospect of becoming oil producing and exporting nations. However, donors and civil society actors remain concerned about the potential social and political impacts of oil revenues; both countries have already experienced allegations of corruption related to managing exploration activities.

What next

With Lukoil's entry into the Sierra Leone picture and the interest of Chevron and Exxon-Mobil in Liberia, the 'oil rush' offshore of the Mano River countries will gather a new momentum. However, despite continued stability gains and improving extractive sector revenue management, the deficits of institutional capacity and political cohesion in both countries suggest that the prospect of oil revenues could easily undermine rather than consolidate governance and security gains.

Analysis

Current exploration off Sierra Leone and Liberia is taking place in well-defined leased quadrants along the 'Cretaceous trend' extending from Sierra Leone to Ghana (across Liberia and Ivory Coast). Although further evidence is needed of the scale of recoverable reserves, existing finds have attracted the attention of key industry players:

- *Lukoil*. The Russian firm is the latest entrant into the regional oil scramble. It last week announced an intention to invest 100 million dollars into first-phase exploration of a block off the coast of Sierra Leone, rights to which it co-owns with smaller players Oranto Petroleum and Vanco Energy. This is Lukoil's sixth play in the region, with three exploration ventures off Ivory Coast and two off Ghana.

- *Chevron*. In Liberia, Chevron has signed a three-year exploratory deal relating to a block on which there has been some controversy. The block's original holders, Oranto, were accused of bribing members of the Liberian legislature to fast-track approval of the block.

- *ExxonMobil*. Canadian Overseas Petroleum has recently sold its block interests to ExxonMobil for 55 million dollars.

These majors join some second-tier and regional specialists such as African Petroleum (an early entrant owned by Australian businessman Frank Timis), and Texas-based Anadarko, which has purchased rights to multiple exploration blocks in both countries:

- African Petroleum announced in February a potentially large accumulation of light good quality oil at its Narina-1 site off the Liberia coast.

- Anadarko also announced a substantial find in February at its Jupiter-1 site off the coast of Sierra Leone, complementing the earlier find at it Mercury-1 site.

Impact

- Core local economic sectors, notably agriculture, may continue to suffer policy neglect as extractive industries distract local officials.

- Environmental pollution concerns will persist for years given weak governance records and capacities, raising the onus on firms.

- The United States is comparatively well-placed to press advantages as the sub-region's strategic significance increases.

Oranto, Mitsubishi, Spain's Repsol, and UK-based Tullow are junior partners in a number of exploration leases. However, all players have noted that production is some way off pending further testing and cost estimates: exploration alone is slow and technically difficult given the relatively significant ocean and sub-seabed depths involved.

Liberia and Sierra Leone look to Ghana as a model for sectoral development, despite its different governance profile

Regulatory issues

Following the recent positive exploration results, local political and civil society actors can be expected to give greater attention to the processes by which existing licences (and potentially transfer of rights) were granted. The finds will also raise the profile of procedures for issuing new licences. Regulation of environmental and safety issues relating to deepwater operations remains weak across the region (see AFRICA: Deepwater oil regulation is set to increase - August 12, 2010), as do maritime security frameworks and capacities (see WEST AFRICA: Regional piracy response will take time - October 19, 2011).

Oil and politics

Contestation over control of natural resources and revenues from these resources fuelled much of the serious armed conflict that both countries experienced in the 1990s and early 2000s. A related discourse of grievance over corruption by elites was a notable and enduring feature of various armed groups involved in these conflicts. The prospect of hydrocarbons revenues fuelling rather than mitigating instability will remain a real one (see WEST AFRICA: Mano River region instability will remain - December 19, 2011):

- *Liberia*. Controversy is already afoot in Monrovia after President Ellen Johnson Sirleaf recently nominated her son Robert to be the chairman of the National Oil Company of Liberia. Her critics argue that quite aside from the perception of nepotism generated by the move, he is unqualified for the role, having no industry experience. Sirleaf has reportedly initiated lawsuits against two newspapers that challenged his suitability for such a sensitive post. Despite its ostensible stability, the country's post-conflict consolidation is not irreversible (see LIBERIA: Sirleaf's final term will prove challenging - March 2, 2012).

- *Sierra Leone*. So far, management of the sector is proceeding more smoothly than in Liberia. President Ernest Bai Koroma recently announced a 'Strategic Environmental Assessment', a multi-stakeholder consultation intended, he states, to secure the national interest and future economic prosperity, while supporting the social welfare of directly-affected communities and protecting the environment. The initiative has been well received by donors. However, the country remains vulnerable to further ethnicity-based instability and even violence in the run-up to November elections (see PROSPECTS 2012: West Africa - November 18, 2011).

Sierra Leone's 2012 election will be closely contested, with contract and revenue transparency a key issue

Some estimates suggest that oil revenues could add over 100 million dollars a year to each country's coffers by the end of this decade. If so, this would amount to a substantial addition to each country's current GDP. However, in a recent report, influential international group Revenue Watch stated that Liberia is not 'ready' for oil. Control of the potential for hydrocarbons sector resource rents -- as well as control of any revenues themselves -- will become an even greater factor driving political dynamics in both countries. Despite their respective post-conflict recoveries to date, neither polity is particularly well-placed to manage these forces.

Revenue transparency

Resource revenue management and transparency is already a very explicit element of national politics in Sierra Leone and (to a slightly lesser extent) Liberia. Bilateral donors, multilateral partners and international civil society groups have accorded resource revenue management issues a relatively high priority in both countries (see INTERNATIONAL: EITI grows but faces reform pressures - February 29, 2012).

The fairly long timeframe before any actual oil production means that scope still exists for further programmes to prepare government and non-governmental actors in both countries for the advent of actual oil (as opposed to contract-related) revenues. Major firms are relatively vulnerable to global reputational and regulatory risks: their desire to minimise familiar oil-related corruption and conflict scenarios in these 'new' settings means that such firms may be relatively amenable at this time to assisting directly and indirectly in early efforts to improve public financial management.