



Oil Exploration in Namibia: A boost for development?

Speech by H.E. Neville M. Gertze, Ambassador

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Ladies and Gentlemen,

I am delighted to be here with you this morning in order to share and discuss with you recent developments in the area of hydrocarbon exploration in Namibia. I am grateful to the Association of German Chambers of Industry and Commerce (DIHK) for hosting this breakfast meeting. The DIHK has been a reliable partner to the Namibian Embassy for many years and, together with organisations such as SAFRI and the Afrika Verein, plays an important role in informing the German business community about trade and investment opportunities in Africa.

Ladies and Gentlemen,

Africa is experiencing an economic resurgence, investor perceptions of the continent are ever improving and the outlook for continued growth, particularly in the long term, is also positive. As was shown in a recent survey by Ernst & Young, although attractive investment opportunities exist in a variety of sectors, such as tourism, financial services, telecommunications, agriculture, and infrastructure, for many investors the extractive industries, including mining and oil and gas, continue to have the highest growth potential.

I think that there are at least two reasons for this attitude. First, it reflects the general perception that Africa's economic growth in the last few years has been largely driven by the surge in global commodity prices over the past decade. Second, it highlights the increasing strategic importance of Africa's raw materials to the international investment community.

As you know Namibia is a country rich in natural resources. We are a world class producer of rough diamonds and uranium oxide. In

addition, we are blessed with other mineral resources such as gold, base metals, industrial minerals, a wide variety of semi-precious stones and several types of dimension stones. The mining industry has been a significant part of the economy; it is the largest foreign exchange earner and contributes 15% to the GDP.

The Government recognises the important contribution of the mining industry to the social and economic development of Namibia and to this end has created a conducive and enabling legislative, fiscal and institutional environment for investors. The Namibian Government also wishes to ensure that Namibians benefit from the mining sector. It is for this reason, for example, that in April 2011, the Namibian Cabinet declared uranium, gold, copper, coal, diamonds and rare earths minerals as strategic minerals. Any new licenses for the exploration and mining of these strategic minerals will be issued to Epangelo, a private corporate vehicle, which may then enter into joint ventures with interested parties for exploration and development of these resources. The new mining strategy aims to create a public-private partnership between Epangelo and investors. It is not, as has been claimed by some commentators, an attempt at nationalization, but a tool to make the Government and the people of Namibia meaningful participants and shareholders in the mining sector.

I mention the new mining policy because it highlights the manner in which the Namibian Government seeks to (a) manage natural resources responsibly and sustainably, (b) ensure that the industry maximises the benefits for local communities and (c) also put into place an investor-friendly policy and legal framework.

Such an approach is prudent and necessary in order to ensure that Namibia remains an attractive investment destination and that our natural resources are exploited for the mutual benefit of investors and the people of Namibia. It is also an approach that should create confidence in the ability of the Namibian Government to create a conducive environment for the exploration and exploitation of hydrocarbon resources.

The prospect of finding oil will no doubt further boost the importance of the primary sector to the Namibian economy. While no oil has been found yet, on the basis of recent geological data Namibia has become one of the most promising hydrocarbon regions in the world. Some commentators even believe that Namibia could be the next oil frontier in Africa.

So, what is the reason for all this excitement?

Geological studies show that Namibia has a similar geological architecture to other hydrocarbon rich areas in South East America and South West Africa. The presence of similar petroleum systems on both the opposite margins of the South Atlantic Ocean is due to a common geological history. Before the supercontinent of Gondwana broke up during the Cretaceous Period, the Namibia basins were adjacent to what are now the oil rich Santos and Campos basins of Brazil. Modern geochemical analysis indicates the presence of hydrocarbons with similar fingerprints or geochemistry to those present in the Santos and Campos basins offshore Brazil.

Other direct and indirect indications of the presence of hydrocarbons include the occurrence of gas chimneys, anomalies of amplitude and gas escape features on seismic images, satellite seepages in offshore

Namibia, and the existence of carbonates and reef mounds possibly associated to hydrocarbons seeping.

As hydrocarbons are generated in sedimentary basins, it is these basins that have to be the focus of exploration efforts. Eight main basins have been identified in the geology of Namibia. The total area of the basins is more than 1 million km². The offshore basins cover an area of more than 560,000 km² and being younger than the onshore basins are thought to have more potential for hydrocarbon exploration and production.

After many years of research and data acquisition, oil and gas exploration has reached an exciting stage in Namibia.

An increase in 2D and 3D seismic data acquisition has improved the image and mapping of the hydrocarbon prospects, as well as the estimation of potential oil and gas resources in the various basins. This means that there is greater chance of accurate drilling and consequently a greater chance for the discovery of hydrocarbons. More exploration needs to be done but existing geological mapping and geophysical data indicate the presence of geological structures which may contain several billion barrels of oil resources. The Kudu Gas Field is the only proven commercial hydrocarbon discovery in Namibia to date. It is located in the Orange Basin in 170 meters of water and 130 km off the coast. The proven recoverable reserves have been estimated at 1.4 trillion cubic feet while probable reserves are estimated at 3.8 trillion cubic feet. The field is expected to be developed in the near future with the gas to be used to feed a 800MW base load power station.

Namibia's oil potential has attracted a large number of international investors and major oil and gas players. In the last 2 years there has

been a phenomenal increase in the number of licenses awarded for both onshore and offshore areas. This phenomena can be attributed to a number of factors such as Namibia's political stability, an easy and flexible licensing system, an attractive and well developed legal and fiscal framework, and the aggressive promotion of Namibia's hydrocarbon potential at various oil and gas related international forums. Currently, more than 20 exploration licenses, one production license and two reconnaissance licenses have been issued to local and international oil companies. License holders include experienced exploration companies such as BP Plc, PETROBRAS, Chariot Oil & Gas, Arcadia Oil & Gas and HRT Oil & Gas. Having completed the process of acquiring, interpreting and processing various seismic data, several of these companies are planning extensive drilling activities in 2012 and are in the process of looking for financing and partners. The Ministry of Mines and Energy expects 6-8 wells to be drilled in the next 18 months. This would be the highest number of wells in the exploration history of Namibia over such a period of time. The country currently only has 16 wells, of which 8 are concentrated in the Kudu Gus Field. Once drilling has commenced, it will be possible to establish the extent and distribution of Namibia's hydrocarbon resources.

The National Petroleum Corporation of Namibia, NAMCOR, plays an important role in the oil and gas sector. Under the Petroleum (Exploration and Production) Act of 1991, it has the right to carry out reconnaissance, exploration and production operations either on its own or in partnership with other organisations or companies in the industry. NAMCOR's main business is to ensure the optimum exploitation of Namibia's petroleum resources and make sure that there is a meaningful Namibian participation in the resulting business developments in petroleum related exploration activities. The

company also acts as advisor to the Ministry of Mines and Energy and assists it in monitoring the exploration activities of licensees. Currently NAMCOR has participating interest in 76% of the licensed hydrocarbon blocks. While it is not mandatory, international investors and companies are encouraged to enter into joint cooperation agreements with NAMCOR and in return benefit from NAMCOR's extensive oil exploration data and geological samples.

The emerging Namibian oil and gas sector offers many opportunities for international investors, as shown on this slide. Interested parties are invited to inquire about ongoing oil and gas exploration and the activities of current license holders at the Ministry of Mines and Energy. The Ministry can tell you who is doing what or who is looking for partners. Investors are also encouraged to contact the operators of each licensed block, as it is the operators who direct the exploration and production activities, determine budgets and arrange or solicit financing.

Ladies and Gentlemen,

There is a great possibility that oil will be discovered in Namibia in the near future. If and when this happens, the Namibian Government will ensure that this resource is used responsibly for the social and economic development of the country. We know that the private sector and international investors will play a vital role in developing our hydrocarbon resources and we look forward to a mutually beneficial cooperation with them. Namibia has a solid track record, after 21 years of Independence, of putting into place laws and policies which have facilitated foreign and domestic investment. We have maintained a high ranking in international and regional competitiveness surveys and enjoy a good reputation as a desirable

investment destination with political stability, good governance, a well developed infrastructure, attractive investment opportunities in various sectors and a good quality of life. We have already managed to attract significant foreign investments in sectors such as mining, telecommunications, tourism, fishing, financial services and now oil and gas exploration.

However, while we are excited about the emergence of Namibia as a new petroleum exploration destination, it is also important to state that this does not change the Government's position on the need to diversify the economy, increase the industrial base, and promote value addition. We know that an economy that is focused almost exclusively on the extraction of resources with only limited manufacturing and value-addition is a vulnerable economy. We do not want to have an economy that is dominated by the import of goods for domestic consumption and the export of raw materials. This is the reason why since independence, the Government has adopted a national development plan and put forward a series of industrial, trade and investment strategies that promote the development of productive industries across the country. The aim is to increase value addition to Namibian raw materials, the export of manufactured and processed goods, and the contribution of the manufacturing sector to GDP. That is the only way to build a strong and resilient economy, fight poverty, generate sustainable wealth and create jobs.

Ladies and Gentleman,

I hope I have given you a helpful overview of recent hydrocarbon exploration activities in Namibia and now look forward to a fruitful discussion.