

## AFRICA RISK CONSULTING

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*The Forum on China-Africa Cooperation (FOCAC) in Beijing provides Namibia with an opportunity to secure Chinese concessional lending for priority development projects. Anglo-Australian resources group Rio Tinto is reported to be on the verge of selling its majority-owned Rössing uranium mine to a state-owned Chinese nuclear power utility. The Namibia Statistics Agency (NSA) publishes a fact-based booklet on land ownership in time for the second national land conference in early October. United States-based credit rating agency Moodys' fears that Namibia may be unable to reign in the growth in public debt as a proportion of gross domestic product. The economy continues to contract in the second quarter of 2018, although mining and construction output grows strongly. Finance minister Calle Schlettwein appears to seal the fate of the Kudu gas-to-power project. The latest offshore exploration well, Cormorant-1, proves to be another dry one.*

## Namibia aims to tap China for N\$10 billion in loans

Namibia's hopes of securing some N\$10 billion (\$740m) in new bilateral loans to fund priority national development projects, especially for infrastructure, over the next five years received a major boost from the two-day **Forum on China-Africa Cooperation (FOCAC)** which took place in **Beijing (China)** from 3-4 September.<sup>1</sup> President **Hage Geingob** (2015-present) attended in his capacity as current chairperson of the **Southern African Development Community (SADC)**. China's President **Xi Jinping** (2013-present) – who co-chaired the summit with **South Africa's** President **Cyril Ramaphosa** (2018-present) – pledged that China would provide \$60 billion in aid to the continent, mainly in the form of low-interest loans and grants, which observers say would enhance China's presence in **African** countries.<sup>2</sup>

The measures announced at FOCAC form part of the so-called "**Belt and Road**" initiative, an overseas development and investment programme focussed on promoting trading links, with China as the hub. The loans offered by China can be accessed both by African governments and public financial institutions. It is envisaged that \$20 billion (33%) will be for credit lines, \$15 billion (25%) for grants, concessional and interest-free loans, \$10 billion (17%) each for investment and development financing respectively, and \$5 billion (8%) for a special fund to finance African imports to China. Xi assured FOCAC delegates that China's investment in Africa has no strings attached:

*"China's cooperation with Africa is clearly targeted at the major bottlenecks to development. Resources for our cooperation are not to be spent on vanity projects, but in places where they count the most."*<sup>3</sup>

Geingob's delegation included finance minister **Calle Schlettwein**, who confirmed that Namibia hoped to borrow up to N\$10 billion via the FOCAC arrangement agreed in China.<sup>4</sup> The borrowed funds would include money earmarked for the upgrading of **Hosea Kutako International Airport** outside the capital, **Windhoek**. Geingob cancelled an existing upgrade contract between the **Namibian**

<sup>1</sup> Deutsche Welle, 3 Sep 2018; New Era, 4 Sep 2018.

<sup>2</sup> Deutsche Welle, 3 Sep 2018; New Era, 4 Sep 2018.

<sup>3</sup> Deutsche Welle, 3 Sep 2018; New Era, 4 Sep 2018.

<sup>4</sup> The Namibian, 7 Sep 2018.

**Airports Company (NAC)** and a Chinese contractor in 2017 on the grounds it had not been properly awarded, but the project is regarded as too important to fail. Schlettwein added that the cabinet still needs to consider each project once it is ready.<sup>5</sup> Priority projects include the construction of the final phase of a new two-lane highway to the airport and 400 houses.<sup>6</sup> Schlettwein justified the raising of additional loans from China because they were cheap:

*“Their terms are very favourable because they are offered as blends with grants, and they have grace periods of up to five years. That makes them cheaper than most debt instruments we are using currently.”<sup>7</sup>*

Schlettwein provided more details in a mid-September statement to the **National Assembly** in which he stressed that Namibia had not yet signed any loan agreement with China under the new FOCAC arrangement. He noted that total outstanding loans by China amounted to N\$2.0 billion (\$148m), some 3% of the total public debt portfolio, and 8% of the foreign debt stock, of which N\$1.7 billion (\$126m) was in the form of concessional loans, with N\$302m (\$22m) in interest-free loans.<sup>8</sup> Schlettwein added that FOCAC offered an opportunity for some of the N\$10 billion loan uptake authorised by the cabinet, and funding for the Hosea Kutako upgrade *“is one such priority undertaking”*.<sup>9</sup> Schlettwein noted that this did not mean that all the planned bilateral loans to fund priority national development projects over the next five years would be sourced from China, as some would come from Namibia’s other bilateral development partners.<sup>10</sup>

Schlettwein reiterated that under the government’s sovereign debt management strategy, Namibia does not intend to take out *“significant”* new debt.<sup>11</sup> However, clearly the government will borrow as much from China as it feels it can afford to, since Schlettwein lauded the terms of Chinese concessional loans. These typically included a grants component of up to 10% of the total loan amount, and a 2.0% annual interest rate, well below the average 7.7% annual coupon the government pays on domestic treasury bills and the 9% interest rate it pays on domestic bonds.<sup>12</sup>

### **Rio Tinto may sell Rössing mine to a Chinese nuclear power utility**

China’s existing strong partnership with the Namibian government and participation in the economy may be significantly expanded. Two leading industry publications recently reported the imminent sale by **Anglo-Australian** resources group **Rio Tinto** of its majority (68.6%) equity shareholding in the open pit **Rössing** uranium mine to Chinese state-owned nuclear utility **China National Nuclear Corp. (CNNC)**.<sup>13</sup> Rio is reported to be in *“late stage talks”* to sell its majority stake in the mine, which started operation in 1976 and remains one of the world’s top ten uranium producers, to CNNC.<sup>14</sup> Rio refused to make any public comment on a potential sale to the publications. Rössing managing director **Werner Duvenhage** dismissed the reports as *“rumours or market speculation”*.<sup>15</sup> However, mines and energy permanent secretary **Simeon Negumbo** confirmed that his ministry was aware of the *“ongoing discussions”* but said he was not in a position to provide more information on them:

<sup>5</sup> The Namibian, 7 Sep 2018.

<sup>6</sup> The Namibian, 7 Sep 2018.

<sup>7</sup> The Namibian, 7 Sep 2018.

<sup>8</sup> Informante, 19 Sep 2018.

<sup>9</sup> Informante, 19 Sep 2018.

<sup>10</sup> Informante, 19 Sep 2018.

<sup>11</sup> Informante, 19 Sep 2018.

<sup>12</sup> Informante, 19 Sep 2018.

<sup>13</sup> Nuclear Intelligence Weekly, 14 Sep 2018; Fuel Cycle Week, 21 Sep 2018.

<sup>14</sup> Nuclear Intelligence Weekly, 14 Sep 2018; Fuel Cycle Week, 21 Sep 2018.

<sup>15</sup> The Namibian, 27 Sep 2018.

*“In the absence of any agreement reached and the CNNC business model, the ministry has no information on the matter until it has received an update. This transaction will still need the approval of the minister [Tom Alweendo] to proceed.”<sup>16</sup>*

The publications said that Rio had been known for some time to be keen to exit the uranium sector. Its other majority-owned yellowcake mine, **Ranger**, in **Australia’s Northern Territory**, is now only processing stockpiles, and this is due to end in 2020. Both mines are losing money because of the low prevailing uranium price, which has recently recovered slightly to around \$26 per pound U3O8.<sup>17</sup> Rössing is better placed, because it has large remaining, albeit low grade, ore reserves and delivers its product under higher-priced (around \$45 per pound U3O8) long-term contracts negotiated decades back, having reduced production three years ago when it exited sales at the lower spot market price. Even so, last year Rio booked a \$177m post-tax impairment charge (representing Rio’s equity interest) for Rössing, *“due to oversupply in the uranium market resulting in structural changes to forecast prices”*.<sup>18</sup>

A sale to either of the two Chinese state-owned nuclear utilities with sole authority to import uranium into China is the most likely outcome in the publications’ view.<sup>19</sup> **China General Nuclear (CGN)** already owns the **Husab** open pit uranium mine to the south of Rössing (90%, with Namibian state-owned **Epangelo Mining Co.** holding a 10% free-carried (unpaid for) interest), and synergies between Husab and Rössing would make a tie-up logical. The two mines are only 40km apart, have a similar **alaskite** hard-rock ore body and use the same processing technology (acid tank leach). CNNC may be keener on an acquisition as CGN has already paid \$2.2 billion to acquire the Husab project from its original **Australian/United Kingdom (UK)** owners and an estimated \$2.6 billion to build the mine, processing plant and supporting infrastructure, as it wants to expand its global reach.<sup>20</sup> CGN already has an overseas uranium sales subsidiary based in **Cambridge (UK)** but CNNC has no comparable marketing operation. One of the attractions of acquiring Rio’s stake in Rössing is its global contracts, which would probably account for most of the value in a sale. Rössing stated in 2017 that the leading customers by region were **North America** and **Asia** (including China), each with a 31% share, followed by **Europe, Middle East** and Africa, 26%; and **Japan**, 12%.<sup>21</sup> CNNC already holds a 25% equity interest in the **Langer Heinrich** uranium mine (Australia-based **Paladin Energy** has 75%, see below), but passed up an opportunity to acquire Paladin’s majority holding early last year when the company was temporarily placed into administration.<sup>22</sup> The \$583m price tag was apparently more than CNNC was willing to pay. Rio is expected to value its stake in Rössing much lower than this.<sup>23</sup>

A sale of Rössing to CNNC would provide China with virtually complete dominance over Namibia’s uranium sector. Because of the close Namibia-China bilateral relationship, the Namibian government is unlikely to oppose it. It could veto a deal if it so chose, because while Rio is the majority equity shareholder, the government holds a golden share in the form of a 3.0% equity interest which provides it with 51% of the voting rights and a seat on Rössing’s executive board. Other shareholders include the **Iranian Foreign Investment Co. (IFIC)**, which the company describes as *“a passive legacy investor”*, with no offtake rights.<sup>24</sup> South Africa’s **Industrial Development Corp. (IDC)** has 10% and smaller individual shareholders a combined 3% shareholding.<sup>25</sup>

<sup>16</sup> Simeon Negumbo quoted in The Namibian, 27 Sep 2018.

<sup>17</sup> Source, uranium industry expert, London

<sup>18</sup> Rio Tinto, 2017 Annual Report

<sup>19</sup> Nuclear Intelligence Week, 14 Sep 2018; Fuel Cycle Week, 21 Sep 2018.

<sup>20</sup> Source, uranium expert, London

<sup>21</sup> Rössing Uranium, Report to Stakeholders 2017.

<sup>22</sup> Nuclear Intelligence Week, 14 Sep 2018; Fuel Cycle Week, 21 Sep 2018.

<sup>23</sup> Nuclear Intelligence Week, 14 Sep 2018; Fuel Cycle Week, 21 Sep 2018.

<sup>24</sup> Rössing Uranium, Report to Stakeholders 2017.

<sup>25</sup> Rössing Uranium, Report to Stakeholders 2017.

### New land report confirms resettlement has been very slow

The **Namibia Statistics Agency (NSA)** published a comprehensive report on the history and current status of land ownership in early September. Delegates attending the second national land conference due to take place from 1-5 October should be accurately informed of the facts when they deliberate. NSA board chairperson **John Steytler**, who is also on Geingob's economics council, said:

*"This is the first time that the NSA is closely examining land statistics databases held by different stakeholders...it is my hope that the land statistics will inform our debate during and after the second national land conference."*<sup>26</sup>

The NSA's '*Namibia Land Statistics Booklet*' makes four things clear. Historically, most of the land taken from indigenous communities by **European** settlers was in central and southern Namibia; ownership of agricultural/commercial freehold land at 37.9m hectares or 48% of Namibia total land area of 82.4m hectares (824,000 sq. km) remains predominantly in white Namibian hands; the government's land resettlement programme has made only slow progress, with the amount of farm land provided by this process to indigenous Namibians less than that acquired by individuals through the low-interest affirmative action loan scheme (AALS) operated by the **Agricultural Bank of Namibia (Agribank)**. The booklet also highlights that any focus on expropriation of foreign-owned farms would make little impact, since non-Namibians own only 1.2m hectares of freehold land (of which 53% is in **German** ownership). Communal land comprises 28.7m hectares or 35% of Namibia's area, and state land 13.9m hectares (17%).<sup>27</sup> The findings are likely to fuel demands at the land conference for measures to accelerate transfers of commercial farmland to indigenous Namibians.<sup>28</sup>

The NSA booklet states that a total 3m hectares (8% of total freehold land) have been acquired under the '*willing-buyer, willing seller*' national resettlement programme since 1990, with 496 farms purchased by the government and just 5,353 beneficiaries.<sup>29</sup> Between 2002 and 2018, the largest number of households resettled by region of origin came from **Hardap** in the south (160), **Khomas** in the centre (153), **Omaheke** in the east (145), and **Otjozondjupa** in the north-centre/north-east (132). Namibia's four most populous northern regions, **Oshana, Ohangwena, Oshikoto** and **Omusati** saw a combined total of only 176 households resettled. In contrast, more than double this amount of land, 6.4m hectares, was purchased through Agribank, of which 3.2m hectares were acquired through the AALS, with commercial banks funding the rest. Agribank granted 648 loans worth a total N\$777m (\$58m). These were predominantly extended to higher-income Namibians with the ability to borrow, even at concessional rates for the most part. The NSA states that previously-disadvantaged privately-funded land acquisition accounted for 2.9m hectares, a 48% share. The NSA concluded there was "*an urgent need*" for a harmonised and centralised national land statistics database, and the adoption of clear guidelines on its land tenure classification systems.<sup>30</sup>

### Moody's concerned about rising public debt

**Moody's Investor Service's** latest credit rating assessment of Namibia in early September makes clear that Namibia will only avoid a further downgrade if its current fiscal consolidation programme succeeds in reducing the budget deficit and restraining the growth in public sector debt.<sup>31</sup> Fitch Ratings reached the same conclusion in August (see *ARC Briefing Namibia August 2018*).<sup>32</sup> The rating agencies will be closely monitoring the 2018/19 mid-year budget review, which Schlettwein confirmed to the National Assembly in mid-September he would table on 24 October. Schlettwein said

<sup>26</sup> Namibia Statistics Agency, Namibia Land Statistics Booklet, September 2018.

<sup>27</sup> Namibia Statistics Agency, Namibia Land Statistics Booklet, September 2018.

<sup>28</sup> Source, Namibia analyst, London

<sup>29</sup> Namibia Statistics Agency, Namibia Land Statistics Booklet, September 2018.

<sup>30</sup> Namibia Statistics Agency, Namibia Land Statistics Book, September 2018.

<sup>31</sup> Namibia Economist, 3 Sep 2018.

<sup>32</sup> Namibia Economist, 3 Sep 2018.

it will maintain fiscal consolidation “*albeit in a gradual manner*” and implement “*structural policy reforms*”.<sup>33</sup>

In its annual credit analysis, Moody’s said Namibia’s current Ba1 negative credit profile reflects its “*moderate but gradually improving growth prospects over the medium term*”.<sup>34</sup> It projects real GDP growth of 0.9% this year – above the current government projection of 0.6% – and 2.1% in 2019, based on continued expansion of mining and agricultural output, as well as a gradual improvement in manufacturing output.

Moody’s cautioned that Namibia’s moderate average real growth prospects are counterbalanced by volatility linked to commodity exports.<sup>35</sup> Its main concern was the high level of public debt. Moody’s noted that public debt was now above the government’s 35% of GDP threshold.<sup>36</sup> Moody’s expects debt accumulation to continue, with the debt-to-GDP ratio reaching around 50% by 2020. Moody’s deems that Namibia’s sovereign credit status “*is also susceptible to a further tightening of domestic funding conditions, which could be related to persistent fiscal slippages and would raise debt servicing costs*.”<sup>37</sup> The firm added that it would probably downgrade Namibia’s rating if fiscal consolidation failed to contain rapid public sector debt accumulation.

A further area of concern for Moody’s is the level of foreign reserves. These were N\$33 billion (\$2.4 billion) at end-July 2018, providing five months goods and services imports’ coverage, according to the most recent Monetary Policy Statement of the **Bank of Namibia (BoN)** (central bank). In conclusion, Moody’s warned:

*“A sustained decline in foreign-currency reserves to below three months of import cover, increased funding pressure reflecting reduced market appetite for government securities, leading to a material increase in borrowing costs, or both, would also put downward pressure on the rating.”*<sup>38</sup>

### The economy continues to shrink in Q2...

Real GDP growth remained marginally negative in the 2018 second quarter, according to the National Statistics Agency (NSA). GDP contracted by 0.2%, the same decrease recorded in the first quarter (which the NSA revised up from -0.1% originally). It was the same as in the 2017 second quarter, which indicates that the economy has continued to flatline.<sup>39</sup> Growth may still move into positive territory during the second half of 2018, but the current official forecast of 0.6% positive growth this year looks challenging and will require a strong recovery of those sectors of the economy that have performed weakly since the start of this year.<sup>40</sup> In a preface to the NSA’s quarterly GDP report, statistician-general and CEO **Alex Shimuafeni** said that domestic economic performance had continued to be suppressed:

*“Government efforts to improve the fiscal space by reducing and capping on unnecessary expenditure through fiscal consolidation is exerting further pressure on the economy.”*<sup>41</sup>

The manufacturing sector recorded a 12.5% decrease in real value-added output, compared to -2.1% in the first quarter and 9.8% positive growth in the same quarter of last year.<sup>42</sup> The performance of most sub-sectors deteriorated, including beverages (-12.9%), diamond cutting (-7.8%), non-ferrous

<sup>33</sup> Informante, 19 Sep 2018.

<sup>34</sup> Namibia Economist, 3 Sep 2018.

<sup>35</sup> Namibia Economist, 3 Sep 2018.

<sup>36</sup> Namibia Economist, 3 Sep 2018.

<sup>37</sup> Namibia Economist, 3 Sep 2018.

<sup>38</sup> Namibia Economist, 3 Sep 2018.

<sup>39</sup> Namibia Statistics Agency, Gross Domestic Product, Second Quarter 2018.

<sup>40</sup> Source, Namibia analyst, London

<sup>41</sup> Namibia Statistics Agency, Gross Domestic Product, Second Quarter 2018.

<sup>42</sup> Namibia Statistics Agency, Gross Domestic Product, Second Quarter 2018.

base metals (copper cathodes and refined zinc), meat processing (-12.1%) and fish processing (-8.1%).<sup>43</sup> Wholesale and retail trade real value-added contracted by 5.8%, worse than the 1.6% decline in the first quarter, but better than the 11.8% contraction recorded in the same period of last year. Other weak performances came from agriculture whose value-added decreased by 1.1% compared to positive growth rates of 1.4% in the first quarter and 20.9% a year earlier, due to fewer commercial herd animals being made available for slaughter despite higher livestock prices as farmers sought to take advantage of better grazing conditions as a result of good rainfall this year. Fishing output fell by 8.0%, a better performance than the preceding quarter (-13.6%), but double the 4.0% contraction recorded a year earlier, due to a reduction of the landed fish catch, mainly of demersal fish, down by almost 16%.<sup>44</sup>

Bright spots were mining and construction, which recorded positive growth rates of 22.4% and 23.8% respectively in the second quarter.<sup>45</sup> Construction also grew by just under 24% in the first quarter, and appears to have exited the protracted recession that saw sector eight successive quarterly contractions in real value-added during 2016-17. Despite a continued decline in government outlays on construction, the total value of buildings completed grew by just under 5%. Strong mining sector real-value added growth was expected, given the expanded output for diamonds, gold and uranium reported by producing companies during April-June 2018 (see *ARC Briefing Namibia July 2018*). According to the NSA data, the growth in mining real value-added during the second quarter was the highest since the same quarter of last year (19.6%), with the diamond and uranium mining sectors recording growth rates of 30.5% and 62.3% respectively.<sup>46</sup> The Husab uranium mine is continuing to ramp up production. **World Nuclear Association (WNA)** figures show it produced just over 1,100 tonnesU out of Namibia's total production of 4,220 tonnesU in 2017, which was up 16% on the previous year. The Rössing and Langer Heinrich mines accounted for the rest at 1,790 tonnesU and 1,300 tonnesU respectively.<sup>47</sup>

The mining sector may not perform so robustly in the second half of this year. Australia's Paladin Energy, the 75% majority owner in Langer Heinrich, has placed the mine on care-and-maintenance due to the prevailing low uranium price with effect from September. The firm expects it would cost \$35-45m in working capital and take six to twelve months to bring the mine back into operation once the uranium price has recovered sufficiently to make it commercially viable again.<sup>48</sup> Meanwhile, **Canada-based lithium producer Desert Lion Energy (DLE)** unexpectedly announced at the end of August that it had ceased all operations in Namibia due to "*the continued decline in lithium carbonate pricing*".<sup>49</sup> The firm has been supplying a Chinese lepidolite converter, **Jiangxi Jinhui Lithium Co**, with consignments of lithium concentrate recovered from existing stockpiles at old mines near **Karibib**, central Namibia (see *ARC Briefing Namibia April 2018*). Under a three-stage plan, DLE intended to develop Namibia's first large-scale lithium mining operation at the site. But DLE's board has initiated a strategic review of the project and "*is currently re-assessing*" the plan and "*evaluating all available options to find a sustainable path to the continued development of its Namibian lithium project*".<sup>50</sup> Talks are underway with Jiangxi "*to amend the pricing metrics*" under its offtake agreement, which provided for the delivery of 150-160,000 tonnes of lithium concentrate over a 12-18 month period. However, DLE confirmed that the firm still intends to complete an initial resource estimate for the Karibib mines and a preliminary economic assessment (PEA) of a mining development before the end of 2018.<sup>51</sup>

<sup>43</sup> Namibia Statistics Agency, Gross Domestic Product, Second Quarter 2018.

<sup>44</sup> Namibia Statistics Agency, Gross Domestic Product, Second Quarter 2018.

<sup>45</sup> Namibia Statistics Agency, Gross Domestic Product, Second Quarter 2018.

<sup>46</sup> Namibia Statistics Agency, Gross Domestic Product, Second Quarter 2018.

<sup>47</sup> World Nuclear Association, website; Namibian Sun, 20 Sep 2018.

<sup>48</sup> Paladin Energy, ASX Announcement, 25 May 2018.

<sup>49</sup> Canada News Wire, 31 Aug 2018.

<sup>50</sup> Canada News Wire, 31 Aug 2018.

<sup>51</sup> Canada News Wire, 31 Aug 2018.

### Schlettwein pulls the plug on Kudu...

Finance minister Calle Schlettwein appears to have administered the coup de grace to the **Kudu gas-to-power project**, which has been promoted as the long-term solution to Namibia's future electricity supply needs for the past two decades. In a mid-September press interview, Schlettwein said that the government is not willing to take on the risk of a project that it considers to be financially unviable, so Kudu should be abandoned.<sup>52</sup> He described Kudu as unaffordable, both in terms of the capital outlay involved and the high tariff level that would have to be charged to recoup the cost. The proposed onshore combined-cycle gas power plant would also have exported surplus power to South Africa and **Zambia** via existing grid inter-connections.

The project has gone through various phases under different ownerships of the licence for the Kudu field, located some 170km offshore in the **Orange Basin** close to the territorial sea boundary with South Africa, where **United States**-based oil firm **Chevron** first discovered gas in 1974. The version under discussion for the past decade would have involved piping gas ashore from a floating production platform to supply a plant at **Uubvlei**, 25km north of the diamond mining town of **Oranjemund**. The plant was originally to have had a generating capacity of 850MW but in April the state-owned **Namibia Power Corp. (Nampower)** – which has now been told to close the project – had scaled this back to 443 MW after proposed offtake agreements for power with South Africa's state-owned power utility **Eskom** and Zambia's **Copperbelt Energy Corp.** fell through. In early 2017, **Norway**-based **BW Offshore** became Kudu field operator with a 56% interest, while state-owned **National Oil Corp. of Namibia (Namcor)** retained 44%. The firm initially said it planned to make a final investment decision (FID) on moving forward with Kudu by the end of that year, but this has not yet happened.

Schlettwein said Kudu had been ditched partly because *“the tariffs that would be required to recoup the capital are far higher than what we can get from many other alternatives”*.<sup>53</sup> As it stood, the project operators would have to charge tariffs of N\$2.70 (\$0.20) per kilowatt, which is well above Namibia's current average.<sup>54</sup>

*“The much better option is for us to diversify our basket of the fuel that we use for power and concentrate on alternative sources [of energy].”*<sup>55</sup>

Nampower managing director **Kahenge Haulofu** maintains there is *“huge appetite”* from international funding institutions for both debt and equity funding in the project, although he acknowledged it requires government guarantees to provide assurances to investors and financiers that it is viable.<sup>56</sup> Haulofu added that Kudu is in the *“final phase of project preparation”* with several agreements almost nearing finalisation, including gas sales, power purchase and transmission connection agreements. The project will be presented to stakeholders for an FID once all preparation and packaging activities both for the upstream and downstream are completed, which is envisioned to be in the 2018 fourth quarter, according to Haulofu.<sup>57</sup>

Schlettwein's decision to terminate Kudu may prove premature in the light of a new SADC initiative to expand the use of natural gas resources to improve the region's energy mix by reducing the preponderant usage of coal (in South Africa and **Zimbabwe** in particular). SADC energy ministers' current chairperson, South Africa's energy minister **Jeff Radebe**, told a workshop held two months ago in **Johannesburg** on the regional gas infrastructure and market development programme, that **Southern Africa** contains some of the world's largest natural gas deposits, comprising offshore

<sup>52</sup> Windhoek Observer, 14 Sep 2018.

<sup>53</sup> Windhoek Observer, 14 Sep 2018.

<sup>54</sup> Windhoek Observer, 14 Sep 2018.

<sup>55</sup> Windhoek Observer, 14 Sep 2018.

<sup>56</sup> Windhoek Observer, 14 Sep 2018.

<sup>57</sup> Windhoek Observer, 14 Sep 2018.

natural gas, shale gas and coal bed methane.<sup>58</sup> Offshore resources were stated to include the 1.3 trillion cubic feet of proven gas reserves at Kudu, with an estimated potential of 9 trillion cubic feet.

*“The natural gas reserves within the SADC region present a significant opportunity for industrialisation that can boost economic growth, create much needed jobs and attract new investments in the region and increase significantly energy access. This enormous opportunity can only be realised if the region develops the requisite gas processing, transportation and distribution infrastructure to supply the regional market so that SADC will not only limit itself to being a gas exporter.”<sup>59</sup>*

SADC is exploring plans to establish an SADC natural gas complex to interconnect gas production centres and developing new processing, transport and distribution infrastructure.<sup>60</sup>

### ... and the Cormorant well comes up dry

Despite some encouraging features, Namibia’s latest offshore exploration well, **Cormorant-1** in the **Walvis Basin**, has been declared dry, as have all the wells drilled to date. The well was spudded by **Ireland’s Tullow Oil**, which is operator for petroleum exploration licence (PEL) 37 with a 35% interest, and reached a total measured depth of 3,855 metres on 21 September, before being plugged.<sup>61</sup> The target submarine fan sequence close to the projected depth was thicker than expected, with no accumulated hydrocarbons intersected. Tullow’s Australian main partner, **Pancontinental Oil & Gas**, said the fan contained approximately 50 metres thickness of inter-bedded sands and claystones that were water wet; however, “*gas shows indicate an active source system*” and “*further significant potential for the play*”.<sup>62</sup> Wet gas signatures, indicative of oil, were first encountered in the overlying shale section and persisted throughout the target interval, “*indicating that there has been significant hydrocarbon generation in the area*”.<sup>63</sup>

Early analysis of the well data is said to support the presence of at least one active source rock system. Pancontinental added that important geological data had been obtained from the well, “*providing valuable insights*” into the prospectivity of the turbidite fans that remain valid exploration plays “*with a very large oil resource potential*” both in PEL 37 and to the south in PEL 87 (Pancontinental interest 75%). Ongoing analysis of the well results is expected to assist the geological understanding and associated discovery probability of other PEL 37 prospects and leads, some of which are believed are to hold “*significantly larger resource potential*” than Cormorant-1.<sup>64</sup>

Pancontinental has an effective 20% interest in PEL 37, as it owns 66.7% of **Pancontinental Namibia (Africa Energy Corp.** has 33.3%) with a 30% licence interest. **India-based Oil and Natural Gas Corp. (ONGC)** holds a 30% interest in PEL 37, and local **Paragon Oil & Gas** has 5%. Next up will be an exploration well at Prospect S on PEL 71 in Walvis Basin, which is due to be spudded in the final quarter of 2018 by **London (UK) Alternative Investment Market (AIM)**-listed operator **Chariot Oil & Gas** (65% interest), using the same **Ocean Rig Poseidon** drill ship that drilled Cormorant-1. The prospect has a gross mean prospective resource of 459m barrels oil equivalent (BoE) and 1,650 metres depth and is located on Chariot’s **Central Blocks** (2312 and 241A).<sup>65</sup> **Azinam** holds a 20% interest, **Namcor** holds a 10% interest; and empowerment firm **Ignitis Oil & Gas** 5% (all three carried interests, ie with no exploration funding commitments at this stage). Azinam, with offices in both Windhoek and **Dubai**, is backed by Norway-based **Seacrest Capital Corp.**, with a strategy of

<sup>58</sup> Southern African News Features (Harare), 9 Aug 2018.

<sup>59</sup> Southern African News Features (Harare), 9 Aug 2018.

<sup>60</sup> Southern African News Features (Harare), 9 Aug 2018.

<sup>61</sup> Pancontinental Oil & Gas, ASX Announcement, 24 Sep 2018.

<sup>62</sup> Pancontinental Oil & Gas, ASX Announcement, 24 Sep 2018.

<sup>63</sup> Pancontinental Oil & Gas, ASX Announcement, 24 Sep 2018.

<sup>64</sup> Pancontinental Oil & Gas, ASX Announcement, 24 Sep 2018.

<sup>65</sup> Chariot Oil & Gas, Investor Presentation, August 2018.

becoming “the leading Atlantic Margin independent oil exploration company offshore Southern Africa”.<sup>66</sup>

### Planner

1-5 Oct 2018 **(Namibia)** 2<sup>nd</sup> National Land Conference

23 Oct 2018 **(Namibia)** **Bank of Namibia (BoN)** (central bank) **Monetary Policy Committee** meeting

November 2019 **(Namibia)** **National Assembly and Presidential Elections**

### Chronology

24 Sep 2018 **Windhoek (Namibia)** *MarketWatch*. **Canada**-based oil and gas exploration company, **Africa Energy Corp**, encounters non-commercial hydrocarbons at the **Cormorant-1** exploration well;

20 Sep 2018 **Windhoek (Namibia)** *Proactive Investors*. **Canada**-based **Eco Atlantic Oil and Gas** increases its interest to 80% in the **Tamar** offshore oil licence in **Namibia**;

13 Sep 2018 **Windhoek (Namibia)** *Nasdaq*. **Dubai**-based exploration company **Azinam Ltd** plans to launch an initial public offering in **Oslo (Norway)** to continue operations in **Namibia**;

12 Sep 2018 **Windhoek (Namibia)** *Proactive Investors*. UK-based oil and gas company, **Chariot Oil & Gas Ltd**, plans to drill a well in Prospect S in offshore **Namibia** in the fourth quarter of 2018;

10 Sep 2018 **Gaborone (Botswana)** *The Namibian*. **Namibia**-based bank **Capricorn Group** increases its shareholding in **Capricorn Investment Holding Botswana**, which is the holding company of **Bank Gaborone**, from 15.6% to 84.3%;

4 Sep 2018 **Windhoek (Namibia)** *Market Watch*. **Canada**-based oil and gas company, **Africa Energy Corp**, begins drilling at the **Cormorant-1** well in **Namibia**;

30 Aug 2018 **Windhoek (Namibia)** *The Namibian*. President **Hage Geingob** pledges to diversify and increase trade with **Indonesia** during a state visit to **Jakarta** (Indonesia);

28 Aug 2018 **Windhoek (Namibia)** *Mining Weekly*. **Canada**-based mining company, **Namibia Critical Metals**, plans to start drilling at its **Kunene** cobalt and copper project before the end of September;

27 Aug 2018 **Windhoek (Namibia)** *The Namibian*. **South Africa**-based retail store, **Shoprite Group**, reports a 5.2 billion **Namibian** dollar (\$365m) profit for the 2017/2018 year, a 4.1% drop year-on-year;

27 Aug 2018 **Windhoek (Namibia)** *ESI Africa*. Finance minister **Calle Schlettwein** signs a \$217.8m loan agreement with the **African Development Bank** to finance the second phase of the economic governance and competitiveness support programme;

26 Aug 2018 **Windhoek (Namibia)** *The Namibian*. President **Hage Geingob** states that the October land conference will discuss nationwide land expropriation;

23 Aug 2018 **Gobabis (Namibia)** *ESI Africa*. The mines and electricity ministry inaugurates the **Ejuva One** and **Ejuva Two** solar power plants which will provide 25.8 gigawatts per year of electricity;

<sup>66</sup> Azinam website

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