Myanmar's energy sector struggles to fulfil promise

Once billed as one of the world's last great development frontiers, investment in Myanmar is now slowing as investors look for less risky prospects, writes Sam Imphet

COMMENTARY

WHAT:
The government has no plans to release additional acreage for exploration anytime soon.

WHY:
Oil price volatility and regulatory uncertainties could undermine investment in existing licences.

WHAT NEXT:
As existing licences move out of their study phases some companies may prove reluctant to commit to funding exploration programmes.

BETWEEN a slowing economy and increasing government bureaucracy, Myanmar's energy sector has lost some of its shine in the years following the 2014 oil price crash.

Not only did foreign direct investment (FDI) fall by 33% in the financial year ending on March 31, income from natural gas was more than US$1 billion short of the US$3.7 billion earned the previous year, a senior Ministry of Commerce source told the Nikkei recently.

Myanmar's de facto leader, Aung San Suu Kyi, apologised to the country at the end of March for her party's failure to achieve anticipated levels of economic progress in its first year in office. (The newly elected government appointed Suu Kyi to the role of state counsellor, after earlier amendments to the constitution barred her from holding the presidency because her children are UK citizens.)

While the National League for Democracy (NLD) cannot be blamed for the prolonged oil price slump that has slowed upstream investment, the government's lengthy standoff with China National Petroleum Corp. (CNPC) has hurt national income from crude.

Naypyidaw and CNPC's disagreement centred on taxes to be paid for transhipping oil imports by pipeline through Myanmar into the neighbouring Chinese province of Yunnan. CNPC's 770-km pipeline – which runs from the Myanmar coast to Yunnan's capital Kunming – was completed at least 18 months ago, but an election won by the NLD at the end of 2015 led to delays as the new government sought higher taxes and this was only resolved in April.

The Ministry of Energy has now signalled it has no plans to offer any more upstream acreage in the foreseeable future because the 34 blocks allocated to foreign and domestic firms in 2014-15 are still in the early stages of exploration. But, as *NewsBase Intelligence (NBI)* has discovered, some of these might never be developed.

An uncertain future

The country's most promising prospects are offshore, with 20 shallow- and deepwater blocks assigned in the Bay of Bengal and Gulf of Martaban.

But a new assessment by Business Monitor International (BMI) on Myanmar has determined that while the country remains an attractive long-term investment destination, "oil price volatility, coupled with regulatory and macroeconomic uncertainties could undermine near-term investment interest in both the [Myanmar] upstream and downstream".

BMI has forecast that both oil and gas production will decline until 2020 owing to continuing low fossil fuel prices.

Singapore-based Wood Mackenzie upstream research analyst Jean-Baptiste Berchoteau told *NBI* that while Myanmar was still viewed as an Asia-Pacific exploration hotspot the emerging economy's oil and gas sector "will soon be reaching a decisive crossroad".

"The study period for the first licences awarded in the latest licensing round will be expiring by year-end and the operators will then face a drill or drop situation," Berchoteau said. "At this stage, it is very likely that most companies will try to extend their study period before committing to entering the exploration phase."

The analyst added: "However, some companies could also decide to leave without applying for an extension. In a situation where companies would decide to drop their licences, the loss for the Myanmar government could be really significant in terms of signature bonus and future revenues but also in terms of energy source to electrify the country."

Despite the storm clouds on the horizon there remain some bright spots for the sector.

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Highlights

Australia's Woodside Petroleum, which has interests in six offshore blocks in the Bay of Bengal region and has reported gas discoveries in two of these, has said it plans to conduct a "substantial exploration and appraisal campaign" in 2017 that will include two exploration and two appraisal wells.

Woodside announced gas discoveries in blocks AD-7 and A-6 in the Rakhine Basin in early 2016, following what it termed an early mover strategy to deliver competitive advantage.

But how integral these assets are to the company's wider production strategy is another question. In its 2016 results and prospects presentation earlier this year Woodside forecast a

State Counsellor Aung San Suu Kyi has apologised for Myanmar's economic performance. *Image: Burma Times*

15% growth in oil and gas output over the next three years. But Reuters noted that this would be focused on the company's Western Australia Pluto and Wheatstone offshore gas fields to feed Australia's expanding LNG export industry.

Woodside's block partners include supermajor Royal Dutch Shell, Total of France, Daewoo of South Korea and locally owned MPRL.

MPRL is Myanmar's most upbeat domestic investor, revealing last week that A-6's first appraisal well, Pyi Thit-1, had been spudded on June 8 and would reach depths of 4,700 metres using a Trans-Ocean drill ship in 2,000 metres of water.

Other positives include Daewoo considering bringing forward the development of the Shwe Phyu field and the southern part of Mya field in the Shwe project, located in the Bay of Bengal.

Total, meanwhile, has just brought on stream its Badamyar gas field, which will provide gas to the Yadana project, allowing it to maintain its production plateau for some years longer, Berchoteau told *NBI*.

Even as some prepare to move forward with their development plans, others are looking to rationalise their portfolios in response to the US$50 per barrel oil environment.

Chevron's planned exit

US supermajor Chevron said last year that it was interested in selling its Myanmar holdings, which it has designated as non-core assets in the wake of the prolonged crude price slump.

This includes a 28% stake in the productive Yadana gas field and a majority share in the Block A5 exploration block in the Rakhine Basin. Chevron also has a 28% interest in the pipeline company that delivers most of the Yadana gas to Thailand.

Chevron said it valued the assets at around US$1.3 billion, but would keep them if no-one was prepared to buy at that price.

In the meantime the US giant has been busy selling its Bangladesh offshore gas fields for an estimated US$2 billion to a Chinese state consortium backed by government investment vehicle China Ningbo International Cooperation (CNIC).

When Chevron first announced its plans to sell the fields it was very firm that it would to hold onto them until it received its desired price. Given a perceived shift in Naypyidaw's relations with Beijing, underlined by the spat with CNPC being resolved and the state counsellor's appearance at Beijing's One Belt, One Road (OBOR) summit in May, there could be an opportunity for Chinese investors to scoop up Chevron's Myanmar assets.

Business consultancy Consulus' CEO, Lawrence Chong, told *NBI* that the Myanmar government's hope that it would attract significantly more investment from Western companies as the country's first freely elected government for 60 years has not materialised, forcing it to rethink its strategy. He added: "There is no point to open up more blocks due to the uncertainty and insufficient competition."

Instead of waiting for greater Western investment Suu Kyi's government appears to be wooing China once more, Chong said.

Losing its shine

Apart from continuing low oil prices making some offshore projects uneconomical to develop, a new environmental impact assessment (EIA) law in Myanmar is causing bureaucratic delays in a country already noted for its snail's pace decision-making.

The EIA law has prevented some block operators from making progress, Berchoteau said.

Other hindrances include a lack of farm-in partners to share well drilling costs, and tough financial terms imposed by the Myanmar government on block licensees. These tough terms have heightened doubts about the commercial viability of deepwater discoveries.

"This could eventually deter investments and impact the country's attractiveness. The Myanmar government is still reviewing its options to decide on a clear energy mix strategy based on hydro, LNG imports and indigenous gas. And at the moment it is clear that deepwater exploration isn't incentivised," Berchoteau said.

Myanmar is at risk of losing the interest of international energy investors as long as oil prices remain subdued. While it needs to do more to incentivise upstream exploration it seems likely that the government's tougher stance will remain in place. Naypyidaw is anxious to avoid appearing to favour foreign interests over of those of the Myanmar people, a criticism the NLD repeatedly levelled at former governments.

Strangely enough, this situation could ultimately drive Naypyidaw closer to Beijing in the long term. It could also pave the way for the resumption of Chinese-financed energy and infrastructure programmes in Myanmar under the OBOR label. ❖