

How to navigate Myanmar's O&G auction risks

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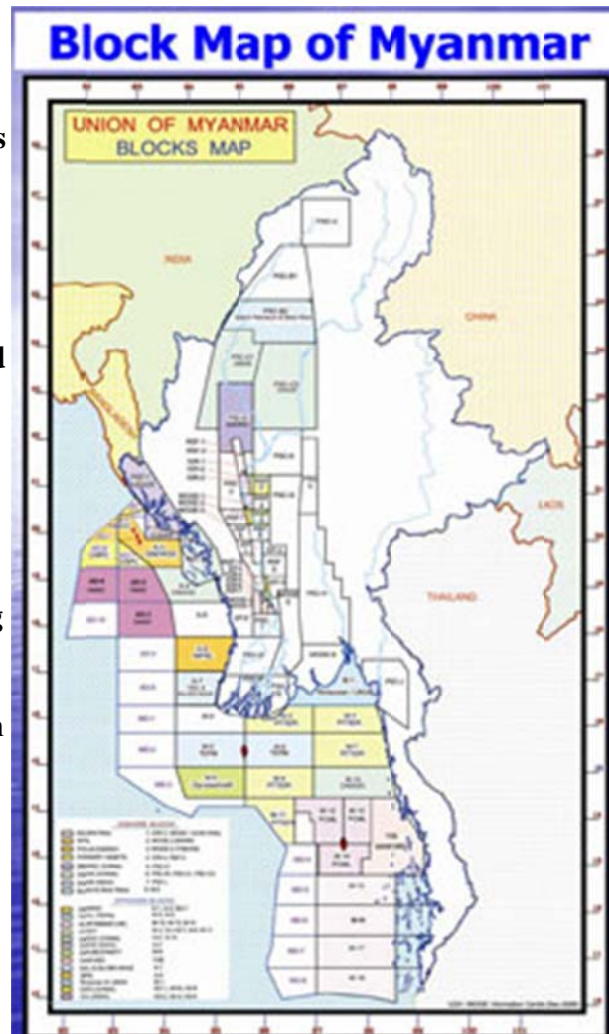
KEY TAKEAWAYS

- On April 11, Myanmar's national oil company announced it was inviting bids for offshore blocks. This is the first auction including deep-sea offshore blocks;
- Although the auction process has developed considerably since its first auction in 2011, good local partners and thorough due diligence is key for success;
- Oil and gas is one of the country's most developed sectors, and will spur reform in other areas;
- The entrance of oil and gas majors will force other sectors to develop, including banking.

Myanmar has opened a highly-anticipated auction of 33 oil and gas (O&G) blocks, including deepwater blocks for the first time. Although it is the country's most developed sector, foreign bidders are tipped to encounter significant political risk.

O&G sector was one of the sectors least affected by sanctions that nearly halted inbound investment from Europe and the US. Several O&G majors remained in the country following the sanctions. Total, for example, has been present in Myanmar since 1992 and operates the Yadana gas field.

The national oil company, Myanma Oil and Gas Enterprise (MOGE), invited bids for [operations in offshore blocks on April 11](#). This is the first auction that will include deep-sea offshore blocks, which is a development long-awaited by O&G companies.



Thura Soe Paing, managing director of All Myanmar Investment & Development Partners, told *IFLR* that the O&G sector is one area that developed in spite of the sanctions. As such, its regulatory framework is quite developed.

He added that this makes foreign direct investment (FDI) in this area more straightforward, as it is starting from a higher base compared with other sectors.

Gibson Dunn & Crutcher John Viverito said that offshore gas fields, such as Yetagun and Yadana, have been in production for many years, and the working relationship between the owners and the government has generally worked well. Further, investment in these fields has been profitable for investors.

“The track record is seen by many as at least partially mitigating the risk of investing and operating in the oil and gas sector there,” Viverito said.

Although the O&G sector is more developed than others in Myanmar, it requires companies to work closely with the government, and particularly national oil company MOGE.

Stuart Witchell, managing director and chief operations officer of the Asia-Pacific Global Risk and Investigations Practice at FTI Consulting, said the opening of these O&G blocks is clearly positive for the country and will entail significant revenues.

“But from our perspective, companies looking to bid and win these licences will likely encounter a lot of political risk,” he added.

Roadblocks for onshore blocks

Yangon-based DFDL partner William Greenlee said this is the third O&G gas auction since 2011, and the auction process has developed since that first auction.

The bidding rounds appear to be more sophisticated, resembling a process with which international companies are familiar. Myanmar having these open bidding rounds and their increasing sophistication is ultimately a result of easing sanctions, and therefore more international companies coming and investing, he said.

But most major players may not bid on the onshore blocks because they will have to partner with a local company. MOGE has published [a list of Myanmar companies approved by the Energy Planning Department for cooperation with foreign oil companies](#).

“Some of the largest international players are concerned because it’s unclear who these companies are or what their ownership looks like,” said Witchell. “In a country like Myanmar, it can be very difficult to obtain even an accurate company registration record.”

While European companies received a boost last week when the [EU announced the lifting of sanctions against Myanmar](#), US companies may face issues without records. US persons cannot deal with Specially Designated Persons (SDNs), which are listed in the Treasury Department’s

Office of Foreign Assets. It is unclear whether SDNs are involved in any of the companies listed by MOGE.

Further, government connections are a concern.

Witchell said that FTI Consulting is being asked by its clients to particularly focus on identifying a company's relationship with the military.

"Having a relationship with the military is not a deal-killer, but the concern is whether the nature of that relationship has been above board in relation to anti-corruption concerns," he added.

Deepwater blocks

The upcoming auction is especially exciting because it includes deepwater blocks, which haven't been previously offered.

Greenlee noted that there would not previously have been a lot of interest to develop these as they are exponentially more expensive to develop, requiring the resources of a large company.

"But a large company in the past may not have been able to develop these blocks due to sanctions," he added.

Further international companies will not need to partner with a local firm in bidding for the deep-sea offshore blocks. Viverito said that the underlying rationale, as he understands it, is that local companies lack sufficient technology and expertise to develop these blocks.

It's a huge development and a great opportunity, he added.

The top political risk

Although news of ethnic conflicts and human rights issues has not seemed to slow economic development in Myanmar's commercial centres, it may pose risks for companies looking to transport O&G through troubled regions.

In particular, Witchell warned that an issue beyond local partners and sanctions is infrastructure-related security issues. For example, the pipelines that reach China and Thailand may pass through areas in which there are ethnic conflicts, he said.

"The security of those pipelines should be a concern for foreign companies bidding on these tenders, and they should consider the potential consequences of a terrorist attack on a pipeline, primarily in the north of the country," said Witchell

What to expect

Sources told *IFLR* that it is crucial for the [US to further ease its sanctions](#) to remain competitive in Myanmar, as companies from Europe and throughout the Asia-Pacific develop their businesses in the country.

In Myanmar, the O&G auctions will help boost the local economy. Thura said that the immediate impact of the auctions is more jobs, in particular in the service sector for O&G such as logistics, drilling and basic support services.

“I also think it will force other sectors to change,” he said. “Oil and gas is the leading sector that will really drive other reforms in this country.”

He added that O&G majors will require reforms in the banking sector, such as simple regulations regarding moving money in and out of Myanmar.

There will also need to be rules for tax collection, he said, specifying tax revenues from income taxes paid by people working in the sector as well as export and import duties that may be levied.