VIEWPOINT

Call for co-operation

The events of 2020 have highlighted the need for intra-African co-operation in the oil and gas sector, says *NJ Ayuk*, Executive Chairman, African Energy Chamber.

The oil and gas industry's experience of 2020 was driven by two extreme events. On the one hand, global energy demand plunged more quickly than anyone thought possible as the COVID-19 pandemic spread around the world and countries imposed lockdowns and other restrictions to safeguard public health. On the other hand, global crude oil prices plunged to shockingly low levels as Saudi Arabia and Russia let the OPEC+ production deal lapse, setting off a brief war for market share and prices for West Texas Intermediate (WTI) and a few other grades of crude dropped below zero in April 2020.

As a result, two of Africa's largest oil producers – Nigeria and Angola – spent part of the second quarter of the year trying to find ways to unload dozens of unsold cargoes. Neither could find enough buyers to dispose of millions of barrels of crude that had been loaded onto tankers and could not be transferred back to shore due to a lack of storage capacity.

Elsewhere in Africa, ExxonMobil delayed its final investment decision (FID) on the $30bn Rovuma LNG project in Mozambique in April 2020, weak demand and low prices forcing the US major to rethink its spending priorities. Meanwhile, BP announced that it was postponing the delivery date for a floating LNG (FLNG) vessel to be installed at Grand Tortue/Ahmeyim (GTA), a block that sits astride the maritime border between Senegal and Mauritania. Norway's Aker Energy terminated its letter of intent (LoI) with Malaysia's Yinson for the operation of a floating production, storage and offloading (FPSO) vessel at Ghana's offshore Pecan field in April and international oil companies (IOCs) marked April and May 2020 by suspending most drilling off the coast of Angola, as demand for Angolan crude was down in China and other key markets.

The delays didn't just affect operational matters. They also had an impact on policy. In Nigeria, for example, members of the National Assembly put discussions of the oft-delayed and sorely needed Petroleum Industry Bill (PIB) on hold in November so that they could concentrate on passing a budget in the face of declining oil revenues. Many African countries altered their plans for holding licensing rounds. Somalia opted to reduce the number of blocks covered by the auctions from 15 to seven because the pandemic was affecting IOCs' investment plans. While Nigeria postponed plans for offering major oil fields to investors in a new licensing round because of low oil prices. Liberia and other countries set up online-only bidding processes that could not be derailed by travel and other restrictions.

All was not lost

However, despite all these delays and disappointments, it would mistake to describe 2020 as a lost year for Africa's oil and gas sector. Nearly every region of the continent scored some notable victories.

In North Africa, Libyan oil production made a remarkable recovery, rising from less than 100,000 b/d to more than 1mn b/d following the signing of a cease-fire agreement between hostile factions after years of civil war. In

Rovuma LNG project in Mozambique
Photo: Rovuma LNG

Morocco, investors looked more deeply into domestic gasification and gas-to-power initiatives, as well as micro-LNG projects. Meanwhile, Egypt stepped up its support for plans to establish a new gas transport network in the eastern Mediterranean region.

In West Africa, Senegal and Liberia launched licensing rounds, while Ghana adopted plans to establish a new petroleum hub that will include oil-refining, petrochemical, power-generation, and marine fuelling facilities. Members of the Nigeria LNG (NLNG) consortium reached the FID stage on the Train 7 project, which is expected to boost the Bonny Island liquefaction plant's production capacity from 22.5mn t/y to 30mn t/y. For its part, Nigeria's government drew up the PIB and submitted it to legislators for consideration in August, then secured approval for it in the first two readings in September and October before shifting focus to a budget bill.

In Southern Africa, Angola's national oil company (NOC) announced plans for the sale of non-core assets and the eventual launch of an initial public offering (IPO) of stock. Meanwhile, new basins continued to open up in the region. ReconAfrica moved towards launching its drilling campaign in the Kavango Basin, a region that straddles the Namibia-Botswana border and may contain as much as 12bn barrels of oil and 119tn cf (3.37tn cm) of natural gas. French company Total made its second discovery in the Outeniqua Basin off the coast of South Africa, saying it had discovered another gas condensate deposit at block 11B/12B.

Total also made progress on multiple fronts in East Africa. In Uganda, it acquired upstream and midstream assets from Tullow Oil (UK/Ireland), completing a transaction that is expected to clear some of the obstacles to launching development of the Kingfisher and Tilenga oil fields near Lake Albert. In Mozambique, it secured nearly $15bn worth of financing for the development of the offshore block known as Area 1 and the construction of an LNG plant and associated infrastructure. And Sudan's transitional government signed a draft agreement on cooperation with South Sudan for oil production.

Working together

So, what do all these developments mean? What lessons can Africa take away from 2020?

I'd like to put an idea forward. It concerns regional co-operation. It is worth pointing out that many of the events and incidents highlighted above concerned individual states. Despite the inclusion of exceptions such as BP's GTA project, which involves both Senegal and Mauritania, I've mostly mentioned one country at a time.

In my opinion, that is both important and unfortunate – important because it highlights the fact that African states are developing their oil and gas resources on their own, working more closely with foreign partners than they do with each other, and unfortunate because African states can help build up each other if they look for ways to contribute to each other's oil and gas sector.

In the past, I have urged African oil field service providers (OSPs) to build up their capacity so that they could become regional businesses, capable of supporting development not only in their home countries, but also in neighbouring states, and able to serve as cost-effective alternatives to big-name international firms, such as Schlumberger.

I strongly believe this kind of regional co-operation might have helped Africa in 2020. For example, if local OSPs had played a more prominent role in African oil and gas projects, they might have been able to streamline these projects, partly by cutting customs and transportation expenses and partly by drawing on a lower-cost labour pool. That would have given Africa some insulation from last year's unprecedented combination of a pandemic and a price war – and might also have sparked IOCs' interest in future deals with local service firms.

Combatting climate change

Furthermore, regional cooperation might also prove useful in the face of the multi-lateral campaign to combat climate change.

There has already been a certain amount of joint effort on this front. For example, one result of the very first meeting of the Conference of the Parties (COP) to the UN Framework Convention on Climate Change (UNFCCC), which took place in 1995, was the formation of the African Group of Negotiators on Climate Change (AGN). The group has remained active ever since. It helped to establish a pan-African policy on climate issues in the run-up to the COP15 meeting in Copenhagen in 2009,and it has continued to argue for Africa's interests, taking the stance that the continent must have financial support from more developed regions if it is to meet climate targets.

In the run-up to COP26 – postponed until November 2021 because of the pandemic – AGN has been pressing developed countries to uphold their commitment to less developed regions. Specifically, it has been reminding the developed world of its pledge to provide $100bn/y by 2020 to close gaps in climate financing – and pointing out how vulnerable Africa will be to climate change if these gaps remain open.

As I've written elsewhere, I have reservations about the wisdom of letting outside organisations dictate African climate policy – especially when that policy may have the effect of preventing Africa from using its own natural resources to improve African lives through domestic gasification and electrification programmes. Nevertheless, I admire AGN for its success in bringing the entire continent together to make the point that reducing emissions and switching to renewable energy does not just involve policy decisions but must also involve levelling the playing field for less developed regions that haven't had the time or wherewithal to build gas-powered plants that can compensate for the times when the wind doesn't blow and clouds cover the sun.

I suspect that stakeholders in African oil and gas could learn a great deal from AGN's example. I wonder, for example, what might happen if African NOCs, private companies and OSPs worked together to respond to the development banks and private financial institutions that announced last year that they were phasing out loans for fossil fuel projects? What if they all teamed up to make a case in favour of making more financing available for gasification and gas-to-power projects? What if they joined forces to create an 'all of the above' strategy, premised on the idea that both conventional and renewable energy can support economic development and bring emissions down?

I would really like to see this happen. That is what needs to be Africa's main take-away from 2020 – more self-advocacy and more cooperation in pursuit of a common goal. ●