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Report

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Thirst for African Oil

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Africa currently supplies about 12 percent of the world's oil, boasts significant untapped reserves and has surpassed the Middle East as the largest regional supplier of crude oil to the United States. Individually, Nigeria is America's fourth largest oil supplier, Angola is the sixth and Algeria is the seventh. Recently the National Intelligence Council estimated that the US imported 18 percent from sub-Saharan Africa, almost the same amount as Saudi Arabia. This amount is expected to increase to 25 percent in the next ten years. Africa offers diversification away from Middle East oil for both the US and Europe and also access to new gas reserves.

It is not just the US and Europe that are vying for access to African oil. China's continued economic growth, a key factor in the country's stability and the Communist Party's legitimacy, requires the import of substantial supplies of energy, minerals and other materials. China's leaders have concluded that it is too risky to just compete on the open market after the UNOCAL debacle in 2005, in which the US blocked the sale of the Union Oil Company of California to the Chinese National Offshore Oil Corporation (CNOOC) before approving a merger with the American multinational Chevron. Diversifying energy sources is also seen as important for spreading risk. China's 2003 National Energy Strategy and Policy remarked that 'oil is the key factor in the creation of public wealth, and also one kind of most important commodity influencing (sic) the global political pattern, economic order and military operations.'

Having first become a net importer of oil in 1993, in 2003 China became the world's second largest consumer of petroleum products behind the United States, and the third largest importer. Although some 55 percent of African oil and gas went to Europe and the US in recent years and only 16 percent went to China this is changing. China is projected to surpass the US in 2015. China currently receives around 33 percent of its imported crude oil from Africa. In March 2008, one senior Chinese official said Beijing aimed to increase this figure to 40 percent over the next five to ten years.

Nine out of ten of China's top trading partners in Africa in 2008 were oil producing states, the exception being South Africa. The continent's value of Chinese oil-company investment in Africa amounts to 8 percent of international oil company (IOC) investment and only 3 percent total oil company investment there. Chinese companies currently only produce in Sudan (225,000 barrels a day) but Sinopec's purchase of Addax for \$7.6 billion in 2009 has bought China access to current Nigerian oil production. Angola was in 2009 the second largest supplier of crude to China after Saudi Arabia.

The competition for African oil is heating up and its not just Western and Chinese companies. India and South Korea are prominent among other G20 members trying to get footholds. India produces oil only in Sudan but Nigeria was its third largest source of imported oil in 2008, representing over 11 percent. At present 30 percent of India's energy needs are met by oil and the rest by domestic coal. The International Energy Agency predicts that by 2025, the Indian growth trajectory will make it necessary to import 90 percent of petroleum supply. India is seeking deals across the continent, and in 2010 its Oil and Natural Gas Corporation (ONGC) signed a memorandum with Angola.

Angola is today a key player in Africa's oil industry as a major supplier and exporter and newest member of OPEC producing around 1.8 million barrels a day. Between 2004 and 2007 it posted the highest increase in oil output (ahead of Russia, Azerbaijan, Brazil, Libya and Kazakhstan, among others).

A slump in the dollar pushed international investors into commodities, and oil hit \$147 in 2008 but by the end of that year prices had fallen to around \$30 a barrel, although since there has been a gradual recovery in prices which bodes well for oil exporters. Oil producers Gabon and Equatorial Guinea contracted as demand for oil and prices fell. Angola narrowly avoided recession in 2009, with 2008 growth of 13.2 percent falling to just 0.2 percent in the following year. The IMF forecasts that only Equatorial Guinea's recession will continue in 2010 and predicts continent wide-growth of 4.1 percent. Nigeria is forecast a growth rate of 5 percent by the IMF. Nigeria is sub-Saharan Africa's major oil producer but rebel attacks had in recent years forced it to pump oil at less than capacity. Since a ceasefire was signed in late 2009, its production had jumped from 1.7 million to two million barrels a day but a renewed attack on an oil pipeline in February 2010 reminds us how vulnerable production is.

The proposed Petroleum Industry Bill (PIB) could be one of the main legacies of the Yar'Adua administration. Nigerian oil industry minister Rilwanu Lukman leads the government's efforts at reform by proposing through the PIB incorporated joint ventures that will operate independently of government funding thereby forcing the Nigeria National Petroleum Company (NNPC) to raise money on the market. Federal and local governments will earn less from oil revenues, through the law giving 10 percent of oil equity to indigenous

people in oil producing areas. There are sections of the bill that IOCs say are problematic and that make investment unprofitable.

Political uncertainty because of President Yar'Adua's health has resulted in much government business coming to a standstill, with delays to the proposed PIB and the stalling of deregulation in the oil and gas sector. The stakes are high, and tied also to the countdown to presidential and parliamentary elections in 2011. Tied to this are reports of possible contract revisions in Nigeria. Leaked documents in 2009 show CNOOC offering some \$50 billion for 49 percent stake in 23 blocks with some 6 billion barrels a day (a sixth of all oil reserves) coming up for renewal. But several IOCs have begun discussions with the federal government over the renewal of oil block licences and fresh deals. There is also talk that the government may organise another licensing round to sell off marginal oil fields which could raise funds ahead of the 2011 elections.

Higher oil prices have encouraged oil exploration elsewhere. In 2006, Tullow Oil and Heritage Oil discovered the largest African onshore deposit of over 2 billion barrels on the border of Uganda and the Democratic Republic of Congo. In June 2007, discoveries in Ghana's Jubilee field started a new wave of interest in West Africa and Sierra Leone announced a discovery in September 2009. In 2010 there are licensing rounds in Gabon, São Tomé and Liberia and drilling on Vanco's Orca 1-X test drill in Côte d'Ivoire and in the waters of São Tomé. Angola has once more postponed this year's licensing round, and is considering abolishing open rounds and moving to risk service contracts as found in the Gulf of Mexico.

There appear to be two business models at play, with independents like Kosmos Energy in Ghana, Heritage in Uganda and HyperDynamics in Guinea seeking to strike a find and then get bought out by a major such as Exxon and ENI or a national oil company (NOC) like CNOOC. Others like Tullow and Anardarko seek to use finds to grow into genuine players. Tullow exercised its pre-emption rights in Uganda to prevent ENI from buying up Heritage in January 2010. ENI was keen to add Uganda to its growing African portfolio but had not impressed the Ugandan leadership. Ugandan President Yoweri Museveni seems to have extracted a commitment from Tullow for an oil refinery and Tullow is considering farming this out to CNOOC. The Ghanaian government has also challenged Kosmos' attempt to sell its Jubilee field assets to Exxon for \$4 billion.

There are also smaller indigenous companies appearing, brought about through local content policies developed by governments seeking an emergence of a national energy industry. Companies like Oando fall into this category and Nigeria is the best example of this trend, where during the Obasanjo era some were solely created for rent-seeking purposes.

Africa is also important for the oil majors. Exxon Mobil is the world's largest oil company and in Africa measured output at 780,000 barrels a day in 2007 from Angola, Equatorial Guinea and Chad. Africa provides a fifth of oil production for ENI and 33 percent for Total. BP has invested \$8 billion to date in Angola, which is also important for Chevron and Nigeria is important for Shell.

However African NOCs are playing an increasingly important role on the continent. Algeria's Sonatrach is the largest producer of oil in Africa and is expanding. In December 2009 it announced a joint venture with Egypt's NOC and has a number of agreements with Sahel countries. Angola's NOC, Sonangol, is similar, developing a global portfolio including in Asia and South America and recently winning two oil contracts in Nineveh, one of the most dangerous oil provinces in Iraq. Sonangol and Sonatrach are also used as vehicles to invest in non-oil business, as recently illustrated by Sonangol's Hong-Kong based joint venture vehicle, China Sonangol International Holding, which has interests in property in Singapore, minerals and infrastructure in Guinea and real estate in New York City.

'During Angola's long civil war of 1976-2000, Sonangol emerged as Angola's only competent state institution, as most others imploded through attrition and mismanagement', says Ricardo Soares de Oliveira a lecturer in African Politics at Oxford University. To this day Sonangol enjoys the political backing of the presidency. In September 2009 a joint CNOOC/Sinopec bid for Marathon Oil's 20 percent of Block 32 in Angola was stymied by Sonangol exercising its pre-emption rights. Western and Asian oil companies are finding that African states are calling the shots and that joint venture partnerships including with their rivals or host NOCs are the future. This is not resource nationalism but host government strategic pragmatism and diversification, and it reflects Africa's growing assertiveness in capitalising upon its substantial natural resources. ■