AS UNCERTAINTY DEFINES GLOBAL ENERGY MARKETS, OPPORTUNITY REMAINS IN AFRICA

Uncertainty swirls around today's global energy markets. Accurately predicting the direction oil prices are heading is a tricky business at the best of times, but with macroeconomic and political conditions as they currently stand – with the reintroduction of Iranian sanctions and a trade war ongoing between the US and China – it's clear that energy companies are having to work extra hard to plan and operate with any real conviction.

Trading margins are tightening, forcing the big, global players to chase smaller contracts, which were previously the sole domain of the lighter, more nimble energy firms. Looking ahead, these smaller traders will have to continue defending their patch against this new threat.

To do this, securing future business opportunities sooner and for longer will become more important than ever. For example, they will need to extend the tenor of typical spot or one-year term contracts prevalent in this part of the energy market.

Companies are turning to attractive structured trade financing solutions to help establish and maintain relationships with the national oil companies and refineries. However, the challenge is finding an institution that is comfortable supporting a smaller company operating in this macro environment.

Having in-depth knowledge of the local market you are operating in helps. A business that truly knows its geography – the supply and demand dynamics, the economics, politics and of course the local culture – will find securing a loan from a regional bank far easier.

This is particularly critical when doing business in Africa, as it tends to be the local banks that have the most appetite for financing domestic and regional projects.

But few energy traders understand and appreciate the African opportunity, which is one of the reasons the continent has been underweight in oil and gas investment terms. Take Nigeria, for example, which is one of the richest countries in Africa thanks to its crude production. However, of the four refineries there, all produce at significantly under capacity, meaning the potential for investment and increased production is considerable.

Africa's broader growth trajectory is impressive too: the population is increasing, per capita GDP is steadily rising, and the middle class are becoming wealthier, which in turn pushes up the demand for more refined oil products.

To truly take advantage of the past 30 years of under-investment in Africa, and perhaps to even spot serious opportunity amongst the swirling uncertainty of the current global energy markets, traders must start to recognise the importance of learning about this continent, of maintaining relationships and in building new ones.

With this in mind, it's likely to be the smaller, nimbler and more flexible energy firms that still have the upper hand. They understand that to unlock growth and fend off competition – both old and new, big and small – it is imperative to adopt a long-term perspective, invest in local talent, and build the partnerships needed to sustain success in Africa over the decades to come.

By Paul Thomas, Philia's Head of Projects & Structured Finance. 19 November 2018.