

VIEWPOINT

An African perspective

The African oil and gas sector faces several persistent challenges, familiar to any company, be they a local independent or an international major, operating in the region. These include insufficient infrastructure, an uncertain regulatory framework, lack of local financing and limited access to technology. There are also legacy issues, such as mismanagement of the continent's resources. Many of these issues could be remedied through the adoption of a pan-African approach by local players and key decision makers. The most critical problem, however, is systemic under-investment in education across the continent.

While Africa is home to nearly 1.3bn people and has the youngest population of any continent, access to and the level of education remains mostly substandard. Across the upstream sector, there are new technologies that can enable a profound transformation in the way operations are conducted. However, these advances, including 3D seismic campaigns, are expensive for most African countries to deploy. Furthermore, the continent's universities and engineering schools do not have the funding to educate professionals on the new technologies, while home-grown research and development activities are very limited.

The lack of access to affordable financing from African banks leaves the oil and gas sector reliant on foreign investment, technology and expertise. This systemic dependence leaves African governments at a considerable disadvantage. On average, only 25% of resource extracted goes to the state, while a foreign operator can receive 75% as a result of imbalanced participation agreements – although some countries have found ways to improve the situation through using alternative leverage, such as the tax regime.

Downstream difficulties

In the downstream sector, Africa faces issues regarding refining capacity and levels of conversion. To boost margins, refineries internationally invest in conversion units to increase their

Africa's oil and gas sector faces challenges that could be remedied through the adoption of a pan-African approach by local players and key decision makers, writes Omar Kassou, COO, Philia Group.



Omar Kassou, COO, Philia Group says the most critical problem facing Africa's oil and gas sector is systemic under-investment in education across the continent

Photo: Philia Group

ability to run cheaper, low-quality crudes or to increase their yield of high value products. However, this comes at a high capital cost, which Africa's existing refineries – of which there are very few compared to its acreage – cannot support. This dynamic means Africa is left with lower-value products because the refining hubs often do not have the capacity to convert these into products with higher added value such as gasoline, diesel and jet fuel.

Another major factor holding back African development in the sector is the time it takes to transport goods. Local ports are highly congested – cargoes spend nearly three weeks on average in Sub-Saharan African ports, compared to under a week in large ports in Europe, Latin America and Asia. Distribution of petroleum products by road and rail is also subject to various hurdles due to lack of proper infrastructure. While pipelines have traditionally been used to carry fuel products, these can be incredibly expensive to build and maintain. Africa's longest oil pipeline running from Tanzania's Dar es Salaam into Zambia has deteriorated severely, requires refurbishment and does not represent a cost-effective method of distribution.

Despite these many challenges, Africa has plentiful natural resources and is one of the world's fastest-growing economic regions. The combined real GDP of the continent's 54 countries is forecast to grow by more than 4%/y towards 2030, according to PwC. This will result in economic activity in Africa increasing by 60% between 2018 and 2030, whereas global real GDP growth will average only 3%.

Opportunities ahead

The International Energy Agency's (IEA) *World Energy Outlook* notes that the oil market could be hit

with a supply problem in the 2020s, with Iranian sanctions and Venezuela's reduced production rates favouring this prediction. Given this supply crunch, we expect exploration spend in Africa to amplify over the next five years, and it is safe to assume that this trend will continue if the current higher oil price environment persists. Africa offers multiple opportunities in the form of the low exploration ratio (recent discoveries in Ghana, Morocco and Senegal are only a few examples) and ever-increasing hydrocarbon demand fuelled by domestic population growth, urbanisation and the development of a growing middle class.

The rise in pan-Africanism – a movement to connect countries within the region in terms of infrastructure and business ties – will also prove beneficial for foreign investors. Greater communication between countries and improved understanding of the individual governmental frameworks should lead to the formation of new, independent players. Increased inter-continental networks will also bring a lot of added value to international companies, enabling win-win partnerships for both local and international operators.

But operating successfully in Africa, and managing to tap into its impressive growth potential, requires careful navigation. Like anywhere, in-depth knowledge of the local market is essential. Investors must truly understand the area in which they are operating – the supply and demand dynamics, the economics, politics and, of course, the local culture.

Over the course of the next decade, Africa's oil and gas industry will centre around ensuring more of the core value derived from its abundant natural resources remains in Africa. Enabling the sustainable growth of communities, improving access to and standards of education and health services, and the construction of key infrastructure, will all be critical building blocks. ●