POLICY CENTER FOR THE NEW SOUTH
THINK • STIMULATE • BRIDGE

Policy Brief
March 2020, PB-20/15

Coronavirus: a new disaster to be expected for the oil-producing countries of the Gulf of Guinea

By Benjamin Augé

Summary

The coronavirus epidemic is weakening even further the economies of the Gulf of Guinea, which have already been particularly undermined by an oil sector that has been in crisis for several years. The rapid fall in oil prices will once again put a strain on systems that fail to reinvent and diversify themselves in order to protect themselves from the shortcomings often seen in windfall economies. In addition to the economic impact, it is likely to see the potential security and political difficulties aggravated by the coronavirus crisis.

While the economy of Sub-Saharan Africa witnessed a rather satisfactory year in 2019, with 3.4% growth, compared to only 2.3% in 2018, a group of states, oil-producing countries, continues to pull down the percentage at the continental level. Prior to 2014, the year in which the fall in oil prices began, an overall growth rate of 4% had been reached almost every year since 2001. Only 2009 deviated from this average, barely reaching 3%, due to a drop in oil prices.

The continent's hydrocarbon-rich countries, concentrated mainly in the Gulf of Guinea, outside the Maghreb, have already experienced a very difficult year overall in 2019, with a drop in production. The coronavirus crisis is further destabilizing an already particularly fragile situation. It is leading to a sharp drop in consumption in the major economies, while cooperation between OPEPC members and Russia over the control of production volumes broke down at a meeting in Vienna on 6 March. The market is currently completely flooded with crude oil and many cargo ships have been unable to find buyers due to the decline in the consumption of the world's largest importer, China, since January. This fact is aggravated by Saudi Arabia's decision to increase, at the beginning of March, its production to 12 and perhaps soon to 13 million barrels per day with the uncertain objective of regaining the market shares conceded to American shale oil producers since 2010. As to the oil states of the Gulf of Guinea, they are hit at three levels: lower prices, lower production, and difficulty in selling their volume because crude oil from the Persian Gulf is cheaper and often easier to refine.

The special case of Nigeria

Nigeria is by far the most worrisome country in the Gulf of Guinea area in this coronavirus sequence. The largest economy in Sub-Saharan Africa ($397 billion of GDP out of a total of $1.71 trillion for the continent), the health of the West African giant has serious repercussions on its neighbours in the event of recession. The situation was already of concern since the closure of its borders with Benin and Niger in August 2019. As a result of its declining oil revenues, Nigeria has since 2014 experienced alternating years of recession (-1.6% in 2016) with other years of low growth (0.8% in 2017, 1.9% in 2018 and 2.3% growth in 2019). The financial situation is so difficult that the Nigerian Senate, chaired by Ahme Lawan, a close associate of President Muhammadu Buhari, approved the launching of a record loan of $22.7 billion in early March. This amount represents more than 2/3 of the 2019 budget. While this operation, officially put in place to finance important infrastructures such as the expansion of the railway network, can be considered risky, it should however be stressed that Nigeria's indebtedness in relation to its GDP is only around 20%. However, due to the collapse in oil prices ($25 a barrel on 18 March compared to $52 on 1 March), Nigerian Finance Minister Zainab Ahmed preferred to suspend this loan on 16 March. Nigeria will have a difficult year, given that its 2020 budget was established on the basis of a barrel at $57 and that oil accounts for a very significant share of the country's revenues (around 65%). An amending budget is inevitable with a significant contraction in capital expenditure. As in 2016, Nigeria is likely to face a year of zero or even more likely negative growth.

Cameroon faces more difficulties but holds firm

A market of 25 million inhabitants, much smaller than its Nigerian neighbour with its 200 million citizens, Cameroon ($38 billion GDP) is the most resistant case in the Gulf of Guinea to the drop in oil prices since 2014. Growth was still at 4.1% in 2019, as in 2018, but not as strong as in 2014, when it was 5.8%. Unlike its Nigerian neighbour and other countries in the region, Cameroon depends little on the oil windfall. Production never exceeded 180 000 barrels per day in 1985 and was only 71 000 in 2019 (68 000 barrels per day in 2018). The oil and gas sector, notably the Logbaba field, which supplies the city of Douala and the Sanaga field via a small FLNG whose throughput has been purchased by Gazprom since 2018, is basically an auxiliary sector. In 2019, oil and gas revenues have reached $665 million (FCFA 443 billion) out of a state budget of $7.3 billion (FCFA 4 805 billion), i.e. only about 9% of the total. It is obvious that the country will be affected by the fall in the price of a barrel in 2020, but the impact will be much more limited than in its neighbour countries. On the other hand, this oil market crisis will further penalize the country's economy, which is already affected by the situation in the English-speaking regions, which have been in crisis since their revolt in 2016 against the central government of President Paul Biya and the multiplication of refugee camps in the country. Cameroon is already largely affected in the far north by the repercussions of the Boko Haram exactions since 2010. The organization of the African Cup of Nations in 2021 in Cameroon will lead to numerous investments in 2020 that will artificially inflate the construction sector with public money. Cameroon's debt, 38% of GDP at the end of 2019, remains however twice as high in percentage terms as that of Nigeria.

Three major sick countries at different stages: Equatorial Guinea, Gabon and Congo

Equatorial Guinea is by far the country most affected by the oil price crisis, which began in 2014. Since then, the country has been in an uninterrupted spiral of recession, a decline of 5.9% in 2019, 6.1% in 2018, 4.6% in 2017, 8.8% in 2016 and 9.1% in 2015. In a special situation, Equatorial Guinea, with a population of barely one million, began its decline before the fall in the price of oil in 2014, due to the sudden fall of its largest oil field, Zafiro (operated by ExxonMobil). In 2010, the recession had already reached 8.9% and 4.3% in 2013, despite high crude oil prices. Today, production (120 000 barrels per day) is at its lowest level since 2000. In addition to a lower throughput and declining prices, Equatorial Guinea cannot count on any recent major discoveries to emerge from this critical situation in the short term. Only a few gas investments at the Punta Europa hub from which EGLNG's liquefied gas and ethanol production flows are envisaged. They could, in part, be supplied via new volumes from Cameroon or even Nigeria. Despite the very poor reputation of its governance, Equatorial Guinea obtained assistance from the International Monetary Fund (IMF) in 2017, ($283 million) in exchange for transparency reforms, including a return to the Extractive Industries Transparency Initiative and the fight against corruption. This decline may continue even further on the long term due to the coronavirus crisis.

Gabon has recently been hit by the same scissor effect as Equatorial Guinea, where prices have been falling since 2014, coupled with the decline in production, below 200 000 barrels per day, for the first time in thirty years in 2018. However, unlike its Equatoguinean neighbour, Gabon has benefited from the launch of some new deposits in 2018/2019 such as those of the Dussafu block, and has above all boosted certain non-oil sectors, such as mining, palm oil and the timber sector. The country has thus escaped the recession without however being able to pride itself on very strong growth beyond that recorded in 2019 (3.4%). The latter reached 0.8% in 2018, 0.47% in 2017 and 3.8% in 2015. The coronavirus crisis will once again bring down the robust growth of 2019 and will make the current effort to promote new oil blocks, which might be postponed until the end of the year, very difficult.

As for the Congo, it has sunk since 2014, having multiplied expedients to obtain fresh and immediate money. It has thus chosen to pledge a large part of its future SNPC (a state-owned company) oil cargoes to traders like Trafigura in return for pre-financing. As a result, when revenues were directly collected by traders for the repayment of their pre-financing, as well as by the country's first creditor, the Chinese government, the country's treasury received only a small portion. From 6.7% in 2014, growth literally collapsed in 2015 to 2.6%, then -2.8% in 2016 and -3.1% in 2017 before picking up again in 2018 to 1% and then 2% in 2019. The reason for this recent upturn is that oil production has grown considerably thank to the throughput from Total's Moho Nord project. The Congo's throughput increased from 232 000 barrels per day in 2016 to over 330 000 in 2018, literally saving its economy from sinking. The IMF also agreed, after lengthy negotiations, to grant a loan of $448 million over three years in July 2019. The debt burden remains worrying: 81.7% of GDP in 2019.

The negative spiral in Angola

With nearly 5% growth in 2014, Angola has similarities with Equatorial Guinea and Gabon – falling output and prices, leading to its uninterrupted recession since then: -0.1% in 2019, -2,1% in 2018, -0.1% in 2017 and -2.5% in 2016. Angola's economy relies almost exclusively on the export of oil and gas, and while no new large-scale hydrocarbon projects will be launched in the coming months, Angola is still expected to experience recession in 2020, with the impact of coronavirus on barrel prices. The African Development Bank (AfDB) predicted a very hypothetical and now impossible 2.8% growth for the current year. Angola jealously guards its economic management from outside scrutiny, but the new President Joao Lourenço, who came to power in 2017, has nonetheless had to resolve, like all its oil partners in the region, to call on the IMF. At the end of 2018, the latter granted a record loan of 3.7 billion over three years. The country's debt continues to gallop dangerously, rising from 40% of GDP in 2014 to 80% of GDP in 2018.

Political conclusion

Nigerian and Angolan leaders have never allowed their citizens to really benefit from oil revenues. In both countries, dominated by a small group that has become extremely wealthy by capturing revenues from the sector, basic infrastructure is lacking or non-existent. In Angola, the years of civil war have contributed to worsening the situation. The decline in national budgets since the 2014 crisis and the cuts that the coronavirus is bound to cause are unlikely to fuel instability in the immediate future. However, the demographic factor has to be looked at closely, Nigeria has the highest rate birth rate in Africa in its northern zone (Zamfara State has reached the rate of 9 children per woman) and the country has recently seen its population exceed 200 million, twice as many as Egypt or Ethiopia. The per capita standard of living is indeed deteriorating rapidly. In addition, there are many factors of instability, with geographical zones of insecurity growing wider and wider. For the past ten years, unrest, mainly located in the north-eastern region due to Boko Haram, and in the Niger Delta due to the activities of Ijaw militants, has been affecting the states of Sokoto, Zamfara and Katsina (in the North-West) where acts of violence, kidnapping and ransoming occur in very large numbers. Angola, for its part, has seen its population increase from 15 to 30 million in the space of fifteen years, further undermining long term political stability. The lack of results of the MPLA (People's Movement for the Liberation for Angola), which has been in power since independence, cannot be sustained indefinitely while the population is rapidly becoming poorer. The MPLA hopes, perhaps erroneously, that the memory of the years of civil war (1975-2002) may help prevent the potentially violent claims of the population, which is tired of seeing its living conditions continue to deteriorate.

The situation is very different in Gabon, where the number of civil servants is just under 100 000 for an active population of barely one million out of a total of 2 million citizens. A significant proportion of citizens thus live directly thanks to the state and the drop in oil revenues will have an immediate political impact. Strikes and protest movements are likely to multiply, while President Ali Bongo is considered, by part of the Gabonese population, as ill-elected since the highly contested elections of 2017. The coronavirus should also put a stop to the little optimistic tone that started to rise a few months ago.

Cameroon is facing two major political challenges: how to improve the situation in the English-speaking regions as well as in the far north and address the repercussions of the activities of Boko Haram. Clan struggles to manage the post-Paul Biya (87 years, 38 of which are in power) are also slowly becoming more pronounced. The real good fortune of this country remains its administration, by far the strongest in the region with an education system that is also more robust than its neighbours. Moreover, the fall in crude oil prices is not likely to derail its economy completely, given its relatively low throughput and the limited weight of this sector in the overall economy.

Equatorial Guinea, like Congo, remains a cause for concern. The lack of revenue to lift Equatorial Guinea out of the spiral of recession is evident. President Teodoro Obiang Nguema, who has been in power since 1979, is holding his country with an iron fist. It remains unlikely that revolts will break out despite the continuing economic crisis. Very few Equatoguineans live directly from the oil sector, apart from a small class that has been affected since 2014. The coronavirus, however, threatens to partially wipe out the efforts made since the beginning of the IMF aid programme. For Brazzaville, the situation may be less painful in the medium term if prices recover thanks to strong oil production, should cargo ships find buyers, but the state coffers will still be empty this year, due to debt repayments and lower revenues because of coronavirus. The Congo had gone through a very violent civil war in the 1990s that the population does not want to experience again, but this country of four million people still has no alternative to oil, as the diversification of the economy is clearly not being taken seriously. This is a feature common to most countries in the Gulf of Guinea as well as to OPEC countries more generally.

About the author, Benjamin Augé

Benjamin Augé is an Associate Researcher at the Afrique et Energie centres of the French Institute of International Relations (IFRI) since June 2010. He has a PhD in geography from the French Institute of Geopolitics (Paris 8 University), teaches the geopolitics of oil and gas in Africa at the University of Nouakchott, Mauritania, and is also a lecturer at the Netherlands Institute of International Relations (Clingendael). His research work focuses on the governance of the oil and gas sectors in African countries. He is particularly interested in conflicts between different (local, national, international) actors for the control of oil zones as well as in border disputes related to oil and gas deposits. Benjamin Augé also works on relations between the African continent and certain external powers (Qatar, Saudi Arabia, Turkey, Cuba and Israel).

About Policy Center for the New South

Policy Center for the New South, formerly OCP Policy Center, is a Moroccan policy-oriented think tank based in Rabat, Morocco, striving to promote knowledge sharing and to contribute to an enriched reflection on key economic and international relations issues. By offering a southern perspective on major regional and global strategic challenges facing developing and emerging countries, the Policy Center for the New South aims to provide a meaningful policy-making contribution through its four research programs: Agriculture, Environment and Food Security, Economic and Social Development, Commodity Economics and Finance, Geopolitics and International Relations.

Read more

POLICY CENTER FOR THE NEW SOUTH

THINK • STIMULATE • BRIDGE

Policy Center for the New South

Suncity Complex, Building C, Av. Addolb, Albortokal Street,
Hay Riad, Rabat, Maroc.
Email : contact@policycenter.ma
Phone : +212 (0) 537 54 04 04 / Fax : +212 (0) 537 71 31 54
Website : www.policycenter.ma