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COVID-19: FACED WITH A VIOLENT AND LONG-LASTING SHOCK, AFRICAN OIL COUNTRIES ARE IMPROVISING THE RESCUE OF THEIR ECONOMY

By Benjamin Augé

Covid-19: Faced with a violent and long-lasting shock, African oil countries are improvising the rescue of their economy

While the Brent oil prices in London have been fluctuating between 20 and 35 dollars per barrel for several weeks, and while American oil prices in New York even reached negative values on 20 April, most African oil-producing countries have, at the end of 2019, passed their 2020 budgets on the basis of rather optimistic forecasts, sometimes betting on an increase in expenditure financed by borrowing (Nigeria). Some of these countries were expecting Brent prices to be rather high in 2020, following the curve observed in 2019 where the annual average was around \$64 per barrel (see below).

Brent prices from October 2019 to April 2020:



Source : Financial Times

Nigeria, for example, had bet on a record budget of 10.59 trillion naira (\$35 billion), with a deficit in the order of \$7.2 billion - (with a reference barrel at \$57). Similarly for Gabon, which in December 2019 had forecast a budget that would grow by 9.8% to reach CFAF 3330 billion (just over 5 billion euros), based in particular on the fact that oil production would increase thanks to the Dussafu block, which has just started production. The Congo, for its part, was betting on an assumption of a barrel at \$55 with a rather conservative budget, knowing that the debt already reaches more than 80% of the GDP and that the economy is drip fed by the International Monetary Fund (IMF). Ghana, which has been an oil producer since 2010, was expecting growth of 6.8% in 2020, with a barrel at 62.6 dollars. Algeria, in contrast to its neighbours in the Gulf of Guinea, had, on the other hand, already forecast a 9.2% drop in spending, including 20% less investment between 2019 and 2020. This singularity among African producers is due to the fact that Algeria was already in crisis in 2019 and was forecasting a drop in revenue of more than five billion dollars from one year to the next, caused in particular by the decline in hydrocarbon exports. All African countries must now urgently resume discussions with their respective parliaments in order to pass as soon as possible amending budgets that will have a profound impact on the economy, unemployment, social spending and, ultimately, the rate of poverty. There are few reasons to hope for a clear improvement in the situation. Here are a few explanations.

OPEC production cuts, a dilemma for African oil-producing countries

This bleak picture for the oil-producing countries is aggravated by the consequences of a decision that has further clouded hopes for a rapid recovery in hydrocarbon revenues. On April 12, 2020, the Organization of Petroleum Exporting Countries (OPEC) and a dozen other crude oil producers agreed to reduce world production by nearly 10 million barrels (out of 100 million) by May 1, 2020, with the aim of raising prices.

Forecast decline in oil production after OPEC decision + 12 April:

Supply	1Q19	2Q19	3Q19	4Q19	1Q20	2Q20	3Q20	4Q20
US	11.81	12.10	12.23	12.78	12.84	12.67	11.91	11.52
Canada	4.28	4.36	4.35	4.52	4.59	3.26	3.07	3.02
Mexico	1.67	1.67	1.69	1.70	1.69	1.43	1.58	1.56
Brazil	2.56	2.63	2.90	3.01	3.03	2.90	2.85	2.85
Norway	1.44	1.26	1.37	1.63	1.79	1.81	1.82	1.90
UK	1.09	1.02	0.90	1.02	1.08	1.00	0.98	1.09
Other North Sea	0.11	0.11	0.10	0.10	0.10	0.09	0.09	0.09
Russia	11.34	11.17	11.24	11.23	11.18	9.42	8.99	9.73
Qatar	1.41	1.40	1.40	1.40	1.41	1.39	1.44	1.46
China	3.89	3.87	3.83	3.84	3.98	3.96	3.88	3.86
Colombia	0.89	0.89	0.88	0.88	0.88	0.88	0.85	0.80
Non-OPEC Crude	50.45	50.18	50.60	51.97	52.48	47.86	46.38	47.31
EX-US Non-OPEC NGLs	3.52	3.43	3.42	3.47	3.50	3.45	3.41	3.46
US NGLs	4.76	4.91	4.85	5.03	5.00	5.09	4.84	4.81
Other non-OPEC adjustments					0.00	-0.02	-0.06	-0.09
Non-OPEC Crude + NGLs	58.73	58.52	58.87	60.47	60.98	56.40	54.64	55.58
Algeria	1.03	1.02	1.02	1.02	1.02	0.88	0.86	0.86
Angola	1.43	1.43	1.35	1.37	1.35	1.23	1.25	1.25
Congo	0.34	0.35	0.34	0.33	0.33	0.28	0.27	0.27
Equatorial Guinea	0.11	0.11	0.11	0.11	0.11	0.10	0.10	0.10
Gabon	0.21	0.22	0.21	0.22	0.22	0.17	0.15	0.15
Iraq	4.66	4.76	4.74	4.60	4.41	3.93	3.80	4.00
Iran	2.83	2.16	1.95	2.00	2.09	2.09	2.09	2.09
Kuwait	2.71	2.69	2.65	2.69	2.67	2.38	2.30	2.40
Libya	0.95	1.15	1.09	1.09	0.35	0.09	0.58	1.02
Nigeria	1.69	1.72	1.81	1.74	1.78	1.53	1.50	1.60
Saudi	10.16	9.82	9.53	9.93	9.79	9.33	8.99	9.37
U.A.E	3.07	3.07	3.08	3.03	3.03	2.76	2.59	3.20
OPEC Crude	30.82	29.89	29.18	29.23	28.42	26.01	25.69	27.48
OPEC Condensate & NGLs	5.44	5.42	5.33	5.38	5.44	5.44	5.44	5.44
OPEC Crude + NGLs	36.25	35.31	34.51	34.61	33.86	31.45	31.13	32.92

Source : Citibank

This will further contribute to accentuate the loss of market share of African countries in the hydrocarbons sector (barely 8% today). It could have a double impact on the revenues of African oil countries, if crude oil prices do not recover, remaining these days at around \$20 in London. While the Congo was forecasting the production of 383,000 barrels per day (bpd) for 2020, an all-time record, if the country complies with the rule, it will have to drop to around 270,000 b/d. Nigeria will no longer be allowed to produce more than 1.6 or even 1.5 million b/d, Equatorial Guinea will have a quota of barely 100,000 b/d, Angola 1.25 million b/d and Gabon 150,000 b/d. As for Algeria, it will be forced to produce less than one million b/d, or only 860,000 b/d, and will thus return to a low level that it had not reached since the 1960s! Libya is currently out of the game, producing just over 100,000 b/d – compared to a volume of 1.2 million b/d at the end of 2019 – since the blockade of the country's oil ports at the end of January 2020, orchestrated by the rebellion led by General Khalifa Haftar in order to weaken the UN-backed government in Tripoli.

However, it is not certain that all OPEC member countries will easily lower their throughput. Historically, OPEC has never been able to enforce production cuts on all its members. Most African countries joined the Vienna Organization recently (Congo in 2018, Equatorial Guinea in 2017, Gabon returned in 2016 and Angola in 2007) and some of them consider their rather precarious situation and quite low production compared to the Organization's pillars, such as Saudi Arabia or the United Arab Emirates, and could be tempted to circumvent the position adopted by OPEC in early April. However, this would be a risky attitude. Since the Covid-19 accident in China in December 2019, global consumption

has plummeted. In China alone, the largest importer of crude oil, demand fell from 14 to 11 million barrels per day between the last quarter of 2019 and the first quarter of 2020, representing a 3% drop in the total market. Forecasts now point to a global decline of almost 30% between the last quarter of 2019 and the second quarter of 2020. The dilemma for African oil countries, tempted not to play the OPEC game, is whether they will simply still have customers to sell their crude oil. At present, a significant amount of oil already produced remains unsold and is stored in tanks on land or on tankers at sea. This situation represents a very high cost, without bringing in a single dollar to the producing countries concerned.

Austerity measures

In order to avoid sinking, all African producer states are being forced to make drastic cuts in their 2020 budgets. They are trying to respond to the emergency without fully appreciating the scale of the coming disaster. One of the main measures is to re-index oil revenues on a more realistic price per barrel, between \$20 and \$30, and to reduce production in line with the current market. This type of measure was, for example, proposed by the Nigerian President, Muhammadu Buhari, to his country's parliament at the beginning of April, with an oil production forecast of 1.7 million barrels per day instead of the 2.18 mentioned in the budget voted at the end of December. It is noteworthy that this level remains well above – at least 100,000 b/d – the commitments made by OPEC members on April 12. The Nigerian government will, therefore, again be obliged to review the elements of the budget calculation. Gabon is already forecasting a loss of revenue that could reach up to CFAF 645 billion, or nearly 20% of the budget. This situation is the consequence of the decline in oil volumes and prices as well as the postponement of development and exploration work in a stagnant oil industry, outside of the producing wells usually in operation. In order to find room for manoeuvre, Libreville will have to speed up, in partnership with traditional donors, a major reform of its civil service with the mass departure of civil servants, whose numbers now stand at around 90 to 100,000. Algeria, which is already in structural crisis, will have to cut back further on its investments in the hydrocarbon sector. Sonatrach, which alone produces almost all of the country's oil and gas, is working to decrease its operating and construction expenditures from \$14 billion to \$7 billion by 2020. This halving of expenditure this year is likely to weaken production capacity in the medium term due to the lack of investment. However, it will probably not be the private oil sector that will save Algeria, having itself been in a very clear retreat for nearly fifteen years, following the 2005 amendments to the hydrocarbons law. The last hydrocarbons code, voted by parliament at the end of 2019, provided for greater flexibility vis-à-vis foreign private companies, but the promotion of new blocks must now be postponed because of the Covid-19 crisis. At the end of March, Angola announced that it wanted to revise the 2020 budget, based on a barrel not of \$55 but rather of \$35. These corrections should not be applied before June. Angola is in a situation similar to Algeria, with a structural production crisis, which has been steadily declining since 2008 – from 1.8 to 1.4 million b/d in ten years. This situation is similar for Equatorial Guinea.

Conclusion: What is the future of the African oil industry in the medium term?

The number of oil and gas development projects pushed back on the continent since the spread of the epidemic is staggering. BP, the operator of the Tortue cross-border gas field between Senegal and Mauritania, has already warned that its throughput would start in 2023 rather than 2022, although the project was launched at the end of 2018. The reason of this postponement is that the British company will be cutting back on the field work for several months. Another significant case, the largest hydrocarbon project in Africa: ExxonMobil's 15.4 million tons of LNG – nearly 30 billion dollars – in Mozambique. It should not be sanctioned by any final investment decision this year. This launch was initially scheduled to be announced in 2019 and then in the first quarter of 2020. If the security issues – violence by Islamist groups in the province of Cabo Delgado – are not unrelated to this postponement, Covid-19 is obviously an aggravating factor. Similarly for Tanzania, the discoveries (36 trillion cubic feet of gas or 1/5 of Algeria's discovered reserves) are likely to remain in the ground for several years. The teams of the companies involved, Shell and Equinor, have already – temporarily for the moment – packed their bags.

The Covid-19 is sometimes a godsend for tankers. In Mozambique, it has made it easier for some of them, concerned about the security risk in the north, to justify deferring decisions on certain large-scale projects for several unknown reasons. In Tanzania, President John Magufuli wanted to renegotiate contracts from 2015, much to the discontent of oil companies. The epidemic has thus accelerated the likely disengagement of companies, at least in the short to medium term.

Exploration drilling campaigns are also being cancelled one after the other, in particular to carry out wells in the Namibian offshore or in South Africa: the last still relatively virgin offshore zone, which recently became the African hotspot. These postponements will have an impact on the continent's production capacity once the oil market has stabilized again thanks to the recovery in global economic activity. It is probably other regions with cheaper oil (the Persian Gulf or the future giant of Guyana with 750,000 b/d by the end of the decade) that will contribute to weakening the share hitherto reserved for the continent. This crisis should lead oil companies to refocus even more on projects with high added value (large reserves). The development of high political/security risk zones could be re-examined in the light of a market whose volatility is obviously a primary characteristic, but on which the calculation of demand is going to become an unknown factor even more difficult to measure, and this for a long time to come, due to the Covid-19 pandemic.

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Benjamin Augé is an Associate Research Fellow at Ifri since June 2010. He is a PhD graduate in geography from the French Institute of Geopolitics (University of Paris 8). He is otherwise Chief Editor of Africa Energy Intelligence, a newsletter focused on oil & gas issues in Africa. He teaches oil and gas geopolitics at the University of Nouakchott in Mauritania and at the Instituto Nacional de Relacoes Internacionais (ISRI) in Mozambique. He is also a guest speaker at the diplomatic academy of Netherlands (Clingendael). His research focuses on the political management of the hydrocarbons in African states. Benjamin Augé covers conflicts between different stakeholders (local, national, and international) for the control of oil zones, as well as in the border disputes linked to shared oil and gas basins. Benjamin Augé also works on the relations between the African continent and external partners (Qatar, Saudi Arabia, Turkey, Cuba and Israel).

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