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Africa’s Hydrocarbon Development – How to Make it Work for its Own People

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There have been two significant energy-related developments in the last two decades. The first is a demand-side development, the awakening of the two Asian giants – China and India. Both these economies have launched an energy-intensive rapid-growth paradigm, playing ‘catch-up’ in the inexorable global development game. With their combined populations accounting for more than a third of global population and their low per capita energy consumption base, the two economies will pre-empt an increasing share of the dwindling global energy sources, especially hydrocarbons. Already nearly half of global incremental oil demand comes from just these two countries and this trend can only become more pronounced in the coming years.

The other important development on the energy scene, this time on the supply side, is the emergence of new hydrocarbon supply regions – in Russia, Central Asia, Africa and Latin America. Of all these regions, Africa has indeed become the target of predatory acquisitions and unsavoury practices of international extractive enterprises engaged in the extraction of all minerals, of gold, diamonds, oil and timber. Russia, Central Asia and Latin America have, to a large extent, escaped the exploitative reach of global and now Asian multinational corporations scouting around the world for new assets. Africa with its loose and unstructured investment regime is the prime target of Asian oil and gas companies looking for accretion to their own reserves. India, for instance, has invested in the energy sectors of Sudan, Libya, Egypt and Cote d’Ivoire and is scouting for new assets in other African countries. In Sudan, it partners with Chinese and Malaysian companies, in Libya with a Turkish company, in Cote d’Ivoire with a Chinese company.

The question therefore is: What is it that makes Africa vulnerable? What is the difference in the political, economic and investment environment in Africa and the other three regions? Can Africa learn from the example from the other three regions and adopt their techniques to ensure that its own peoples benefit most from the extraction of minerals from its territory? At the same time, can Africa escape the resource-curse that has plagued and doomed the single-resource economies of the Middle East?
How can Africa use its mineral wealth to build a diversified economy and ensure economic and social development for its peoples who are among the most impoverished and illiterate in the world? Since the relentless quest for new energy sources will make it impossible to stop the exploitation of Africa’s vast unexplored mineral wealth, how can we ensure that such exploitation takes place in an equitable and humane manner?

In Russia, Central Asia and Latin America, governments have been consolidating their control over their own natural resources. This is being done through multiple strategies: creeping acquisitions – tinkering with tax and royalty regimes, penalties for environmental violations etc. In Latin America, it has ranged from outright nationalisation in Bolivia to tightening of government controls over foreign oil investments in Venezuela etc. Both Russia and Central Asia have done away with production sharing contracts which are usually loaded in favour of the investor and have now put in place systems to ensure that foreign investors get an assured return on their investment rather than a share of the production. How to make such arrangements attractive enough to attract capital and technology is the critical issue. It is not impossible – the entire GCC region has demonstrated that governments can keep a tight control over resources even as they attract the best technologies from around the world for their development.

In order to develop African hydrocarbon resources in an equitable manner for the benefit of the peoples of Africa the following could be the starting point:

1. Both China and India have limited domestic oil reserves and hence will have to satisfy their burgeoning demand through imports. In an environment where 'peak oil' theories have gained currency, it is unlikely that India and China will be content to rely entirely on global markets for their energy supplies. They will try and acquire as many overseas oil assets as they can. Any future strategy for the benefit of African peoples must face this reality and attempt to take advantage of it.
2. African hydrocarbon development is at a nascent stage (except in Nigeria and Algeria) and hence needs massive infusion of capital and technology. It may not be feasible for African countries to develop their resources with indigenous capital and technology. Foreign investment and technology will be necessary for mineral development in Africa.
3. Countries adopt a wide variety of contractual arrangements for development of hydrocarbons. They range from production sharing contracts to EPC (engineering, procurement and construction) contracts. In the case of Africa, production sharing contracts should be awarded only in the case of unexplored fields. Where producing fields are awarded to foreign investors, they should be given out on 'buy-back' or similar arrangements where the foreign investor gets an attractive and assured return on investments. Iran, for instance, offers only 'buy-back' contracts.
4. All contracts, whether buy-back or PSC must be awarded through a transparent international competitive bidding process. It must be made mandatory for the buyers to disclose the price quoted by the successful bidder. Energetic lobbying could ensure that all oil companies bidding for African assets must be members of this transparency initiative. Those who do not participate in the initiative should be debarred from bidding for African assets. A pan-African forum like the Organization of African Unity could take the initiative
5. Contracts can be awarded as a package. The RFP/RFQ can specify the constituents of the package. For instance, weightage can be assigned for associated infrastructure development – refineries, petrochemical complexes, fertiliser plants, power plants etc. and/or associated physical and social infrastructure development, such as roads, townships, schools, hospitals etc. The former particularly, will liberate African economies from the abhorrent practice of exporting raw materials. African governments should insist on domestic value addition and export finished products (refined petroleum products, fertiliser, power etc) rather than crude or natural gas in the form of LNG or through pipelines.
6. While technical and skilled personnel may be brought in by the investor, African governments can insist on employment of local labour for tasks that can be

undertaken by locals without specialised training. At the same time, companies investing in Africa should be required to train local people in operating and maintaining facilities. Over a period of time, this will enable Africa to build a trained and skilled workforce capable of taking over the operations of their own industries.

7. African countries can also send out their people to work in big oil, gas, LNG and petrochemical projects in other parts of the world so that over time, they can accumulate a pool of skilled workers some of whom would return to their respective countries in Africa and put their own skills to good use for the benefit of their own people. For instance, a number of Chinese and Indians who went out a generation ago to work in the US and Europe are now returning to their homeland to set up start-up enterprises utilising the skills learnt abroad.

These strategies could be combined with other measures including transparency initiatives.