FUEL INJECTION

Faced with ever-changing environments and numerous challenges, oil companies in Africa and globally are having to rethink their strategies and future plans. **BY IGA MOTYLSKA**

AFRICA has a relatively small oil industry when compared to heavyweight producer countries such as the US, Saudi Arabia, Russia, China and Iran. According to PwC's 2017 report on current developments across the oil and gas industry, the continent contributed 8.6% of global oil production output in 2017 (representing a 4.9% decrease year-on-year), and has 7.5% (128 billion barrels) of global proven oil reserves – a 0.1% drop from 2016. The report also notes that production across Africa in 2017 increased only in Algeria by 1.4% and Chad by 0.6%.

'If you look at the exploration and production activity in Africa there's been a steady decline since 2014,' says Luke Havemann, senior oil and gas associate at Bowmans.

'There has been a marked decline in the number of rigs operating on African soil or in African waters as a percentage of the global rig count – in 2017 we managed just 8.7%. There has been a steady decrease and perhaps not the growth that we would have hoped for.'

As the PwC report states, this drop is in line with the general global trend as the oil discovery count was down to 174, the lowest level in 60 years. Discoveries declined in volume to 2.4 billion barrels in 2016, compared to an average of 9 billion barrels per annum over the past 15 years.

However, there has been a recent large oil find in Owowo in Nigeria with a potential of 1 billion barrels of oil; Cayar in offshore Senegal and Mauritania with approximately 15 trillion cubic feet (Tcf) of gas; and Block 20 and 21 in Angola with about 313 million barrels of condensate and 2.8 Tcf of gas.

By late 2016, Africa reported 503.3 Tcf of proven natural gas reserves, with around 90% of gas production coming from Algeria, Nigeria, Egypt and Libya, according to PwC. Five offshore gas reserve discoveries across Angola and Senegal in 2016 formed part of the 10 largest finds in the world. A total of 1 216 megabarrels (Mbbl) was found in Angola across three sites and 946 Mbbl in Senegal across two sites, according to Rystad Energy.

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'There's the argument around peak oil that at some point oil and gas reserve finds will peak, and then we will see declining levels of findings and production. That hasn't happened yet. The risk for the African industry is not peak oil and gas reserve finds, but rather a peak in demand for hydrocarbons,' says Chris Bredenhann, PwC Africa oil and gas advisory leader and co-author of the PwC report.

Adding to this, Ben van Beurden, CEO of Shell, comments that in the company's view, global peak demand for oil will be reached around the 2030s.

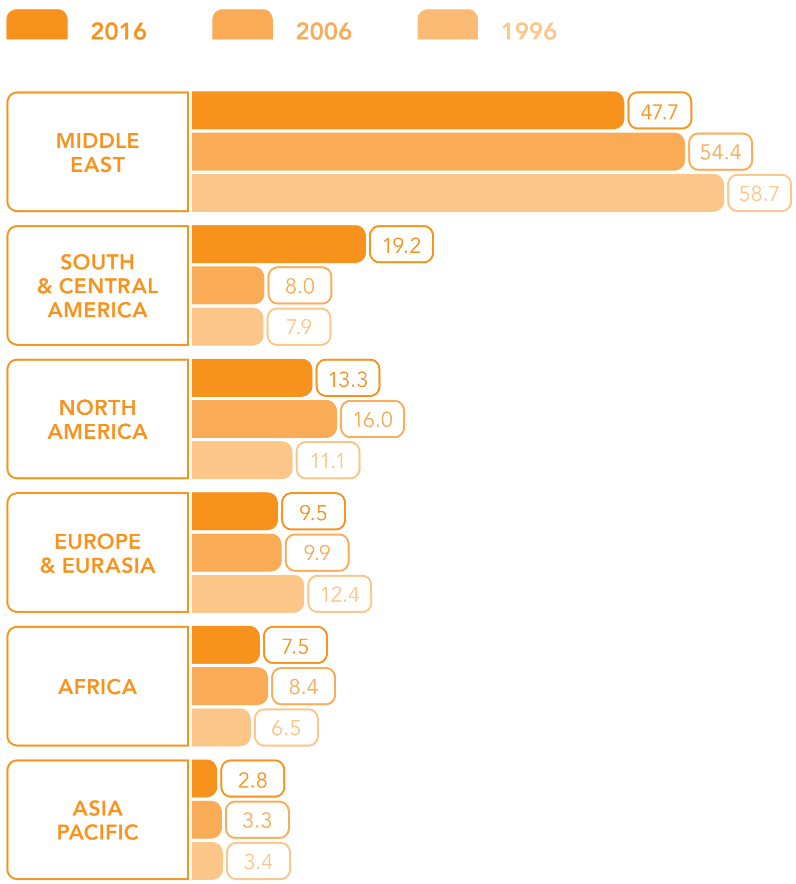
David Forfar, head of oil and gas at Bowmans, says: 'Investment decisions that are coming through the process now were probably taken 18 months to two years ago, when the oil prices were way down in the doldrums. Because we are now at around US$70 per barrel that shouldn't give the impression that there are a lot of projects on the go in Africa.

'The two statements are not joined together. That is simply because of the tremendous time lag that's involved in getting these types of big investment decisions through corporate boards, where they are looking two to three years ahead to get final sanction on those projects.'

The sharp drop in the oil price and decrease in production has had varying impacts on numerous economies across Africa, based on each country's level of involvement in the oil industry. Bredenhann notes that as an importing nation, South Africa, for example, has benefited from a lower oil price, while a mature oil-producing nation such as Nigeria, which relies quite heavily on oil revenues, has seen its country revenue decline.

FIELDS OF OPPORTUNITY

Global distribution of proven reserves between 1996 and 2016 (%)



Source: BP

National, regional and international oil companies, oilfield service companies and industry stakeholders operating across Africa, and indeed the globe, have had to redefine their operation strategies, understand their capabilities, outline their strengths, survey their closest competitors, consider the risks and think to the future in order to continue operating in a lower-for-longer environment. 'The pressure on the price has led oil companies to think about what they are, where they play, how they play, and what their strengths are,' says Bredenhann.

Oil-producing companies have had to reassess their position according to whether they are a low-cost or high-volume producer, whether they want to be a regional player with various regional diversifications or whether they want to be a product-diversification player. They have had to embrace technology-driven disruption; divest from certain opportunities; sell or acquire distressed assets; enter into partnerships; decommission certain oil rigs; and cut investments in exploration and production, he explains.

According to trends noted in the PwC report, many oil and gas companies have now turned their focus to low-risk initiatives by looking to existing regions with shorter lead times and low above-ground risk over new explorations with higher-cost marginal plays. Similarly, the 2017 Barclays upstream spending survey indicates that international oil companies are set to focus more on shorter cycle opportunities, such as shale, shallow water, brownfield and tiebacks, rather than major deepwater projects, which are considerably more costly to yield production.

'There has been a pullback in terms of investment in upstream exploration and production activities because of the low oil prices, and due to industry dynamics […] The recovery is driven by industry fundamentals that have seen supply and demand more in balance,' says Bredenhann.

The steady recovery of the oil price since 2017 up to the US$70 per barrel mark will most likely spell an opportunity for a revitalisation of activity in the regional industry. Oil and gas companies need to transform their operations to become more resilient so they can continue operating successfully even in challenging environments.

'We've been through a tough time. Will we ever see the heydays of US$140 per barrel and the activity that went with that? The answer is no, but there are still pockets of interesting developments across the continent for the oil and gas industry for exploration and production,' says Bredenhann.

Investment by A-list oil and gas companies that have a widespread portfolio of investment opportunities available to them, is strongly driven by political and economic certainty as well as a corruption-free environment where there is evidence of refined policies and a clear regulatory framework. Strategic decisions are based on where they will get the best economic returns at the lowest risk, which usually points them to a mature environment with proven reserves.

Regulatory uncertainty continues to delay the development of the industry across the continent. More than a quarter of oil and gas companies surveyed by PwC said that projects had been postponed or delayed due to local content policies, and around 15% of projects were cancelled or relocated in response to local regulations.

While there are always lessons to be learned from other territories, and it is important to understand what has worked where and why, it's vital to consider the local environment and circumstances. Action-focused policy-makers are needed to create the right enabling legislation and to have regulations tailored accordingly.

'The South African government needs to provide a stable and commercially attractive environment to draw the A-lists. These are the issues that we are lobbying government for,' says Niall Kramer, CEO of the South African Oil and Gas Alliance. 'The MPRDA is a crucial piece to that. It has to be commercially attractive and stable, and both substantively in terms of its content and being procedurally sound.'

A-list companies report their earnings quarterly and comply with various anti-corruption acts. They do not undertake government-to-government deals and are therefore looking for a corruption-free investment environment. There's been a lot of discussion around corruption as well as the misallocation or misuse of development funds across the continent.

However, Kramer adds that 'it seems that there are moves in many African countries, including South Africa, to squeeze out corruption; to have more accountable leadership; and to be more equitable in the spreading around of resources and opportunities'.

The Extractive Industries Transparency Initiative promotes transparency, good governance and accountability in the use of oil, gas and mining resources. It has more African signatories by number and percentage than the rest of the world, primarily to illustrate compliance and attract foreign investment, says PwC.

PHOTOGRAPHY ISTOCK

Recent discoveries in several areas have yielded large reserves of African oil

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'Some companies [such as BP, Shell, Total and Statoil] are moving away from being oil and gas companies to become energy companies by diversifying their portfolios to include renewables as part of their energy mix,' says Bredenhann. The motivations are varying from trying to weather the boom and bust of commodity cycles through diversification, to adopting a new sustainability agenda within the company.

For others it is driven by external factors such as consumer demands for greener uses of hydrocarbons, as well as governments' decisions to green their economies and regulate industries and emissions. 'Some oil and gas companies are researching more environmentally responsible uses of hydrocarbons or energy efficiency and how they can get more energy by using the same amount of hydrocarbons,' adds Bredenhann.

'There's a lot of talk and change around hydrocarbons and the industry. It is incumbent on oil companies to make sure they appreciate the changes and adapt accordingly, and have an appropriate strategy to target and understand what it is that you are targeting as a market and as a product,' he says.

'They need to consider sustainability – how we adapt and adopt by responding to changing consumer needs and environmental requirements as well how we utilise technology and digital transformation to reduce costs and operate in this challenging environment.' ED