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TAKING AFRICA UPSTREAM

a look at two decades of oil and gas production

Africa's share of global oil reserves is far lower than had been hoped for 20 years ago. Looking at Africa's below-ground capabilities, the continent's proven oil reserves have increased from 74.6 bn barrels to 129.1bn barrels over the last two decades. Although this increase can be described as substantial, it ought to be considered in a global context and, in that regard, Africa has moved from holding 6.5% of global proven oil reserves in 1996 to a mere 7.6% twenty years later. This increase of 1.1% in Africa's share of global oil reserves is certainly reflective of steady growth, but bearing in mind the frontier nature and size of the continent, Africans had hoped for greater growth in relation to their share of global proven reserves.

Africans had also hoped for their share of oil production to rise. But Africa's share of global oil production has fallen by 3% over the course of the last decade to a level that is lower than it was two decades ago. This demonstrates that Africa's proven reserves potential has yet to be fulfilled and, its ability to produce is, from a comparative perspective, not what it ought to be.

With regards to its gas reserves, there has been an increase from 3.2 Tcf in 1996 to 7.4 Tcf, so Africa is producing more than double the quantity of gas that it was two decades ago. Celebrations regarding this growth must be tempered by the fact that the last ten years have seen a decline in Africa's proven gas reserves as well as a decline in its percentage share of global gas production. In other words, although there has been a leap in gas produced, Africa has fallen short of being able to secure competitive growth.

If African Exploration & Production (E&P) activity is considered, a similar picture emerges. Although the African rig count has steadily increased from the level that it was at twenty years ago, Africa's share of the global rig count has decreased to less than half of what it was twenty years ago, and that figure excludes the rigs that were deployed because of the North American shale gas bonanza. Whereas Africa held 10.3% of the global rig count in 1996, it currently holds just north of 4% of the global rig count. From an E&P perspective, Africa has not seen the growth that it had hoped for. In fact, Africa has lost ground to other regions and become a less attractive destination for the deployment of rigs.

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Leaving the somewhat disappointing below-ground considerations aside, it appears that Africa has not achieved the above-ground progress that had been hoped for twenty years ago either. Albeit that policy-related issues and concerns about socio-economic progress are not easily assessed from an industry-specific viewpoint, there are certain indices that are helpful in this regard.

The Policy Perception Index (the PPI), which appears in the Fraser Institute's Annual Survey of Mining Companies, is a report card on the attractiveness of mining policies. While it fails to take cognizance of notable African oil producers, it does provide a useful means for gauging Africa's policy climate from the perspective of an extractive industry.

The latest PPI results show that, as a region, Africa ranks 5th behind Canada, the United States, Australia and Europe, which is the same position that it held in the previous PPI. Although, on the face of it, the PPI suggests that Africa possesses a stable policy climate, it also demonstrates a lack of positive policy-related growth. As the PPI only takes 20 of Africa's 54 jurisdictions into account, the perceptions that it generates ought to be taken with a pinch of salt.

A policy-related index that need not require as much salt, so to speak, is BMI's 2016 Africa Upstream Risk Reward Index. The most interesting observation contained in this industry-specific index is the fact that "above-ground risks [have been] dulling below-ground potential".

This observation shines a light on why the below-ground data reveals such disappointing growth. Over the course of twenty years, layers of regulatory uncertainty are still a commonplace and "slow bureaucratic procedures, heavy state interference and weak institutional capacity" are still hindering the growth of favorable policy climates in jurisdictions that possess proven oil and gas reserves. With an average score of 47.3 out of 100, it seems clear that from a policy perspective, Africa has not demonstrated the growth that it would have hoped to see.

Since Africa is faced with policy climates that are, in many instances, far from balmy, it should not be surprising that growth in relation to socio-economic considerations has been equally scarce over the course of the past twenty years.

In the light of the fact that 51 of Africa's 54 countries are currently producing or exploring for oil, cognizance must be taken of the words of Leif Wenar in his book, *Blood Oil: Tyranny, Resources, and the Rules That Run the World*, when he noted, "extracting resources tends to fuel corruption and damage institutions, while burning out social trust."

With the wisdom of hindsight, Wenar concluded that "[o]il states are 50% more likely to be ruled by an authoritarian government and, poorer ones are twice as likely to experience civil war, as non-oil states."

In spite of our wealth of natural resources, a number of Africa's top producers have, over the course of the past two decades: seen an increase in the number of extremely poor (dollar-a-day) citizens, which, in various instances, is the vast majority of their citizenry (one particular African producer is currently home to more extremely poor people than China or India); received progressively deteriorating rankings on the list of the worst jurisdictions in the world to raise a child; been party to infamous oil-for-arms relationships that have underpinned numerous violations of human rights in the region; and, been unable to bring to account renowned petrocrats who have misappropriated disturbingly large portions of their countries' wealth.

African oil, however, is predicted to decrease over the course of the next two decades to less than 9% of global demand, whereas the production of African gas is set to increase to approximately 7% of global demand. Expecting the African gas industry to grow gives rise to the question of which regions will experience the most growth. In that regard, the industry's oracles predict substantial growth in West Africa and, to a lesser extent, East Africa. The region that stands to lose the most significant share of the African gas market is North Africa, which is predicted to lose almost half of its current market share.

How such growth in West and East Africa will impact upon policy climates, socio-economic considerations and the like, remains to be seen. The relevant African governments working with international oil and gas companies to utilize oil and gas resources as a means for substantially improving the lives of their citizens in the decades to come, is currently only something that can be hoped for.