NIGERIA ONE

NEWSLETTER

July 2022

ENERGY TRANSITION

Africa's Mining Sector Unites in Cape Town

SUMMARY

Refining, illustrative picture

FG Calls For Synergy In Midstream And Downstream Sector To Boost Domestic Refining

The Federal Government has called for synergy among stakeholders in the midstream and downstream sector to strengthen local content and boost the country's domestic refining capacity.

In an address at the opening ceremony of a dialogue on how to maximizing potentials in the Midstream and Downstream Oil and Gas sector , organized by the Nigerian Content Development and Monitoring Board (NCDMB), in Lagos, Minister of State Petroleum Resources Chief Timipre Sylva said that the dialogue "will serve as a platform to sensitize and enlighten stakeholders about the Board's capacity building intervention initiatives in support of Nigerian Content Development in the Midstream and Downstream sectors".

Sylva emphasized on the creation of a "forum for top level dialogue that will articulate an agenda for actualizing the full potentials and prospects of the massive investments in the Midstream and Downstream sectors of the Nigerian Oil and Gas Industry" while stressing that the "mandates of the Ministry of Petroleum Resources under the Next Level Agenda of Mr. President is the "Increase in Domestic Refinery Capacity".

He also reminded that government's effort at boosting domestic refining capacity led to NCDMB's partnership with local companies such as Waltersmith Refinery, Azikel Refinery, and Atlantic Refinery "to be the catalyst for the industrialization of the Nigerian Oil and Gas industry and its linkage sectors".

Sylva went further and talked about a broad spectrum of partnerships in the midstream and downstream value chain, enabled by the NCDMB's investments in Eraskon Nigeria Limited for a lubricating oils blending Plant, Bunorr Integrated Energy Limited for the production of lube oil and other lubricants in- country, and Duport Midstream Company for the establishment of an energy park, which comprises modular refinery and gas processing facility.

The Minister mentioned the Petroleum Industry Act (PIA), recently signed into law, which has "introduced a governance framework for the industry with clear delineation of roles between regulation and profit-centric business units". The Act seeks to provide Legal, regulatory, and fiscal environment for the Nigerian Petroleum Industry and help facilitate Nigeria's economic development by attracting and creating investment opportunities for local and international investors.

He commended President Muhammud Buhari for creating an environment in the oil and gas sector that shall benefit local content, and he added that gas is being considered as a key element in the transition towards Nigeria's zero carbon emission goal. He did not forget to mention the numerous projects supported by the government such as the NLNG Train7, Ajaokuta-Kaduna8Kano (AKK) Gas Pipeline, Nigeria/Marocco Gas Pipeline, Trans-Sahara Pipeline, and the National Gas Transportation Network Code.

At the end of the two-day Dialogue, the Minister expressed his optimism about to Nigerian Content opportunities and ways to enhance natural gas and domestic production potentials.

Timipre Sylva, Minister of State for Petroleum Resources

Gas-powered buses, illustrative picture

Gas-powered buses now circulating in Abuja

Nigeria is Africa's largest producer and exporter of crude oil and intends to position itself as an energy leader in the coming transition. The country has launched an ambitious policy called "Vision 30:30:30" which aims to provide Nigeria with 30 GW of installed capacity by 2030, 30% of which will be renewable.

A small revolution is currently taking place in the capital, where gas-powered buses have been running since May 5, 2022. The initiative is in line with a federal government policy called the "National Gas Expansion Program", which aims to convert gasoline vehicles to gas. This policy is intended to ensure that the country's gas reserves are used to the fullest. This fossil fuel, which is available in limited quantities and, by definition, non-renewable on a human time scale, appears to be less polluting than many fuels used in Africa. While gas emits CO2 during combustion, it emits 30% less than oil and half as much as coal, which is less harmful to the environment. It is therefore truly transitional energy. Thus, the launch of this new service will have a positive impact on the environment, as well as on the users' financial wellbeing, since it offers a more convenient and accessible transport model than traditional buses.

Addressing the issue of road transport in Nigeria has a special dimension, both practically and symbolically. A common feature of the country is its sprawling megalopolis, where traffic is intense and users often have to wait for hours to travel short distances in their means of transport. Large-scale deployment of clean buses across the country would help relieve traffic congestion and reduce carbon emissions. Fola Akinnola, Fomac's managing director in charge of the project, did not hide his pride and future ambitions: "Our plan this year is to reach 100 buses". Cities such as Lagos and Maiduguri have expressed an interest.

Open pit gold mine in Ghana

Africa's Mining Sector Unites in Cape Town

On Monday, May 9, 2022, the flagship of the African mining industry met in Cape Town for the twentieth consecutive year. One word was on everyone's lips: decarbonization, which refers to all measures aimed at reducing the carbon dioxide (CO2) emissions of a company, an industry, or a country.

The African mining industry has identified that additional efforts that are required in this regard. The industry is heavily dependent on heavy trucks to transport its ore from extraction areas to export areas. Road transport is currently one of the major sources of carbon dioxide emissions. Thus, as Zambian President Hakainde Hichilema pointed out, the challenge now is to ensure better sub-regional rail integration: "It is imperative that we work together: South Africa, Zimbabwe, Zambia, and the DRC. Really, we need to find common ground to fix our railroad for the transportation of our goods and services ... including the mining sector".

Ultimately, the Summit was an opportunity for the sector to reaffirm its commitment to the energy transition without overlooking the many concerns and issues it brings. Although the mining sector is a promising source of financing, it is unacceptable that the energy transition hinders the economic growth of the world's poorest continent.

The mining industry has a promising future ahead of it. To deny it to the people would be unfair. In West Africa, the surge in gold prices offers hope. In fact, despite COVID and the political instability of the producing countries, the gold sector is going strong.
Lamine Seydou Traoré, Mali's Minister of Mines, sums up the situation in a particularly enlightening way: "The mining sector has continued to fulfill its role as a provider of funds, with the sector contributing more than 450 billion CFA francs to the national budget by 2021." Gold production has been totally spared by the political events that have taken place in Mali: putsch and closure of land borders imposed by ECOWAS in particular.
In the country of honest men, an additional 16 tons of gold should be produced this year. Gold remains the leading export product and has been for 13 years. Moïse Ouedraogo, Secretary-General of the Ministry of Mines and Quarries of Burkina Faso, rightly points out: "Gold relieves the country's finances and today represents about 400 billion in tax revenues per year. This is very important. We have seen that during the health crisis, this is the sector that has been the most resilient, because the revenues of these mining companies have been regular, they have innovated and mining has continued. The high price of gold kept the government's budget going during the pandemic."
The host country of the summit, South Africa, relies 70% on coal. Furthermore, the social divide is widespread throughout the country and the unemployment rate peaks at 35%, making it one of the highest in Africa. From this perspective, how can we serenely consider abandoning coal completely by 2050 without causing major economic and social unrest?
It is not adequate for Westerners to repeat incantatory formulas about saving the planet; they must also take into account the economic constraints that this may represent for economies that have not experienced either an industrial revolution or the emergence of a middle class synonymous with prosperous consumer society.

Cape Town - South Africa

environmental protesters

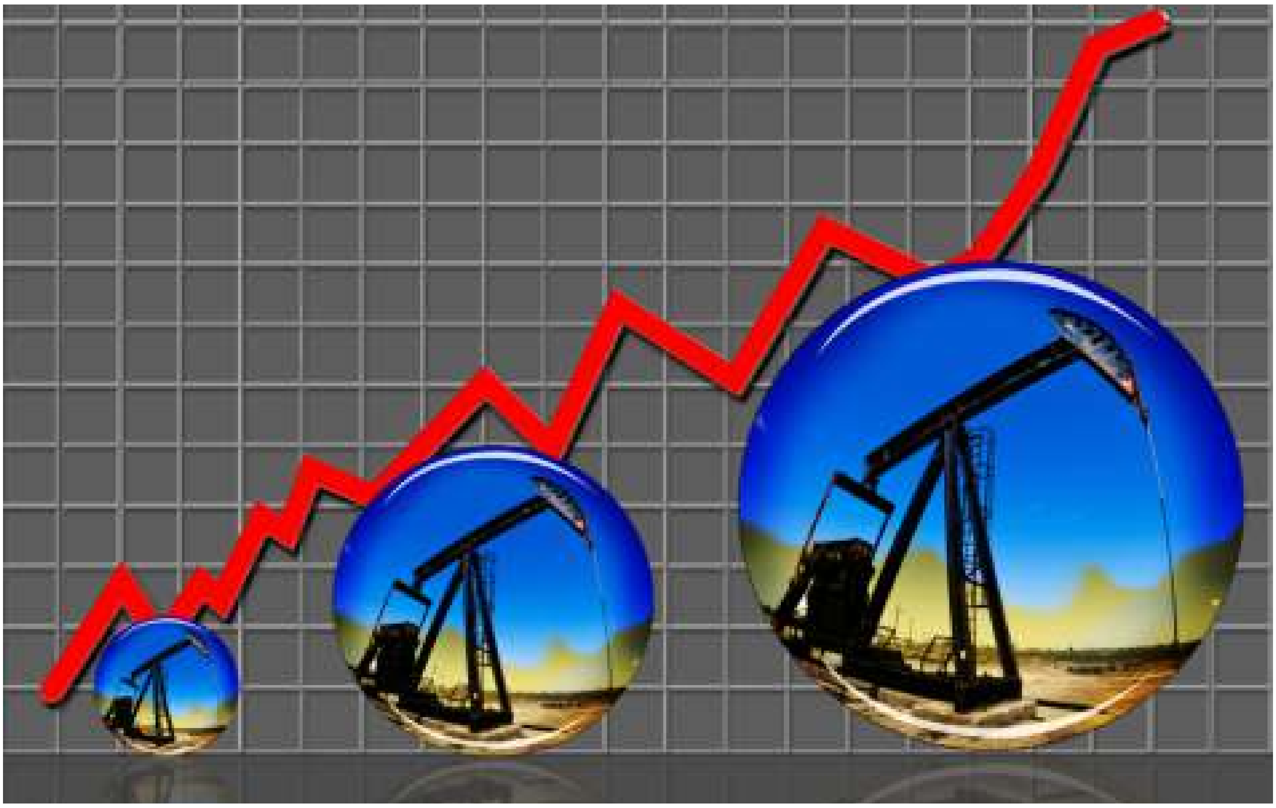
The energy transition in the current geopolitical climate

For the last decade, developing and developed countries have been engaged in a controversial debate about the energy transition. Western countries are pushing collectively and persistently for renewable energy. Many developing nations consider fossil fuels to be tremendous economic opportunities and oppose the goal of a complete energy transition by 2040. Given the current socio-economic and political climate, it is legitimate to ask whether fossil fuels will last longer than expected? In the aftermath of the Covid-19 dire health crisis, the oil demand has outpaced the supply, leading to a spike in price. Global demand is currently greater than the available supply. Despite calls from legislators, environmentalists, and climate advocates to stop new investments in oil and gas production, these commodities remain in demand. The Paris Agreement, among other policies, has been implemented to reduce carbon emissions, but the need for oil and gas is undeniable in all parts of the world. The West witnessed protests by climate activists and denunciations from environmental NGOs. Their demands include the immediate suspension of oil production and criticism of banks for continuing to finance fossil fuels. This ongoing pressure has resulted in a significant slowdown in the investment of big financial institutions in the fossil fuel industry. Still, oil remains a vital commodity regardless of the underinvestment experienced by the energy sector. The oil industry has been under severe pressure.

It was predicted two years ago by the International Energy Agency (IEA) that investment in new oil and gas exploration should cease by the end of 2022 since oil and gas wouldn't be needed in the future. In an ironic turn of events, the same agency that called for less oil and gas investment has now reversed that message: it is now advising oil producers to pump more oil and gas. The IEA acknowledges the growing oil demand and predicts an increase of 2,1 million bpd by 2022. From a context perspective, this is about the same as Nigeria and Venezuela's combined oil production as of March 2022.

The Chief Executive of Standard Chartered, Bill Winters, during an interview on CNBC declared: "The idea that we can turn off the taps and end fossil fuels tomorrow, it's not going to happen and secondly, it would be very disruptive." The Russian/Ukraine conflict has brought to light the world's oil need. If only a small portion of global supply is lost as a result of anti-Russian sanctions, what would happen if all oil production were to cease? The developing countries support oil and gas longevity in the current geopolitical context. Several countries are reluctant to embark on a rapid energy transition, including Nigeria and Angola, Equatorial Guinea, Libya, Venezuela, and Algeria. They reject the idea of a Just Transition for All due to socioeconomic and cultural reasons. Energy is still primarily provided by coal-fired power plants in many countries. Fossil fuel exporting countries are not willing to move rapidly away from coal. That is quite a challenge from a socioeconomic and cultural perspective. The utilization of their abundant oil and gas resources is crucial for economic growth. These nations have not been able to fully take advantage of the economic and social benefits associated with oil-based economies. As a result of their insignificant carbon emissions in comparison with those of their western counterparts, these developing countries are resentful of Western pressure. For instance, Africa contributes less than 3.8% to global carbon dioxide emissions. Thus, developing countries in Africa, Asia, and Latin America cannot afford to stop using fossil fuels. Currently, the Western nations are urging the developing countries to increase their gas and oil production in response to the recent Russian/Ukraine conflict and its collateral effects on European energy supplies. This new request from the leaders of Europe seems so ironic and contradictory. Those same countries that once urged developing nations to rapidly transition to renewable energy are now encouraging them to increase their production of oil and gas as effectively and as quickly as possible. This shows that oil demand is real, intense, and higher than the available supply.

A Just Transition for All does not adequately address the global issue of environmental preservation. The energy transition requires the cooperation of a broad range of stakeholders, such as government, private sector, communities, academics, and civil society. Also, the countries such as Nigeria, Equatorial Guinea, Angola, Gabon, Libya, Venezuela, and others with hydro-carbons-dependent economies clearly require a more gradual and flexible transition to renewable energy sources. It is imperative that oil and gas production be scaled at an optimal level during this turbulent geopolitical climate. To avoid disruptions, Europeans eager to move away from their Russian energy dependency are seeking alternatives. There can be a ripple effect on vital aspects of global economies when oil and gas become scarce. A prompt solution to prevent an energy crisis is needed urgently.



Increase in the price of oil, illustrative picture

When oil prices skyrocket

The fluctuation of oil prices is unprecedented. Accordingly, oil prices fluctuate in response to events, which have been particularly plentiful in recent months.

While fuel prices had fallen in April, the situation in Europe took the whole world by surprise, leading to a rise in the price of oil. No one could have foreseen the turn of events between Russia and Ukraine. The idea that Europe would once again be in the grip of war and all mankind would be at risk of a nuclear war was virtually unthinkable. However, the two countries have been fighting a merciless war on the military and economic front for almost two months.

OPEC countries were quick to decide urgently to increase the production of oil to maintain the price level in response to analysts' initial concerns about Russia's suspension of oil supplies. Across the Atlantic, President Biden decided to quickly release his country's strategic reserves.

These strategic measures combined allowed the price of a barrel of oil to fall temporarily. However, the balance remains fragile and the price of a barrel of oil remains above the 100 dollar mark with a historical price of 105.53 dollars.

Beyond the actual events and actions, discussions around a potential embargo on Russian oil have contributed significantly to the increase in price. Hungary's veto has prevented the EU from reaching a consensus. Countries particularly dependent on Russian oil are wary of implementing a veto and require guarantees on future supplies.

Oil pump, illustrative image

African oil production in the global economy

Africa's oil production in 2020 was its lowest since 2000. The 630 metric tons achieved represent only 8% of world production of 6.9 million barrels per day.

The following year, 2021, with oil reserves estimated to be 125.3 billion barrels, African production was only 5.67 million barrels per day. The continent has relatively small numbers that prevent it from weighing heavily on the world chessboard. African producers are unfortunately lagging. There are no African countries among the top 10 in the world.

The production of crude oil in Russia alone reached 245 million barrels in 2021, and Saudi Arabia, which holds the second-largest oil reserves in the world, produced 9,2 million barrels of Aramco crude oil every day. The low production of alternative energies in Africa makes it necessary for African producers to accelerate the pace despite international pressure from environmentalists and other green activists.

Renewable energy sources, such as solar, geothermal, wind, plant biomass, and electricity from running water, are far from being able to replace oil despite having noted a meteoric growth in 2020 and 2021. World energy consumption is still dominated by oil, gas, and coal.

To increase African oil production, it is vital to take important decisions to reverse the situation. Based on the particular realities of each country, it is obvious that global and individual solutions must be mixed :

- The companies should adopt a common strategy to pool their resources before seeking support from financial institutions to increase their investments that can be directly related to upstream production. With the Nigerian-Moroccan gas pipeline, this approach is being tried
- Research and development must be given absolute priority so that technologies for exploration and exploitation can be developed, otherwise, African countries will always depend on foreign firms.
- Improve security in some countries like Nigeria where the production of this resource is hindered by terrorist factions and proven banditry.
- Invest in new refineries or upgrade existing ones. Oil production can only be economically viable if the oil is processed and exported by the country that produced it.

Among other factors, these actions must be coupled with a strong desire for change on the part of African producer nations to reverse this anomaly. Africa will gain greatly from this correction with a direct impact on the economy.

Gas pipeline construction, illustrative image

Gas station, illustrative image

The effects of oil price increases on our everyday lives

Since the price of a barrel of oil surpassed the hundred dollar mark this year, no one has even predicted that the price will end up around $150 per barrel. Many factors contribute to this price hike, including an increasingly important demand from China and emerging countries. The Russian/Ukraine conflict has worsened the situation.
December 2021 saw an average crude oil price of $74.4, while January 2022 experienced an average increase of 16 percent, with larger increases occurring following the Russian-Ukrainian crisis. A barrel of oil was close to $140 on March 6, 2022.
Price fluctuations in the oil market are affected not just by predictable factors, but also and above all by unpredictable factors like wars, revolution and natural disasters that can have devastating effects on consumers. Some people may not realize how much the rise in a barrel's price affects their daily lives. Oil refineries that process oil face higher production costs as the price of a barrel increases, which will affect all economic and social sectors.

Carriers and other motorists are directly affected by an increase in gas prices, and the cost is passed on to goods, which are felt on household spending.

Governments do not intervene in high-income market economies, leaving people in charge of supply and demand. In other skies, the state must intervene and subsidize products to control the market and protect the poorest. Otherwise, grunting and demonstrations will follow, which may lead to riots.

Petrol vehicles on the streets of Lagos

Distribution of electricity in Nigeria

Other, even more sensitive sectors may also be affected and suffer serious problems. As the price of a barrel increases, the cost of energy increases, which affects the manufacturing sector, crafts, and other types of services. The effects can be felt at macroeconomic and microeconomic levels.

Security can be compromised by the costs of public lighting, especially in low-income countries where public lighting is restricted or cut off when the bills are not paid. It follows an upsurge in banditry, approvals, etc.

Energy is at the center of all activities and its impact is directly felt in everyday life. Diversification of energy resources is a subject that is always on everyone's lips, but presents challenges during the initial stages. Taking steps to achieve a reasonable mix of energy policies requires dialogue between different stakeholders.

KEEP IN TOUCH

- **Website :** www.nigeria-one.com/
- **E-mail :** contact@nigeria-one.com
- **Address :** Cité Keur Gorgui Lot 71 suite # 2G Dakar, Sénégal
- **Join us on social networks :**