Opinion – Eastern and Southern Africa as the New Persian Gulf?

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DAVID MICHAELS, MAY 13 2023

The delivery of Mozambican gas to Spain and Croatia last winter almost went unnoticed, even though it was a forerunner of new promising supplies to Europe. The latter, one of the world's largest energy consumers, has recently lost its main supplier, Russia, and the gap in the market is still open. This creates a golden opportunity for Eastern and Southern Africa, rich in natural gas reserves. The region now holds the potential to take off just as the Gulf region did almost a century ago – but first, it has to overcome several obstacles.

With the world's attention focused on renewable energy, the industry is progressing forward – but thirst for energy is growing at much higher rate. This inconsistency opens new perspectives for so-called intermediate energy sources, namely, natural gas, and also new opportunities for those that have long been in the shadows. One of them is Eastern and Southern Africa (ESA): the region's proven gas reserves amount to trillions of cubic meters and look tempting enough for international investors to flock around. These conditions would look favorable if not for poor security, underdeveloped infrastructure and lack of cooperation that have been posing challenges for energy companies there.

The clash of obstacles and opportunities looks quite controversial. "The uncertainties have never been so large, and the challenges so profound… What is nevertheless clearer, and more crucial, is the energy trilemma: how to ensure a secure, affordable, and sustainable energy system over the short- to long-term?" commented Gabriel Lima, President of Gas Exporting Countries Forum when speaking on African LNG export opportunities. Nevertheless, investments in the region keeps flowing, more or less, and the first fruits are already ripe with the much-welcomed gas shipment from Mozambican FLNG platform Coral Sul. The job of setting up production and export routes demands great effort from producers, but the lure is too sweet to brush it off. The main question here is whether the existing problems can be solved efficiently enough for everybody concerned to get a plus score.

Natural resource equals money, and this is the answer to the challenge for Africa. To prove this formula, let's rewind the tape back to the Middle East's recent history. The global energy industry already faced a similar situation just under a century ago, and the Gulf states were those who seized the moment then. First, widespread Western industrialization literally forced importers to look for new sources. A few decades later, the demand for energy skyrocketed in Asia. In both cases, the oil-rich Persian Gulf timely put purses under the rain of petroleum money. This benefited them greatly: Oman, for instance, transformed from a country with just 10km of metalled roads (1945) into high-income economy, and Abu-Dhabi, the city that had the most of its housing made of palm leaves and earth just after WW2, grew shining skyscrapers and thick wallets.

Now the numbers are computing for Eastern and Southern Africa as well. The officially poorest populous continent on Earth is striving to follow its wealthy neighbors' path. ESA, particularly, has plenty of opportunities: Russia is losing the game, Europe is open to new proposals, while Africans have something to offer: Mozambique and Tanzania alone sit on 3.4 trillion cubic meters (tcm) of proven natural gas reserves: this figure exceeds that of major oil producers such as Azerbaijan (2.8 tcm) or Norway (1.5 tcm).

You have a customer, you have a business. Right? There is a supply, and now is the high time to translate it into money – but it is not enough to become a successful seller overnight. If you want to be a gas exporter, you have to have the infrastructure: pipelines, liquefaction trains and so on, and you can't build all that all alone by yourself. There are problems with that. Tanzania, for example, is just getting ready to join the ranks of LNG exporters: local gas reserves have been proven for quite some time, but bureaucracy, lengthy negotiations and general hesitancy from investors' side have been hampering the industry development. The current energy crisis breathed new life into Tanzania's Lindi LNG project, and major investors like Shell, Equinor, Exxon and others are currently negotiating to sign a $40B final investment decision. Their willingness to join forces will become the determinant for further work. But even if all goes as expected, gas exports from the country will not start until 2030. Counting down from today, seven years is too long to catch the good moment of now.

The situation is slightly more optimistic in another country, Mozambique. The concentration of investment here is higher than in Tanzania: the Rovuma Basin hosts several big fishes like Eni, Total Energies, Exxon and others. Commercial gas export has already started at the Coral Sul FLNG facility, one of the sites of the so-called Area 4. Total capacity of the entire site is forecasted at stunning 15 million metric tons (mmt), but partners in the project are yet to agree on the undertaking's destiny.

The initial infrastructure is also in place at another site, Area 1, managed by a consortium of international investors, and named Mozambique LNG project (expected capacity 13.2 mmt annually). Construction work there had already begun, but a new issue arose: the progress was halted after an armed attack by Islamic State insurgents in Palma, Cabo Delgado province, culminating in 2021.

The suspension provoked a flurry of comments, but the team members have never showed any signs of abandoning the project, and are now focusing on solving the humanitarian, technological and security issues on site. Another aspect, namely, the international cooperation, also looks more promising: the EU is aiding in the security situation, while the African Development Bank, a key funder on the continent, has provided some of financing. Another party in the alliance is Asia: several of the main energy stakeholders reside in India, Japan and Thailand. It was partly the Asian demand that helped the Gulf countries take off earlier, and Area 1 is clearly aiming at the same target, among others: some of the future supply has already been contracted for export to the region, promising to bring "an estimated USD 67.1 billion to the country's GDP with indirect effects greatly surpassing this amount," says the ADB.

Africa is yet to find a clear answer. However, a look at the current situation shows that ESA is well placed to follow the path of its neighbors: development of the LNG industry in the region is of interest to all parties. For Europe, it's an opportunity to tackle the current energy crisis. For Africa, it's a chance to improve the economic situation, and hope for international energy cooperation is great there – enough to remember a backlash from locals when a proposed oil pipeline running from Uganda through Tanzania to the Indian Ocean came under threat, or look at an already set-up Mozambique's sovereign fund to rationalize LNG riches and create a takeoff runway for socio-economic development.

Profits are apparent for investors as well, but receiving them requires unity: all investments in the region are of a cooperative nature, and their successful outcome depends on willingness of companies to ally: "All the partners should be on board", notes TE's Chairman Patrick Pouyanne, and this is true not only for Mozambique. Tanzania is waiting as well: "A swift transition to a collaborative approach will create positive synergies and economies of scale while significantly saving costs and time, which is important for all parties," local analysts note.

All in all, the opportunities are visible, the time is high, and future will show if everybody concerned can come to an agreement and answer the question of whether Eastern and Southern Africa will become the new Gulf-like energy rich.

About the author:

David Michaels spent 40 years in the energy business working first in large companies, and later as a consultant to both the public and private sector. He is now retired from business, but maintains a passionate watch of a changing industry.