

A helping hand in developing Africa's energy resources

By Mark Simmonds

Minister of State for Africa, Foreign & Commonwealth Office, UK



Geopolitics and energy have long been inter-linked in every region of the world. The crisis in Ukraine has once again brought into sharp relief the importance of securing Europe's long-term energy security. And yet, as we look intensely at these traditional suppliers, the global energy picture has changed dramatically over the last 5 years with new producers and new consumers redrawing the energy map. As a result, the African energy sector is now more tied into the global energy system than ever before – presenting numerous opportunities, but also risks and difficult policy choices in the process. As the UK's Minister for Africa, I have a keen interest in the outcome.

The growth of energy demand in emerging economies, particularly China, India and the Middle East, is the major trend in the global energy market. Oil is already Africa's biggest export to China – making up over 60 per cent of total exports. Several of the major producers like Angola have well established energy ties with China. But we might expect others to build links with consumer countries in Asia and elsewhere, forging new geopolitical alliances based on energy in the process. I visited China at the end of April this year for discussions on this very issue.

African economies are of course a major part of the demand growth story. In 2012, five African nations had economic growth rates higher than China's. The International Energy Agency sees Africa making up eight per cent of global energy demand growth to 2035; double the share of the OECD in that demand growth. This should lead to greater regional energy flows within Africa, raising the stakes for cooperation between governments.

Energy flows to and from the continent are likely to become increasingly complex. The decline in US oil imports has already affected transatlantic oil flows from Africa. But the major change is likely to be increasing global gas trade, driven by the wider distribution of reserves. Competition in the global LNG market will increase. Countries that can develop import-export infrastructure and secure contracts will be ahead of the game; and LNG shipping cargoes in and around Africa will increase.

Growing opportunities

Africa is on the rise as an energy producer. The long-term prospects for traditional suppliers in North and West Africa remain good, and recent East Africa oil and

gas finds have real potential. It will take time to develop energy sector capabilities in the region, just as it took time for the UK in the North Sea. Embracing external expertise will be important, bringing them together with local companies and institutions. And closer regional cooperation will help generate more efficient infrastructure decisions.

But while resources are growing, energy access is an acute problem in Africa. Over half a billion people lack access to electricity. Power cuts occur on a daily basis in many countries. Governments with energy resources face tough choices on whether to maximise revenue through exports or concentrate on domestic supply. Investment in the power sector and electricity grid will certainly help. Most of Africa's infrastructure needs have yet to be built, and governments can benefit from the latest technological advances.

Renewable energy is also an important opportunity, given its ability to operate at different scales. Africa's vast resources remain largely untapped: only eight per cent of the continent's hydropower potential has been realised. Several African governments have responded by introducing legislation, but more work is needed to implement and deliver projects.

Remaining risks

The 'resource curse' continues to haunt many corners of the world, and Africa is no exception. Resources are too often squandered as countries are stripped of their minerals behind a veil of secrecy. Cronies and middlemen get rich, while the people in those countries stay poor. The African Development Bank estimates this cost Africa US\$1.4trillion between 1980 and 2009 or around US\$50billion per year – an incredible figure and one of the principal constraints to poverty reduction.

Governance is a critical risk. Transparency and accountability are part of the solution. The work of the Extractive Industries Transparency Initiative (EITI) in Nigeria has exposed multi-billion dollar discrepancies between what companies pay and what the government receives for oil. Chatham House estimates that oil theft in the Delta also amounts to around 100,000 barrels per day. When I visited the Niger Delta in February, I saw from the air the devastating impact that illegal oil theft has had on the environment. The challenge is huge, but President Jonathan has pledged to tackle these systemic risks in Nigeria, and new energy producers can learn



from these and other EITI experiences on the continent.

Africa is still a region affected by conflict. The situations in South Sudan and the Central African Republic illustrate the way conflict and instability destroy livelihoods and undermine development. Elsewhere there are risks over the rights to energy resources, particularly where there are unresolved border disputes. Whether it is South Sudan's pipelines or the Grand Renaissance Dam in Ethiopia, it is clear that African countries must work together; not doing so can have serious consequences.

Security remains a perennial concern for the energy sector worldwide: Africa is no exception. The tragic loss of life in the terrorist attack on the In Amenas gas plant in Algeria in 2013 was a painful reminder of the threat that terrorism poses to energy installations and the people that operate them. Companies and countries need to work together to counter this threat.

UK energy relations in Africa are rooted in history, with personal and commercial ties built up over generations. And we remain one of the biggest contributors of development assistance to African nations. But we are not resting on our laurels.

We are improving our presence on the ground, and we are backing this up with more effective high-level engagement. I have recently established, with other UK government departments, High Level Prosperity Partnerships with Angola, Côte d'Ivoire, Ghana, Mozambique and Tanzania. Energy is a key part of our relationships with all of these countries.

I firmly believe UK companies are best placed to support the development of Africa's energy sector over the coming decades. I am leading the UK Government's efforts on oil and gas in East Africa. We see this as one of five High Value Opportunities across the continent. But the UK offer is not only a commercial one. We want to build partnerships, not just win contracts. In Nigeria, we have 45 new partnerships. I want more across the continent, drawing on the UK's strength in depth across the whole supply chain and on regulation, licensing and safety; offshore development; research and education; and low-carbon goods and services. That is why in the last year the Presidents of Mozambique and Tanzania have both visited Aberdeen to see for themselves the world class expertise there.

We are not alone in pursuing these aims. That is why I have also proposed a new UK-Norway initiative

to support the development and management of East Africa's oil and gas resources. The aim is to build on our joint experiences in the North Sea, and coordinate our bilateral work on development, transparency, trade and investment. Working together we can have more impact helping African governments to manage their resources in the best way, building up local industries and jobs.

Elsewhere, UK engagement is supporting the UN Secretary General's Sustainable Energy For All Initiative, and the UK Department for International Development's programmes are helping low-income countries diversify sources of energy. The UK has provided £95 million to capitalise a new Green Africa Power financing facility. This programme signed off its first project in January – a large solar power project in Rwanda, which should provide electricity to 15,000 additional households.

There is more to do to bring together energy and climate change policies in Africa. UK policy seeks to work with African countries to bring about a new global climate deal through the UN. We want an ambitious, legally binding deal to be agreed in Paris in 2015.

Of course, security and stability are the bedrock for economic growth. The UK is playing a leading role in reducing conflict and improving security across in Africa. We work with the African Union on crisis response and peace-keeping. We are supporting humanitarian activities in the Central African Republic and South Sudan. We are working on counter-terrorism from North Africa and the Sahel through Nigeria to Kenya and Somalia: all energy rich regions. We are also contributing vessels to the naval missions combating piracy off the Horn of Africa and keeping energy supply routes open.

Finally, there is much more work to do on energy sector governance, transparency and accountability. These are central to the UK's approach. We put transparency right at the top of our G8 Presidency in 2013 and have been working with governments and companies to build capacity and take action. We strongly support EITI's efforts in Africa, where 14 nations are already compliant and new nations, like Ethiopia, continue to sign up. Information and accountability are vital too – to ensure resources are well used and to hold people, companies and institutions to account. The UK welcomes the IEA's plans to write an Africa Energy Outlook special report in 2014 as part of this effort. ■