Western Green Policies Could Hamper LNG Developments Out of Africa

BY DR MAMDOUH G SALAMEH

Abstract

The West puts so much importance on the climate change agenda in Africa when what Africa needs immediately isn't green energy transition but the immediate development of its vast oil and gas reserves to overcome its chronic energy poverty.

The Making of a Global Energy Crisis

The energy crisis started in January 2021, 14 months before the Ukraine conflict came on the scene. It was sparked by hasty European Union (EU) green policies aimed at accelerating energy transition to renewables at the expense of fossil fuels aided by incessant pressure by environmental activists on the global oil industry to divest of oil and gas assets and calls by the International Energy Agency (IEA) for immediate halt to all new investments in oil and gas. These factors combined have led to a huge underinvestment in the production capacities of oil and gas and plunged EU in a disastrous energy crisis.[1]

The Ukraine conflict and the unprecedented Western sanctions against Russia have exacerbated the crisis transforming it from an EU energy crisis into a global one and causing a polarization of the global energy markets, a re-direction of the global energy flows from west to east.[2]

At the start of the Ukraine conflict the EU depended on Russian gas and oil supplies for 45% and 30% respectively. In order to reduce dependence on Russian energy supplies, the EU has been scouring the globe for alternative sources of energy particularly in Africa.

Todays' energy crisis is unique in that unlike previous crises it involves all fossil fuels (oil, natural gas. LNG and coal). In fact I would hazard a projection that the world is heading towards a permanent energy crisis characterized by shortages. Because leaders of the world won't be able to solve it, they will take the easy option of blaming it on climate change and telling their peoples that by working together, we can move away from fossil fuels. This is the world's biggest lie.[3]

Trying to electrify the global economy including agricultural production with a global transition to renewables won't succeed without major contributions from natural gas and to some extent nuclear power and coal. The reason is the intermittent nature of renewables. Today's technology won't allow us to save solar electricity generated in summer for use in winter. Even if greatly ramped up, wind and solar electricity generation would likely be grossly inadequate by themselves to try to operate any kind of economy.

The intermittent wind and solar energy is neither capable of solving today's energy problems nor is a transition to electric vehicles (EVs) just around the corner.

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Africa's Fossil Fuels & Climate Agenda

Hydrocarbon-rich African countries are viewing the unfolding energy crisis as an opportunity to monetize their untapped reserves and eliminate the continent's energy poverty.

However, a plethora of western-backed environmentalist groups, the EU parliament and US Presidential Climate Envoy John Kerry were all up in arms against any development of African oil and gas reserves

The EU has advised member states not to assist in the implementation of Uganda's oil and gas projects with 20 western banks and 13 insurers already voicing opposition.

For his part, John Kerry speaking to Reuters on the sidelines of the 18th session of the African Ministerial Conference on the Environment (AMCEN) in Dakar, Senegal warned against investing in long-term gas and oil projects in Africa claiming that these projects will end up as stranded assets by 2030. Instead, he urged African countries to focus on reducing emissions in a continent that has contributed only 3.8% to global emissions in 2021, the least in the world.[4]

On September 15, the Nigerian National Petroleum Company (NNPC) announced plans to build a 7,000-kilometre Nigeria-Morocco offshore gas pipeline (NMGP) running across 13 African countries. According to the Nigerian daily The Nation, the endeavour will be supervised by the Economic Community of West African States (ECOWAS). It is expected that it will improve the living standards of African nations, boost economic integration within the sub-region and tackle desertification through sustainable and reliable gas supply.[5]

Earlier, a number of Central African countries, including Equatorial Guinea, Cameroon, Gabon, Chad, Angola, the Democratic Republic of Congo and Republic of Congo, signed an agreement on September 8 2022 to ensure energy security, tackle energy poverty and boost the internal supply of hydrocarbons. Likewise, Uganda and Tanzania are planning to build the East African Crude Oil Pipeline (EACOP), which will transport crude from Uganda's oil fields to the port of Tanga, Tanzania, on the Indian Ocean.

And yet civil society groups connected with the EU and US environmentalist Funds or Western climate networks argue that Africa's hydrocarbon projects will not benefit African people and that the investment would be better spent on a new green economy.[6]

The West puts so much importance on the climate change agenda in Africa. I would hazard two explanations for the West's attitude. The first is that the West is under the misguided and erroneous view that any future energy assets like investing in oil and gas production and building pipelines will end up after 2030 as stranded assets. The second explanation is a more sinister one with the West wishing to keep African energy resources underground in order to satisfy its own appetite for energy in the future.

West's Climate Change Hypocrisy

In the last two decades, Africa's contribution to the global greenhouse gas emissions fluctuated between 3.4% and 3.8%, the smallest share among all world regions.

Meanwhile, EU countries who promote green policies have abandoned their green credentials to resurrect coal-fired electricity plants because of rising prices of gas and oil. Similarly, Western multinational corporations have never stopped investing in oil and gas and they will be more than happy to twist their green credentials and exploit loose climate regulations in African countries.

While denying Africa's right to push ahead with its own energy endeavours, the West would be eager to offer investments and technological know-how to the continent in exchange for receiving the lion's share of the regional hydrocarbon wealth. The West doesn't care whether African countries are experiencing severe energy poverty or not as long as it gets its hands on these reserves.

A consortium of European investment firms have raised $200 million to fight deforestation in Africa, warning that the increasing consumption of charcoal by the continent's nations is putting pressure on forests. According to Bloomberg, the use of wood-based fuel jumped 90% in Africa to 34.9 million tons in 2020.[7]

With African people suffering immensely from energy poverty, lack of clean drinking water and starvation, the last thing on their minds would be deforestation. African people are being driven by energy poverty to cut trees from the forests to provide themselves with warmth in winter and fuel for cooking.

What Africa needs immediately isn't green energy transition as the World Economic Forum suggested but the immediate development of its vast oil and gas reserves accounting for 12% and 9% of the world's oil and natural gas reserves respectively.

African Gas for the EU

The EU is striving to buy as much natural gas from African producers as possible in order to reduce its dependence on Russian gas supplies. .

For years, the EU neglected if not completely ignored the needs of African countries for investment for the development of their infrastructure and also their energy reserves.

The EU's hypocrisy is exposed by its sudden rush for African LNG while stressing that it doesn't want to fund projects that would allow the world's poorest continent to burn more of the fuel at home.

While Nigeria's Bonny Island produces "enough LNG to heat half the UK for the

Winter, the island's locals are still using black-market kerosene and diesel to light wood stoves and power electricity generators.[8]

Western nations even criticized China when it invested in Africa's infrastructure and energy resources at a time when they were refusing to invest in Africa either because of sanctions they imposed on African countries or because of their old imperialistic streak.

African Gas Infrastructure Needs Investments

The major obstacle in tapping Africa's energy reserves is overcoming underdeveloped infrastructure. The two relatively significant African LNG exporters are Algeria -currently exporting 29.3 million tonnes (mt) and Nigeria with an export capacity of 22.2 mt. The rest of Africa's producers have limited production and export capacities with neither LNG plants nor gas pipelines.[9]

The EU is already importing LNG from both countries. These two countries may be able to raise their LNG exports a bit in the next few years but it will still be a drop in the ocean of the EU's gas needs.

It is highly unlikely that African LNG exporters along with the United States, Qatar and Australia will be capable of replacing Russian gas supplies to the EU now or in the foreseeable future. The reason is that the bulk of US, Qatari and Australian LNG exports is bought years in advance by customers in the Asia-Pacific region and partly because the EU has limited LNG import and storage terminals. Even if the EU pours billions into hydrocarbon extraction and transportation, it would still take considerable time to get these projects up and running.

The EU's efforts to diversify its gas needs away from Russia is a painstaking job that will take years to accomplish if ever. Still, the EU may have no alternative but to invest in Africa if it continues to be hell-bent on reducing its dependence on Russian gas.

Africa will need investments of $190 billion each year between 2026 and 2030 to meet its energy demand.[10] Since the EU is aiming to get a big chunk of its oil and gas needs from Africa, then the onus is on it to contribute the annual $190 bn needed to help African countries meet energy demand and also supply Europe with gas and oil.

Global LNG Shortages

Natural gas and LNG prices are showing no signs of slowing down as a result of rapacious global demand, shortages and shrinking gas production capacity.

Total global LNG exports in 2021 amounted to 381.8 mt the overwhelming bulk of which was locked into long-term contracts with customers in the Asia-Pacific region.[11]

The current global LNG production capacity can't be increased until Qatar raises its capacity to 110 mt/y by 2024/25 and the United States increases also its capacity by 2025. But by then, global LNG demand would have again overtaken the capacity expansion. That is why high LNG prices will be with us well into the future.

Having been the largest LNG importer until the end of 2021 before it was ousted by China, Japan probably has useful insights into how the global LNG market works. So when Japan warns that the global competition for LNG is set to intensify over the next three years due to an underinvestment in supply, the world should heed its warning.[12]

According to Japanese companies, long-term LNG contracts that start before 2026 are already sold out, which is worrying for LNG buyers because these types of contracts offer stable pricing and reliable supply for many years. The report notes that there is little new supply coming online before 2026 even from major exporters like the U.S. and Qatar.

Another indicator of a tight gas market is that 10-year LNG contracts are currently priced at 75% above 2021's rates according to a report by the Oil & Gas Journal. Because of shortages, there is a huge competition for whatever LNG is in the market and a real possibility of LNG prices shooting up further.[13]

The fact that China has rushed to sign a 27-year LNG deal with Qatar is indicative of the competition for the remaining LNG in the market before additional new capacity comes online from 2026 onwards.

Algeria can't fill the gas gap in the EU. It already supplies 10% of the EU gas needs. The maximum amount of gas and LNG that Algeria could supply to the EU is estimated at 40-43 billion cubic metres (bcm). The reason is that out of a production of 100 bcm, domestic consumption takes more than half and this consumption is on the rise.[14]

Who would have thought Germany the EU's largest economy would be stepping up preparations for emergency cash deliveries in case of blackouts as the nation braces for possible power cuts?

And while Germany has managed to fill its gas storage by more than 90% in anticipation of this coming winter, the real crunch will come in March 2023 when gas storage could be down to under 10%. The reason is that if there is a harsh winter, German gas consumption could go up by 800 million cubic metre a day (mcm/d) between now and March next year making it far more difficult to fill its gas storage in both 2023 and 2024.[15]

And with the crisis expected to remain with us for many years to come and with the staggering prices of natural gas and coal and also with the inability of renewables on their own to satisfy a major share of global electricity demand, I can easily project a resurgence of nuclear energy in the years to come. Because of the worsening energy crisis, Germany has decided to extend the life of its three remaining nuclear plants until April 2023a and possibly longer while Japan is expected to extend the lifespan of its plants beyond their 60-year cap. Meanwhile other countries are building new reactors.[16]

Why Capping Russian Gas Price Won't Stop EU's Economic Slide?

Both the G7 oil price cap and the EU's proposed gas cap are doomed to fail miserably.

In a tight global gas and LNG market with shortages, robust demand and shrinking spare production capacity, a price caps can't work. Moreover, Russia will kill it by halting immediately its oil and gas exports to any countries implementing the caps. It will redirect the bulk of its oil and gas exports to China, India and many countries in the Asia-Pacific region.

Qatar, the world's largest exporter of LNG has denounced the price cap for natural gas as "hypocritical." Qatar's Energy Minister Saad al-Kaabi said on 30 October that the EU is seeking to take the measure as soon as this winter in an effort to curb gas prices driven by the energy embargo imposed by the US and its NATO allies on Russia.[17] He added that interfering in markets clearly contradicts the free market rules that Europe has previously applied to producers. "The free market is always the best solution."

The EU is already the largest loser in the energy war with living standards of Europeans already crumpling and the bloc's economy balancing on the verge of a harsh recession.

The fact that Germany Europe's biggest economy was forced to import LNG from faraway Australia despite the huge shipping costs signifies how desperate it is for gas supplies in the absence of cheap Russian piped gas supplies.[18]

Conclusions

The world could be heading towards a permanent energy crisis characterized by shortages.

The West puts so much importance on the climate change agenda in Africa at a time when the EU countries who promote green policies have abandoned their green credentials to resurrect coal-fired electricity plants because of rising prices of gas and oil.

For years, the EU neglected if not completely ignored the needs of African countries for investment in developing their infrastructure and also their energy reserves for the benefit of their people.

The EU's hypocrisy is exposed by its sudden rush for African LNG while stressing that it doesn't want to fund projects that would allow the world's poorest continent to burn more of the fuel at home.

What Africa needs immediately isn't green energy transition as the World Economic Forum suggested but the immediate development of its vast oil and gas reserves to overcome its chronic energy poverty.

Footnotes

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