



POTEN TANKER OPINION



Out Of (West) Africa

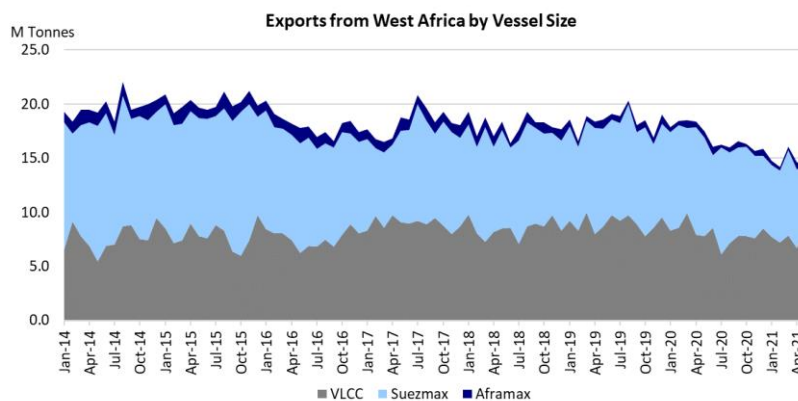
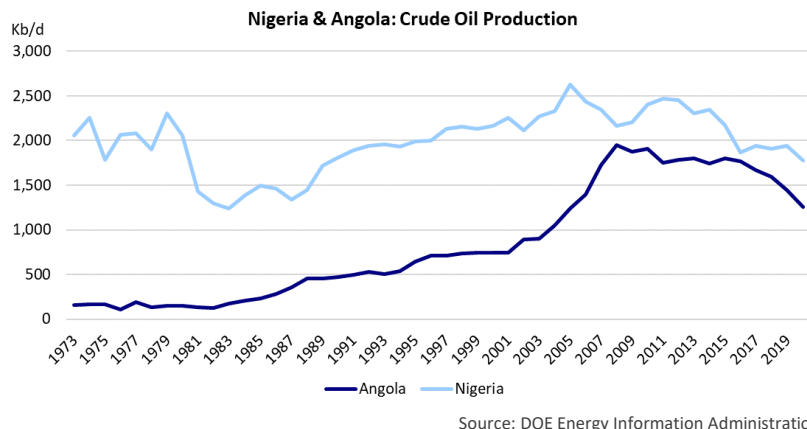
Changes afoot for Sub-Saharan crude and product trades

For many years, West Africa represented a growth area for both crude oil and product tankers. On the one hand, there were the ever-expanding exports from both existing and new crude oil producers. At the same time, economic growth, and a lack of refining capacity in the region stimulated more refined product imports. It was a win-win for shipping. Not unexpectedly, the Covid-19 pandemic disrupted this trend and crude oil and refined product trades into and out of West Africa declined. While the impact of the pandemic is expected to fade over time, there are other developments in the region that could have a significant and lasting impact on trade flows and shipping.

The biggest oil producers in West Africa are Nigeria and Angola. Nigeria has been the largest producer of crude oil in the region since the 1950s, when a consortium of Shell and BP discovered significant quantities of oil in the Niger Delta. Over the last 20 years, production has ranged between 2.0 and 2.5 Mb/d. To this day, Shell remains the largest producer in the country. The second largest crude oil producer in West Africa is Angola. Production also started in the 1950s, but it remained relatively modest until the country experienced an oil boom between 2002 and 2008, when production at several deepwater fields started to take off. Angola's production doubled from 905 Kb/d in 2002 to 1,876 Kb/d in 2008. Other producers, like Gabon, the Republic of Congo, Equatorial Guinea and Ghana are much smaller, but still combine for more than 1.0 Mb/d of production.

Since most African countries lack significant refining capacity, a very large proportion of the region's crude production is exported, generating substantial ton-mile demand for the tanker market. Suezmaxes are predominantly used for exports to destinations in the Atlantic Basin, while VLCCs are the vessel of choice for movements to Asia. The expansion of Angola's production in the 2000s coincided the rapid ascent of China as a crude oil importer and about two-thirds of Angola's crude is exported to China. The lack of refining capacity in Sub-Saharan Africa means that most of these oil producers still have to import refined products, mostly gasoline and diesel. In summary, West Africa has generated significant employment opportunities for both crude and product tankers over the decades. However, there are some clouds on the horizon that could reduce Africa's future contribution to the tanker market.

First of all, crude oil production in Nigeria and Angola may have peaked. Lack of investment and social unrest has led to material output declines in both countries. In Angola, most production comes from deepwater offshore fields that were developed by supermajors like Total, BP, ExxonMobil, Chevron and Eni. While it is likely that there is more oil to be found and fields to develop, the long lead times and high costs of deepwater



offshore production will give these oil majors pause, especially in light of other recent developments. A number of well-known publicly listed western oil companies are being pressured, by the courts and by their shareholders to reduce their impact on climate change and pivot their focus (and investment dollars) from hydrocarbons to renewables. A retreat by the traditional majors from the region could pose significant problems for countries in Africa, since they don't have the exploration, development and production experience in house. They will also need external funding. Other players, like Chinese oil companies could step in, but the transition will take time. Angola, which pioneered the concept of oil-backed loans as an easy way to access funding for infrastructure projects, is already heavily indebted to China.

With respect to the refined product trades, we may see significant reductions as well. A number of smaller refineries under construction in Africa will have a limited impact on trade flows. However, the 650,000 b/d Dangote refinery under construction in Nigeria could be a game-changer. It will be the biggest refinery in Africa by far. Once this facility comes online in 2022, it will instantly double Nigeria's refining capacity and dramatically reduce the need for refined product imports. It could also export products to neighboring countries, which would help product tanker employment. Although the company has not committed to running the refinery on domestic Nigerian crude, if this happened, it could also deal a blow to seaborne crude exports.