OLANIWUN AJAYI

COP 28 Agreement to Transition Away from Fossil Fuel: Impact on African Oil Producers

JANUARY 2024

Oil & Gas Newsletter

INTRODUCTION

The 28th meeting of the Conference of Parties (**COP28**) which concluded in December 2023 assessed amongst others, the progress made under the Paris Agreement and called on parties to; transition away from fossil fuels to reach net zero "in a just, orderly and equitable manner", phase out inefficient fossil fuel subsidies, and submit economy wide Nationally Determined Contributions (NDCs).[1]

One of the major outcomes of COP28 was the Oil and Gas Decarbonization Charter (**the Decarbonization Charter**) which hinged on the reduction of upstream and downstream emissions by adopting a differentiated approach in order to take advantage of the diversity of the capabilities across this sector. The Decarbonization Charter represents a shift in the industry's approach to climate change, acknowledging the need for significant emissions reductions and an equitable transition.

This paper is focused on the impact of these resolutions on African oil and gas producers and modalities that can be adopted to mitigate the effect of the transition.

IMPACT OF THE ENERGY TRANSITION FOR AFRICA OIL PRODUCERS

With top oil producing nations such as Nigeria, Angola and Libya, Africa plays a significant role in global oil production, with estimated crude oil reserves of around 8% of the world's total.[2] National Oil Companies (NOCs) operating in Africa contribute to a significant portion of Africa's oil and gas supply with Algeria's Sonatrach, Angola's Sonangol, the Libyan National Oil Corporation, and the Nigerian National Petroleum Company Limited projected to account for 85% of liquid production and 88% of natural gas production by African NOCs from 2023 to 2024.[3]

- ***Economic Instability***

African producing nations are heavily reliant on revenue from fossil fuel exports and in many instances, oil and gas inflows constitutes 35% to 82% of government revenues.[4] Undoubtedly, a decline in oil and gas demand or prices would impact their revenue streams and GDP, particularly for those who have been unable to diversify their economy such as to benefit from non-oil revenue. Given the substantial investments required to transition to renewable energy, African oil producing countries have taken the view that it is necessary for them to continue to harness their oil and gas reserves in order to generate sufficient revenue to finance renewable energy initiatives and meet global emission reduction goals.[5] In this regard, the African Petroleum Producers' Organization (APPO) advocates a balanced approach which takes into account Africa's development priorities and the potential negative impact of a speedy transition.

1. *COP28, 'COP28 Delivers Historic Consensus in Dubai to Accelerate Climate Action' (2023) https://www.cop28.com/en/news/2023/12/COP28-delivers-historic-consensus-in-Dubai-to-accelerate-climate-action .*
2. *https://www.investopedia.com/articles/investing/101515/biggest-oil-producers-africa.asp*
3. *NJ Ayuk, 'Oil Companies Still Have Vital Role to Play in African Energy | African Energy Chamber' (2023) https://energychamber.org/oil-companies-still-have-vital-role-to-play-in-african-energy/*
4. *For example Nigeria, Angola, Equatorial Guinea, Algeria, Gabon, Libya, and the Republic of Congo – Kola Ibrahim, 'Climate Cynicism: Fossil Fuel Growth in Africa' (2023) https://roape.net/2023/10/23/climate-cynicism-fossil-fuel-growth-in-africa/*
5. *NJ, Ayuk "A Just Transition: Making Energy Poverty history with an Energy Mix (2023).*

- ***Stranded Assets***

Reduced investments in oil production on account of COP28 is also likely to impact the development of stranded assets in the near future. Stranded assets are those investments which have already been made but seen to no longer earn sufficient economic returns as a result of changes in the market and regulatory environment brought about by climate policy.[6] As it affects African oil producers, a rapid shift to cleaner sources will result in stranded assets as global extractive companies and investors realign their portfolios in response to evolving market dynamics and new low-carbon regulations affecting investment flow.[7] For a country like Nigeria which is facing reduced investment inflows and modest production despite having significant upstream assets valued at around US$90 billion,[8] abandoning these assets does not appear to be an option.

- ***Energy Security***

Energy access in Africa remains low with more than 50% of the sub-Saharan region lacking access to electricity.[9] In fact, as indicated in a recent World Bank Press Release,[10] the proportion of the Nigerian population with access to electricity stands at around 55.4%, which translates to approximately 44.6% of Nigerians or 90 million individuals, who lack access to electricity.

This brings to the fore, the impact of migrating from fossil fuel in the absence of adequate resources and infrastructure to transit to cleaner energy sources. Without careful planning, rapid decreases in fossil fuel investments[11] might create energy supply shortages, impacting both industries and households. Channelling significant investments into the primary energy sources of oil, gas, and coal in Africa can serve not only to enhance industrialization, alleviate energy poverty but will also enhance the continent's resilience in addressing climate change. This is in addition to the argument that reliance on renewable energy alone cannot meet Africa's energy needs. On the other hand, phasing out fossil fuels, will not only reduce what is considered the continent's inconsequential emissions, but may essentially phase out the insufficient available energy, thus transitioning from 'dawn to darkness'.[12]

- ***Investment and Financing for Fossil Fuel Projects***

Increasing the political pressure on climate change on developing economies, could deprive many oil and gas projects in Africa of access to funding or where available, at a premium. The ripple effects of this would manifest in loss of revenue and capital shrink, increased cost of borrowing and debt overhang. Currently, about US$245 billion worth of gas projects on stream until 2030 are at risk of becoming stranded assets, even if minimal efforts are taken towards climate change.

6. *International Energy Agency, "Redrawing the Energy-Climate Map", (2013) p.100* https://web.archive.org/web/20190612231703/http://www.iea.org/publications/freepublications/publication/WEO_Special_Report_2013_Redrawing_the_Energy_Climate_Map.pdf
7. *African Development Bank, 'Can Africa Afford to "Strand" Its Fossil Fuels?' (2019)* https://www.afdb.org/en/news-and-events/can-africa-afford-strand-its-fossil-fuels-30276
8. *Bunmi Aduloju, 'Kyari: NNPC Limited's Upstream Assets May Be Worth $90bn TheCable (2022)* https://www.thecable.ng/kyari-nnpc-limiteds-upstream-assets-may-be-worth-90bn
9. *UNCTAD, 'Improving Energy Access Key to Meeting Development Goals in Africa' (2023)* https://unctad.org/news/improving-energy-access-key-meeting-development-goals-africa
10. *World Bank Group, 'The World Bank Approves Additional Financing to Consolidate the Gains of Nigeria's Power Sector Recovery Program' (2023)* https://www.worldbank.org/en/news/press-release/2023/06/09/
11. *COP28, 'COP28 Declaration on a Global Climate Finance Framework'* https://www.cop28.com/en/climate_finance_framework
12. *African Energy Chamber, 'African Countries Should Reject Anti-Fossil Fuel Policies at COP 28' (2023)* https://energychamber.org/african-countries-should-reject-anti-fossil-fuel-policies-at-cop-28/ .

Even for projects that are not abandoned, a rapid shift away from fossil fuels may affect access to capital for such projects, which will delay project completion and potentially increase the debt obligations.[13] In addition, diminished foreign investments in fossil fuel projects in Africa could limit resources for energy infrastructure, and impede the growth in power generation capacity and access.

- ***Loss of Jobs***

With the COP28 resolutions, the energy sector might witness job losses, particularly within the fossil fuel industry including sectors such as mining, extraction, refining, distribution/logistics, and power generation relying on fossil fuel sources. Although the IRENA African study[14] reveals that some countries in Sub-Saharan Africa will benefit from reductions in fossil fuel imports and domestic generation of renewable energy which will in turn boost job creation and economic growth, the report acknowledges that oil producers in the region like Nigeria and Angola are exceptions to this assertion, given their heavy dependence on fossil fuel. With African countries already struggling with low unemployment rates, any further decline in employment could create additional challenges for oil-producing nations in Africa.

WAY FORWARD FOR AFRICAN OIL AND GAS PRODUCERS

Despite the challenges faced by the African economy in transitioning from fossil fuels as emphasized by COP 28, the reality of climate change persists, as Africa continues to bear a disproportionate impact from climate change despite being the least contributor to global emissions. African nations must therefore embrace creativity in addressing these impacts while aligning themselves with the global transition.

- ***Just and Inclusive Transition from an African Perspective***

Broadly, the concept of a just and inclusive energy transition entails ensuring that the transition does not disproportionately affect vulnerable nations and underscores the importance of incorporating their needs and perspectives into the drive towards net zero. It is crucial to highlight that Africa's energy transition cannot be identical to the rest of the world, instead the transition necessitates region-specific solutions hinged on inclusivity and equity.[15] In this regard, the UAE Consensus backed by the Action Agenda of the COP28 spells out four pillars of the global climate action including: fast-tracking a just, orderly, and equitable energy transition; and underpinning everything with full inclusivity.

13. Kola Ibrahim, Climate Cynicism
14. IRENA, 'Renewable Energy Market Analysis: Africa and its Regions' (2022) https://www.irena.org/-/media/Files/IRENA/Agency/Publication/2022/Jan/IRENA_Market_Africa_2022.pdf?la=e
15. Vera Songwe and others, 'Africa's Energy Transition Calls for Pragmatic Measures to Keep the Continent Competitive' (2022) https://repository.uneca.org/bitstream/handle/10855/48119/b1201350x.pdf?sequence=1

While the inevitability of shifting from fossil fuel production to renewable sources is widely recognized, a critical concern for African nations lies in the right to a just transition.[16] This entails the acceleration of fossil fuel production in the most sustainable way to enable African nations industrialise before reinvesting those gains in green energy sources. Several African countries possess substantial untapped resources like coal and oil, which can render the transition to renewable energy more challenging, especially for those nations that have heavily invested in non-renewable infrastructure.

The proposition is not for the transition to cease, but to implement a gradual transition strategy while utilising relatively cleaner fossil fuels, like gas. Demonstrating the phased approach towards just energy transition, the Nigerian Government, as part of the Economic Sustainability Plan, launched the National Gas Expansion Program which included a financial commitment in excess of N90 billion for Compressed Natural Gas development, and an allotment of N25 billion to provide clean cooking fuel in the form of Liquefied Petroleum Gas to 30 million households. The Nigerian Energy Transition Plan which was launched in 2022 advocates for the utilization of gas as a transition fuel in Nigeria's net-zero pathway particularly in the power and cooking sectors.[17] Similarly, Ghana's Energy Transition and Investment Plan employs a blend of regulations, incentives and supportive programs to reduce the country's fossil fuel dependence.[18]

In the same vein, African nations should clearly delineate their energy transition plans hinged on their respective starting points with the goal of ensuring access to clean, affordable, and dependable energy as a cornerstone of inclusive development, particularly for economic growth, and to narrow socioeconomic disparities. Thus, a just and equitable transition from fossil fuels to renewable energy is imperative, not solely to address climate change but also to extend accessible, reliable, sustainable, and modern energy to about 580 million Africans who remain devoid of electricity access.

- ***Economic Diversification***

With increasing price volatility and geopolitical instability suffered by African countries that are significantly reliant on fossil fuels, diversification of energy sources is now imperative for long-term sustainable development and economic stability.[19] Expansion into sectors such as agriculture, manufacturing, and tourism establishes additional sources of economic growth, diminishes reliance on energy exports, bolsters resilience against fluctuations in the energy market and stimulates the generation of employment opportunities. This strategic approach ensures long-term stability and growth, equipping African nations with the capacity to ensure a more inclusive transition to a low-carbon economy while safeguarding vulnerable populations.[20]

16. Shola Lawal, 'What Is Africa's Goal at COP28 as the Climate Summit Begins?' (Aljazeera 29 November 2023) https://www.aljazeera.com/news/2023/11/29/what-is-africas-goal-at-cop28-as-the-climate-summit-begins
17. 'Nigeria Energy Transition Plan' (2021) https://energytransition.gov.ng/
18. Ghana Energy and Investment Transition Plan' https://www.seforall.org/system/files/2023-09/report-ghana-etip_WEB.pdf
19. Mark Akrofi, 'An Analysis of Energy Diversification and Transition Trends in Africa' (2020) 5 International Journal of Energy and Water Resources 1 https://www.ncbi.nlm.nih.gov/pmc/articles/PMC7685961/
20. UNCTAD, Commodities Development Report 2023, https://unctad.org/system/files/official-document/ditccom2023d2ch5_en.pdf

- ***Repurposing Stranded Assets***

Stranded assets used for fossil fuel extraction or processing can be repurposed and redeployed for renewable energy purposes, for example, converting abandoned oil fields for solar or wind energy generation.[21] This would lead to the mitigation of financial losses and environmental impacts associated with fossil fuel activities

This would lead to the mitigation of financial losses and environmental impacts associated with fossil fuel activities. This however requires innovative solutions as not all stranded assets can be effectively repurposed, therefore necessitating the need to assess their potential alternative uses in alignment with current trends. This could also involve adapting the asset's functions and integrating it into a new value chain in order reduce capital expenditure required to acquire new assets.[22]

- ***Need for Upskilling and Capacity Building***

A major challenge to the energy transition journey is the need for technical expertise and capacity building by developing African countries, necessary to deploy and maintain renewable energy systems. It is therefore important that indigenous capacity is strengthened across African countries.

Governments of oil-producing nations in Africa play a pivotal role in establishing a conducive environment by implementing regulatory frameworks, providing incentives, and investing in human capital. Initiatives centred on skills training, education, and capacity building in renewable energy technologies can effectively narrow the gap between workforce readiness and industry requirements. This ensures that the region optimizes the potential for job creation during the transition. In this context, efforts and investments should be channeled into retraining and assisting workers in declining sectors, enabling them to transition toward new opportunities within the clean energy sector. Implementing this would also drive the development of new industries thus allowing the energy transition to become a major job creation opportunity for Africa.

Recognizing that a just transition approach should focus on minimizing job displacement,[23] upskilling measures would help employees within the oil and gas sector to integrate into the cleaner energy space.

- ***Global Cooperation and Partnerships***

In the context of the energy transition in Africa, global partnerships play a pivotal role in facilitating access to financing for new energy infrastructure. Various partnerships, such as the Africa-EU Energy Partnership, the EU-Africa Green Energy Initiative, and the Just Energy Transition Partnerships (JETPs) are already in place. Additionally, the Alliance for Green Infrastructure in Africa initiative emerged during COP28. African nations can derive benefits from these partnerships by actively engaging with funders and stakeholders.

21. *Ahmed M Moustafa and others, 'Reuse of Abandoned Oil and Gas Wells for Power Generation in Western Dessert and Gulf of Suez Fields of Egypt' (2022) 8 Energy Reports 1349 https://www.sciencedirect.com/science/article/pii/S2352484722013324*
22. *Climate Investment Funds, 'ReACT, a Simplified Guide to Repurpose Coal Assets' (2023) https://d2qx68gt0006nn.cloudfront.net/sites/cif_enc/files/knowledge-documents/react_guide_to_repurpose_coal_assets.pdf*
23. *Kelvin Hughes, 'Energy Transition and its Impact on Employment in East Africa' Journal of Climate Policy Vol.2, Issue No.1, pp 40 – 53 (2023).*

Customizing these initiatives to African countries' specific needs is crucial for aligning them with the continent's development priorities, thereby contributing to sustainable and inclusive growth. A case in point is the $350million funding from the World bank through the Rural Electrification Agency which has led to the deployment of over 300 mini-grids at several locations across Nigeria.[24] More recently, the World Bank approved the Nigeria Distributed Access through Renewable Energy Scale-up (DARES) project financed by a $750 million credit provided by the International Development Association (IDA), with a projection to provide 17.5 million Nigerians with access to clean energy.[25]

Furthermore, collaboration between the public and private sectors, facilitated by public-private partnerships (PPPs) presents an active transnational financing strategy for clean energy initiatives, playing a pivotal role in expanding renewable energy capacity. It also fosters the exchange of knowledge, transfer of technology, and the distribution of risks, simultaneously harnessing government resources and private sector expertise.[26] Successful implementation of PPPs expedites project execution, improves financial viability, and fosters local capacity development. Governments, through PPPs, extend regulatory support, offer access to land, and create policy frameworks, while private partners contribute financial investments, technical expertise, and operational proficiency, thereby alleviating financial pressures on governments. Given that renewable energy projects are often considered high-risk investments, potentially deterring private capital due to various risks involved, PPPs present a distinctive avenue to mitigate these risks by distributing them between public and private entities.[27]

- **Policy and Regulatory Changes**

Admittedly, various support initiatives already exist across several African countries, however it is important to note that strengthening of institutional capacities can simultaneously promote the shift away from fossil fuels and support the expansion of Africa's power sector.[28] Enhancing such capacities spanning local and city to national levels can effectively integrate expertise within local institutions and expand the reach of inventive business models and technologies. It is imperative to establish strategies that rectify market imbalances that currently favour fossil fuels. These actions should however be implemented cautiously to prevent aggravating challenges related to energy poverty and limited energy access, as highlighted above in this paper.

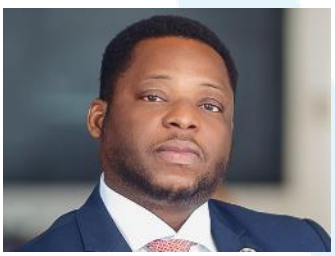
24. Obas Esiedesa, 'Electricity: REA Deploys World Bank Funded Solar Mini-Grids' (Vanguard 24 August 2023) https://www.vanguardngr.com/2023/08/electricity-rea-deploys-world-bank-funded-solar-mini-grids/
25. World Bank Group, 'Nigeria to Expand Access to Clean Energy for 17.5 Million People' (2023) https://www.worldbank.org/en/news/press-release/2023/12/15/nigeria-to-expand-access-to-clean-energy-for-17-5-million-people
26. 'Developing Public-Private Partnerships (PPPs) for Africa's Energy Transition' (2023) https://www.africa.com/developing-public-private-partnerships-ppps-for-africas-energy-transition/
27. Isabella Aliolsio, 'The Role of Public Private Partnerships in the Energy Transition Infrastructure Financing in Sub-Saharan Africa' (2021) https://fsr.eui.eu/the-role-of-ppps-in-the-energy-transition-infrastructure-financing-in-sub-saharan-africa/
28. Deborah Ramalope and others, 'Renewable Energy Transition in Sub-Saharan Africa' (2022) https://climateanalytics.org/media/renewable_energy_transition_in_sub-saharan_africa.pdf

African countries should consider streamlining regulatory processes to facilitate the deployment of renewable energy projects. This includes simplifying permitting procedures, standardizing grid connection requirements, and ensuring transparent and speedier licensing procedures. Implementing a predictable and efficient regulatory environment reduces project development timelines and minimizes uncertainties for investors. A comprehensive agenda encompassing research, policy development, regulatory measures, and enabling legislation will be essential. This agenda should not only focus on innovating the existing financial ecosystem but also address the fundamental shifts required in the system.[29]

CONCLUSION

The global imperative to reduce greenhouse gas emissions cannot be ignored, but careful consideration must be taken of the potential pitfalls for African oil producing countries, which risk further entrenchment in socio-economic hardship. As the world rallies behind the urgent call for climate action, it is important in accordance with the Decarbonization Charter to ensure that no country is indeed left behind. By emphasizing the importance of a just and inclusive transition hinged on equitable policies, the proposed measures in this article provide a roadmap for fostering resilience in African oil producing nations. This approach ensures a more inclusive path for these countries, assisting them in adapting to the demands of COP28 to transition from fossil fuels and enabling oil and gas companies to successfully navigate the evolving energy landscape.

For More Information, Please Contact :



Chukwuemeka Osuji
Partner
cosuji@olaniwunajayi.net

Chinenye Ajayi
Managing Counsel
cajayi@olaniwunajayi.net

Jane Adekunle
Associate
jadekunle@olaniwunajayi.net

29. African Development Bank Group, 'Financing a Just Transition in Africa: Challenges and Opportunities' (2022) https://www.afdb.org/sites/default/files/2022/12/09/financing_a_just_transition_in_africa-challenges_and_opportunities_final_1_2.pdf