Proposed West Africa-Europe Gas Pipelines Will Fail Without a Radical Shift in Thinking

By Baba Freeman

The Russian invasion of Ukraine in 2022 injected a renewed urgency into Western European countries’ energy security concerns and led to an increase in demand for non-Russian sources of oil and gas. Consequently, Europe is expected to take a larger share of future LNG supplies even as greenfield pipeline projects are being conceived to supply West African gas to Western Europe. These projects include the Trans-Sahara Gas Pipeline (TSGP) and the Nigeria-Morocco Gas Pipeline (NMGP). Given that these pipelines are also expected to supply the domestic markets of both Algeria and Morocco, it is apparent that neither country has the means to supply adequate gas volumes to European end markets. That leaves the planned projects reliant on the Niger Delta for a large portion of the planned gas supply volumes. There is however little reason to be confident that the Niger Delta will produce sufficient volumes to meet these projects' future obligations.

As the Niger Delta dominates Nigerian production, an analysis of its production and reserves data shows that despite a 15 percent rise in proven gas reserves in the 2002-21 period, a 170 percent rise in annual gas production over the same period led to a 60 percent decline in reserves-to-production ratio, an indicator of the remaining lifespan of proved gas reserves. This trend portends a major threat to the success of the proposed gas pipelines as conceived.

Policy approaches to promote growth in reserves and production.

There are several policy-related action steps available to governing authorities in Nigeria and other West African gas-producing regions to increase gas availability and improve the technical and commercial prospects of proposed gas pipelines to supply the European market.

First, gas producers in the region should revise their partnership philosophy. Despite ongoing reforms in some countries, a major barrier to production growth is the overriding ideology of state ownership of producing entities. The alternative idea that countries can exercise control over the economic rents without ownership or direct working interest in producing assets has not received due consideration. In some countries, production from several joint ventures has historically been substantially curtailed by the government’s inability to promptly meet its share of funding obligations. Without changes in the operating partnership philosophy or adequate workarounds to funding constraints, delays will harm the supply of gas supply into the proposed gas pipeline projects. Therefore, African gas producers seeking to benefit from supplying European markets...
should minimize the impact of the fiscal obligations of ownership and move towards recouping economic rents from operating companies via tax and royalty regimes that are linked to benchmark oil and gas prices. In summary, the notion that tax and royalty regimes can achieve more than ownership of working interests in development projects should be rigorously evaluated and adopted to boost gas production for the proposed pipelines.

**Secondly, gas producers in the region should adopt greater flexibility in licensing and leasing.** African producers should evaluate their approach to exploration/mining leases and production licensing. In some regions, recent licensing rounds have been largely unsuccessful due to wide gaps between the expectations of government licensing departments and the investor community. The current standardized, area-wide leasing approach could be replaced or enhanced by field or project-specific leasing processes that are more market-aligned and can better match investor appetites to specific attributes and risk profiles of the diverse range of development opportunities on offer. A likely consequence of this approach would be a substantially faster uptake of upstream investment opportunities, a reversal in the current decline in reserve life, and greater confidence in the prospects of pipeline gas supply to Europe.

**Third, gas producers in West Africa should shield their producing assets from political patronage.** National oil companies (NOCs) have played a large part in the development of oil and gas in countries as varied as the UK, Brazil, Algeria, and Malaysia. In Africa, NOCs are largely seen to be captured by political patronage networks that sabotage economic growth and development. A logical and possible consequence of this widely held viewpoint is to take steps to protect investment decisions from political interference that is common in state-owned enterprises in many countries. Hence, given their long-running inability to shield their NOCs from capture by political patronage networks, African countries should continue to find ways to deemphasize the centrality of their NOCs in their oil and gas sectors in order to boost their share of non-Russian gas supply to Europe via the proposed pipelines.

**Finally, West African gas-producing countries should unshackle their operating companies from low public sector capacity.** Poor institutional capacity in the public sector acts as a deadweight on the development prospects of oil and gas resources. To minimize the impact on economic growth and national development, West African countries should consider privatizing their working interests in producing assets via listings on domestic stock exchanges. The growth in local private investment in these assets would preserve a sense of sovereignty over “national” assets despite an absence of direct government control of working interests in producing assets. This approach would infuse the privatized companies with much-needed technical and financial management capabilities and promote reserves and production growth unhampered by public sector capacity issues.

In conclusion, while these proposals appear both radical and impractical, the steady decline in gas reserves lifespan in the Niger Delta calls for a radical shift in policies. Specifically, to achieve reserves and production growth to meet the needs of the proposed TSGP and NMGP (and possibly other future projects), governing authorities should take the approach of exercising greater forbearance and seek to minimize control over the investment decisions of both upstream and midstream operating entities.
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