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Morgan Tsvangirai, the main opposition leader in Zimbabwe, addresses people who gathered during Workers Day Celebrations at Gwanzura stadium in Harare. (Source: AP Photo/Tsvangirayi Mukwazhi.)

Alexander Noyes is an Adjunct Research Associate in the Africa Program at the Institute for Defense Analyses.

IMPLICATIONS FOR AFRICA OF FALLING OIL AND GAS PRICES

By George F. Ward

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Oil exploration in Kenya by Tullow Oil. (Source: Tullow Oil Facebook page, https://www.facebook.com/TullowOilplc/photos/pb.115249315219515.-2207520000.1426689829./694098607334580/?type=3&theater)

Ambassador (ret.) George F. Ward is editor of Africa Watch and a Research Staff Member at IDA.

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IDA's three federally-funded research and development centers provide objective analyses of national security issues and related national challenges, particularly those requiring scientific and technical expertise.

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Previous Tensions and Split

The 2013 elections put an end to a power-sharing government between ZANU-PF, MDC-T, and a smaller MDC faction (first led by former Deputy Prime Minister Arthur Mutambara and then Welshman Ncube). The government, in office from 2009 to 2013, was formed after violent and disputed elections in 2008. As highlighted in the February 12, 2014, edition of *Africa Watch*, tensions within the MDC-T came to a head after the party's decisive electoral defeat in July 2013. In January 2014, a faction within the party led by former finance minister and secretary general of MDC-T, Tendai Biti, openly called for Tsvangirai—who has served as president of the party since 1999—to step down as party leader.

After several attempts and counter-attempts by Tsvangirai and Biti to suspend and expel each other from the MDC-T, the Biti faction split from the party, forming a splinter group called the MDC Renewal Team. In November 2014, MDC Renewal agreed to join forces with Ncube's MDC party, reformulating the two MDC-T offshoots as the United Movement for Democratic Change (UMDC). On March 2, 2015, the UMDC was officially launched in Bulawayo, Zimbabwe's second-largest city. Ncube and Senator Sekai Holland serve as co-presidents of the new party, while Tendai Biti and Moses Mzila Ndlovu are co-secretaries general.

Expulsions and Reactions

Both Biti and Holland were included in the expulsions of the 21 MPs affiliated with UMDC. Explaining the rationale behind the expulsions, Douglas Mwonzora, Secretary General of MDC-T, asserted: "Those MPs can seek new mandate [sic] under their political party. . . . In fairness these MPs can no longer claim to be representing our MDC[-T] members because they are no longer MDC[-T]." The expulsions of the MPs were met with harsh criticism from UMDC. Ncube argued, "the MDC-T's recent attempts to recall twenty-one MDC Renewal from Parliament is one of those incomprehensible decisions which can make sense only to a group of drunkards." Biti went further, accusing MDC-T of working in concert with the ruling ZANU-PF party: "We are not even surprised that we have been recalled because from the onset we knew Tsvangirai was working with ZANU-PF to derail the democratic transition of this country." Biti plans to challenge the expulsions in court.

The vacated seats set the stage for by-elections to be held to replace the 14 expelled MPs who had been directly elected to office. Seven others of those expelled had been appointed by the MDC-T, which now may put forward replacements. In the past, both MDC-T and UMDC have said they will boycott by-elections due to unfair electoral practices by ZANU-PF. Because of this, Biti maintains that the expulsions will "donate the seats to ZANU-PF," a move driven by malice:

"They [MDC-T] are saying it is better for ZANU-PF to occupy the same seats occupied by our members now, which I find unbelievably irrational and I am being very polite because there are better adjectives to describe that action."

Conclusion

With both Zimbabwean opposition parties claiming they will boycott by-elections, the expulsions are likely to further consolidate ZANU-PF's majority in parliament and deepen the fragmentation of the opposition, at least in the near term. As outlined by *Africa Watch* editor George F. Ward in a recent publication for the Council on Foreign Relations, President Mugabe's ZANU-PF has been consumed by its own unresolved succession struggle over the last several months. Given these divides in the ruling party, combined with Mugabe's age and health issues, Zimbabwe's political and electoral landscape may change significantly by the time elections are held in 2018. If Mugabe departs the political scene and the opposition is able to overcome its current divides, opposition parties may have a genuine shot at unseating ZANU-PF. Thus, if MDC-T and UMDC wish to stay relevant and compete with a resurgent ZANU-PF, it would be wise for both opposition parties to begin mending relations, with an eye toward a potential alliance in the lead-up to the 2018 elections.

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Africa's Newly Complex Energy Environment

Until the past decade or so, the sub-Saharan Africa energy picture was quite simple. A few West African countries produced oil and, incidentally, natural gas. The other 40 or so sub-Saharan countries remained strictly energy consumers, even as oil and gas exploration activities gradually increased and began to point to substantial reserves in new locations. Today, the sub-Saharan African energy scene is still dominated by two giants, Nigeria and Angola, which in 2013 produced 2.3 million and 1.8 million barrels per day of crude, respectively. Both countries also are major players in the liquefied natural gas (LNG) industry, with Nigeria accounting for 8 percent of globally traded LNG and Angola having completed its first LNG facility in 2013. Alongside the two major players, however, a number of other countries have begun to emerge as significant producers of oil and gas. In this increasingly complex energy environment, the fall in oil and gas prices is having a variety of effects that are worth reviewing.

African Consumers are Winners

As noted above, most African countries produce neither oil nor natural gas and rely on imports to cover their needs for those commodities. For some sub-Saharan African countries, including Kenya, Côte d'Ivoire, and Ethiopia, oil makes up more than 20 percent of total import costs. These costs had been rising. Rapid urbanization is accelerating the transition to natural gas from wood and charcoal for cooking. Increasing middle-class incomes are stimulating demand for motor vehicles. The plunge in oil prices, which has been a welcome relief for consumers, is projected to stimulate economic growth. Fitch Ratings estimates that the fall in oil prices could increase growth in sub-Saharan Africa to 5 percent in 2015 from 4.5 percent in 2014. Investors in oil-importing countries are also profiting by the price fall. According to a report by Bloomberg on December 11, 2014, stock prices surged 22 percent in Tanzania, 18 percent in Uganda, and 9.4 percent in Kenya in the months since oil reached its peak price on June 19, 2014.

New Onshore Producers are Potential Winners

The fall in prices is causing oil and gas exploration companies to scrutinize, and in some cases reduce, their capital spending budgets. Tullow Oil, one of the major players in new oil ventures in East Africa, has reduced its global 2015 exploration budget to $200 million, an 80 percent reduction from 2014. Amid the bleak prospects for new oil producers generated by reductions of this scale, there are pockets of hope. Tullow, for example, announced that it would go forward with six basin-opening projects in Kenyan onshore fields during 2015. Kenya, which currently produces no oil or gas, is seen as a relatively stable and fast-growing economy with a potentially large domestic market, as well as proximity to the markets of China and India. In addition, the onshore opportunities that Kenya offers are considerably less expensive to exploit than the deep-water prospects that exist in West Africa. Another potential new producer, Uganda, is in a similar position as Kenya, although costs in that country are potentially higher because of the isolated location of the oil fields and the nature of Ugandan crude, which is waxy and must be heated to flow through pipelines.

Traditional Producers Stand to Lose

The legacy oil producers of West Africa are at greatest risk in three respects. First, despite decades of oil revenues, several producing countries have failed to achieve economic diversity. Oil exports account for anywhere between 40 and 80 percent of the GDP of countries such as Gabon, Angola, Republic of the Congo, and Equatorial Guinea. Second, the governments of some oil-producing countries remain heavily dependent on royalties to finance government operations. In Gabon, Angola, Nigeria, and Equatorial Guinea, oil accounts for more than 70 percent of government revenue. One measure of this sort of dependency is the fiscal break-even price of oil, the price at which a government is able to balance its budget. In general, African producing countries have been able to lower the break-even price through fiscal austerity, but that price has consistently remained above the current market level. Nigeria has come closest to successful adjustment, lowering its break-even price to the vicinity of $60 per barrel, yet even that has not been nearly enough. Third, low oil prices are limiting the capacity of legacy producers to replace dwindling oil reserves. The average finding cost of oil in Africa, $35.01 per barrel, is one of the highest in the world. The cost of finding new oil in deep-water fields is even higher. That is a particular problem for countries such as Angola and Republic of the Congo, which rely on offshore production.

Taken together, the impacts of the three factors described above define the degree of economic difficulty that individual producing countries will continue to face as long as low oil prices persist. Angola, which has failed to diversify its economy, remains heavily dependent on oil revenue to finance its government, and faces high costs for replacing reserves, would appear to be the most threatened of all African producers. The benchmark rate on Angolan loans had increased by 10 percent as of December 2014. Other, smaller producers, such as Equatorial Guinea and the Republic of the Congo, face similar degrees of hardship. Nigeria would appear to be less at risk because oil represents only 14 percent of its GDP. On the other hand, oil still fuels more than 70 percent of the Nigerian budget, which itself is under great pressure because of the costs of countering security threats such as the Boko Haram insurgency and the demands of a rapidly growing population for better social services. Economic growth projections for Nigeria for 2015 have been revised downward from 6.4 to 5.2 percent.

Conclusion

Over time, lower oil and gas prices will benefit most sub-Saharan African countries. For some new oil-producing countries, such as Ghana, the dream of petroleum-fueled prosperity will be delayed and diminished, but may still eventually arrive. For Angola and, perhaps to a lesser extent, Nigeria, the future looks worse. Having suffered from the "resource curse" of abundant oil and high commodity prices, those countries appear to be headed for a future of constrained revenues and fiscal austerity. Wise economic stewardship will be required to avoid risks to political and social stability.

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