

A.P.P.A. is Born: A Commentary

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"Ex Africa, semper aliquid novi". (Pliny)

The birth of the African Petroleum Association (APPA) on the 27th January, 1987 has given rise to various commentaries and editorials on its peculiar features and speculations on its future. The event in itself is further justification of the centuries-old dictum: "Ex Africa semper aliquid novi"; (i.e. there is always something new from Africa). The following commentary is on the 'Resolution of Lagos' unanimously adopted and the Communiqué issued at the end of the inaugural conference; they will be viewed in the context of the international political economy of the hydrocarbon industry. Further in-depth analysis awaits the publication of a certified, true copy of the ratified statute which was only initialed at the end of the inaugural.

The International Scenario

APPA is born in circumstances where the world pattern of trade in Petroleum resources is undergoing significant transformation, with prospects of substitutes-solar and nuclearenergy-resulting from massively funded research and development entering the picture to challenge the supremacy of oil in economic and industrial undertakings throughout the world. The huge financial benefits that once accrued to petroleum producing countries, especially those of the Third World Dose underdeveloped markets could absorb but a small fraction of their total production, have been subject to drastic curtailment. Currently, just under one half of the peak price of about 40 U.S. dollars per barrel of just over a decade ago is what prevails in the world market. As such, earnings or revenue from oil which formed the bulk of finance on which governments of the Third World countries depend for purposes of implementing their economic development plans, balance their annual budgets, rectify balance of payments deficits and service foreign debts, now prove to be inadequate. In more concrete terms, this year's (1987) OPEC's estimated revenues would be almost % of its peak of more than 280 billion U.S. dollars reached in 1981, according to Mr. Lukman, Nigeria's Minister for Petroleum Resources. Third World governments have therefore resorted to Structural Adjustments of their economies, austerity in their annual budgets and rescheduling of foreign debts in their efforts to control the deteriorating situation.

The essential cause of the downturn in the fortunes of the Third World Producers lies in the workings of the basic laws of supply and demand. On the supply side, there has been excess (or glut) while the demand side remained stagnant. Prices therefore plummeted because of oversupply. Shortfall in the earnings of OPEC for 1986 alone because of low prices is estimated at about 50 billion U. S. dollars. Since the most logical step to take in an effort to arrest the decline in prices is to curtail excess supplies, the main preoccupation of OPEC producers in recent times has been on the question of agreement among themselves and between themselves and non-OPEC producers as to the modalities of such curtailment. Where success among themselves is relatively easier to achieve, success between them and non-OPEC producers is difficult if not impossible to achieve.

Oil-producing countries are found in all continents of the world; but whereas producers in the industrialised countries of Europe and America find their production inadequate for their needs, producers in Third World, non-industrialised countries who for a long time consumed just a fraction (under 20%) of their production came to be relied upon to supply the increasing needs of industrialised countries as well

as those of the rest of the world; moreover, the price paid by multinational companies which purchased for industrialised countries was so low, being dictated by the companies, especially so in the absence of strong bargaining capabilities of Third World countries. It was in order to enhance their bargaining capabilities, fix more rewarding prices and maximise financial benefits that Third World producers organised themselves into a cartel-like inter-governmental body known as the Organisation of Petroleum Exporting Countries (OPEC) which since 1960, has kept developments in the international oil trade under constant review; their joint decisions are reflected on the prices of internationally traded oil since then. They also reflect on the spectacularly vast increases in the amount of revenue accruing to their treasuries.

But being inter-governmental (not inter-industrial or trusts), OPEC's decisions are not always motivated by purely economic considerations. A case in point is the decision taken by Arab members of OPEC (organised under the banner of the Organisation of Arab Petroleum Exporting countries, OAPEC) to embargo the sale of crude oil to the United States and some West European countries, which countries together constituted the biggest buyers of crude oil in the world; done as a punitive measure because those countries supported Israel in the Arab-Israeli War of 1973, such politically-inspired decision had its economic repercussions - shortage of crude oil supply in the world market in the face of ever-increasing demand from major consumers. The price rise that resulted was in the region of about 400%. Third World producers, even OAPEC members at the end of the embargo, profited enormously due to panic-buying of the industrialised countries.

If OPEC members were the only producers or if they had continued to be the major producers as they were in the past, the problem they face today could hardly have arisen. The crucial fact is that even though OPEC members are endowed with 2/3 of the world's known recoverable stock of oil, they have in recent times been supplying just about 1/3 of the total amount traded internationally whereas non-OPEC producers endowed with 1/3 of the world's known recoverable stock supply 2/3 of that total amount. Output from huge reserves in the North Sea, Alaska and Mexico was stepped up to flood the market.

Whereas in the period before 1979/80, OPEC's decisions in international oil trade carried great weight, the tendency from that time up to the present is for non-OPEC producers, because of their preponderant supplies, to call the tune like the proverbial tail wagging the dog! Henceforth, OPEC lost its price-fixing clout in the international oil trade, becoming residual suppliers, struggling in defence of a fair market share. As Mr. Lukman sees it, "The failure of a common understanding to emerge on the part of OPEC and non-OPEC and the realisation on the part of OPEC members that they alone could not affect market stability, compelled members of the organisation to change the existing policy of price defence in favour of a fair market share, commensurate with members' reserves and production capabilities".

APPA: A Regional Resource Organisation.

It would be premature to discuss how APPA deviates from other resource organisations like OAPEC in the Middle East, ASCOPE in South East Asia, OLADE in Latin America and of course OPEC, the first of its kind, in the absence of its ratified statute. It is however obvious, from the name of the organisation that membership will be restricted to countries of the African continent; furthermore, only such African countries which are producers of petroleum like the nine which attended the inaugural (Nigeria, Benin, Gabon, Congo, Angola, Algeria, Cameroon, Egypt and Libya) will qualify for membership. But as far as African Petroleum Producers are concerned there are others like Ivory Coast, Tunisia and Zaire, according to reliable sources, whose joint total production is estimated at 192,000 barrels per day (bid). (Total African production by the end of 1986 was 5 million bid). The absence of representatives from these countries at the inaugural, even as observers calls for some explanation. There is the possibility that they were invited but for some reason or other choose not to attend. A more plausible explanation is that they did not meet the essential criteria of a producer in that their production figure is so low and

insignificant and as such could not afford them effective leverage for bargaining in the world market. They are not self-sufficient in petroleum even for their domestic needs and so have of necessity to import in order to augment their production to satisfy those needs. They are producers but essentially 'net importers'.

Notwithstanding the fact that these 'net importers' or minor producers were initially excluded from membership, or from participation as observers at the inaugural, APPA intends to reckon with them and this idea is implied in one of the preambular paragraphs of the Resolution of Lagos which states: "Willing to promote co-operation with net oil-importing African countries". One may therefore guess that the newly-born APPA has already learnt an important lesson from OPEC's experience which is: never underestimate net importing, minor producers. Who knows whether these present-day net importing African producers would at some future time, like North Sea, Alaska and Mexico in the past, step up production to such significant level that could again flood the international market thereby causing another serious drop in prices and great loss in revenue, with neither APPA nor OPEC able to control the situation? From a more technical point of view, it must be realised that international resource organisations differ markedly from other organisations especially in their decision-making processes which are far from being egalitarian. Decisions on important, substantial matters are usually arrived at by weighted voting. Hence, minor producers stand a chance of even being voteless; rather than staying in like pawns merely to benefit by free ride on the majors, they are usually discouraged or excluded from participation or membership, thus eliminating their 'nuisance value'.

The founding members of APPA all together produce the vast bulk of the petroleum from the African continent, that is 5 million *bid*. currently. This amount is about 113 of OPEC's production of about 15 million *bid* for the month of December, 1986. Four of the nine founding members of APPA are also members of OPEC. Their total amount produced for that same month is 3.123 million *b/d* or just about 115 of OPEC's total. In the context of OPEC, this figure is not so significant when consideration is taken of the fact that *Saudi Arabia alone* produced 4.353 million *b/d*. It may not be altogether wrong to conjecture that these four APPA countries - Algeria, Libya, Nigeria and Gabon - are subject to what may be termed "minority syndrome" within the ranks of OPEC membership; if that guess is correct, then they have no cause to fear from now on since their production figures entitle them to be the Big Four in APPA. It must be mentioned, in passing, that this 'minority syndrome' is likely to be one of the reasons for Tunisia to request withdrawal from membership of OAPEC at its last Ministerial Council meeting in Kuwait in December, 1986. But will Tunisia qualify for membership in APPA?

The term 'Producers' in the name of the new organisation seems by implication to be a new departure from Petroleum organisations of its kind like OAPEC and OPEC where the term 'Exporting' is used. While the meaning of production could be stretched to include the whole process-mining, storage, transportation, etc. - by which the product reaches the buyer, the word 'export' has limited implication, that is, sale outside the country from which the product originates. Hence, it is not unusual to have 'production' for export and 'production for domestic use'; similarly, there are producers who export and producers who do not. Since both exporters and non-exporters are subsumed in the term 'producers', that term is preferred, exercising caution in not alienating minor African producers who do not export, as already explained. If the foregoing explanation holds, then 'Primary Producers' is the true meaning of the term 'Producers' in the name of the new organisation. And exporters in this sense can only be producers if they produce 'crude petroleum' from oil wells within their countries.

Furthermore, the term 'producers' is preferred in order to focus attention more on the control and rationalisation of production which is the priority task that OPEC has now set itself to undertake. In the early years of OPEC far greater attention was paid to exporting with its concomitant pricing, price fixing or price war with multinationals which dictated such prices, so as to maximise selling prices, earnings and

profits; much less attention was paid to production which, though of equal importance theoretically, was not much of an issue since OPEC sources accounted for about 3/4 of internationally traded crude oil. But the rude shock caused by the unleashing of crude oil from Alaska, North Sea and Mexico as mentioned earlier and the damaging effects of the glut, attention came to be diverted to the imperative necessity of production control, production quota, production ceilings and cuts etc, as the surest ways to stabilise the market. It makes sense therefore if there is a division of labour whereby regional producing bodies like APPA control production and OPEC is left to tackle the problem of price increase and market stabilisation in the international domain.

After all, APPA's current production of 5 million *bid* out of 'the 26 million *bid* produced by Third World countries cannot alone by itself afford it any significant bargaining power in the wider international market. Joint action through OPEC can.

Other Regional Resource Organisations

Regional arrangements for petroleum resources do vary in their scope as well as in their modus operandi. What seems common among them is the tendency (most times inevitable) to align themselves with decisions of more universally all embracing ones like OPEC. They vary in that some of them loose and flexible organisations while others are set with rigid rules and involve substantial vested interests. The degree of political motivation involved in their establishment another variable. We shall take a brief look at OAPEC and OLADE in the Middle East and Latin America respectively. ; Seven of OPE's thirteen members are also members of OAPEC. By the logic of both organisations, OAPEC accepts the supremacy of OPEC. All OPEC decisions are automatically binding on OAPEC members whether or not they are members of OPEC; for example, Egypt, a non-member of OPEC is bound by OPEC's decisions by virtue of its membership in OAPEC. It is designed essential for integrated economic development and technical co-operation among its members, the vast majority of whose peoples share common Arabic civilisation - culture, language, religion and above all, an implacable hostility toward Israel. Its key laiddown objectives are:

- i. to promote economic integration in the oil sectors of Arab countries.
- ii. to encourage the sharing and transfer of technology among Arab countries.
- iii. to foster Arab community.
- iv. to decreased dependence on nations of the developed West.

With the vast amount of excess finance capital resulting from revenue, profits from international oil trade over many years, OAPEC members have initiated and successfully executed various joint ventures. Some of them are:

- i. The Arab Maritime Petroleum Transport Company (AMPTC)
- ii. The Arab Ship building and Repair Yard Company (ASRY)
- iii. The Arab Petroleum Investment Company (APICORP) iv. The Arab Petroleum Services Company (APSC).

With initial capitalisation of 1/2 billion, 340 million, I billion and 377 million U.S. dollars respectively; shares are owned and subscribed by OAPEC members. There are also the Arab Petroleum Training Institute (APTI), Arab Engineering Company (AREC), Arab Engineering Systems and Control (ARESCON) and the OAPEC Judicial Board. This Judicial Board is unique. According to the main provisions outlined in articles 21 - 25 of OAPEC's basic agreement, the Judicial Board is authorised to decide disputes "relating to the interpretation and application of OAPEC charter and the implications and obligations arising from it"; also disputes in petroleum matters which might arise among OAPEC mem-

bers in their activities in the Joint Venture Companies. The Judicial Board has compulsory jurisdiction. In a nutshell, OAPEC concentrates on how best to invest the proceeds of OPEC's financial success. However, considering the volatile nature of international politics in the Middle East, the political underpinnings as well as the overtones of OAPEC's actions and decisions are highly significant factors.

In Latin America, there is OLADE, Latin American Organisation for Energy Development, a non-political organisation of South American and Caribbean states whose main pre-occupation centres on Research and Development (R&D) and whose essential *modus operandi* is consultation and co-operation. Research and development in all aspects of hydrocarbons and alternative sources of energy are extensively undertaken. It does very little in areas of production and price bargaining in the international market. However, in 1974, the biggest oil producer in the region - Venezuela motivated by the desire to alleviate the financial strain of non producing Latin American and Caribbean states when the price of crude oil sky-rocketed in 1973, supplied the oil requirements of six Central American and Caribbean states under terms of an arrangement by which she provided them with short and medium-term loans thus enabling them to purchase her oil at prevailing world market price, not at concession price since that is forbidden by OPEC rules. Then in 1980, (OPEC) Venezuela and (non-OPEC) Mexico, the two biggest producers in the region, signed a multilateral Agreement with several Latin American non-producing states, whose terms and conditions essentially called for the two producers to furnish loans (both short and medium term) to the non-producers that would enable them to procure their oil requirements only from the two producers (again not at concession price) but at prevailing world market price. Competent authorities of the parties involved in the San Jose Agreement (1980) as it came to be known, meet once a year to review the transactions and reach new understandings and guidelines for the ensuing year's transactions ... Again, the polarisation of Latin American states in their policies toward Nicaragua's internal conflict has in some noticeable ways affected decisions on the implementation of the San Jose Agreement.

Prospects for APPA.

There is indeed no tangible evidence to link up the founding of APPA with the determined efforts toward a Concert of Medium Powers which most expert agree is necessary for a more viable international order. Perhaps mere fortuitous circumstances have brought both events together about the same time, but happily so because states which qualify for membership in the 'Concert' would enhance their effectiveness as individual members as well as the credibility of the Concert as a whole only in so far as their immediate continental environment can afford them strong leverage in terms of economic capabilities to match their political influence. Africa as a whole is considered the least developed of the continents and as such if APPA could be essentially geared toward continental development, it would very well serve as one of the strong continental pillars on which the proposed Concert could be based. Taking this into consideration and assuming that no rivals emerge to weaken the potential strength of APPA, the following points would prove of relevance in estimating future prospects of the newly-born APPA:

(1) If projections for up to 1990 and beyond are right that Africa's petroleum consumption will increase by only 2.2% and assuming that production will be around the present level of 5 million *b/d*, then it follows that Africa will have a minimum of about 31/2 million *b/d* to dispose of by export trade in the world market. APPA would justify its existence to the extent that through its workings and influence, African producers would be able to maximise financial benefits from the sale of this quantum of petroleum in the face of competition from Third World as well as non-Third World producers. For the former, the problem should not arise as long as OPEC is in control of the hard bargaining and price fixing for and on behalf of the major Third World producers who are its members. Therefore there is the imperative necessity for APPA to align solidly with OPEC decisions on matters of pricing and market stabilisation while concentrating on control and rationalisation of production as well as on finding the most rewarding use of

proceeds from sales.

(2) In the parlance of the international hydrocarbon industry, the word 'Petroleum' subsumes natural gas in addition to the obvious crude petroleum. For, once a well is sunk, most experts agree that, oil or no oil, natural gas is sure to flow in the vast majority of cases. Since in recent times, gas is increasingly being substituted for oil, production and marketing of Liquefied Natural Gas (L.N.G.) has taken an important place in the hydrocarbon industry. The capital outlay for such an enterprise should not be a constraint if APPA takes the responsibility to embark on joint ventures in this area, taking a cue from successful joint ventures of O.APEC (outlined earlier in this paper). In fact, several other joint ventures could be embarked upon by APPA, especially those whose costs and risks are too high for one country alone to bear, like refining, petrochemicals, ship repairs and other 'downstream' activities.

(3) An APPA Fund should be set up which, together with OPEC Fund for Development should afford APPA members a reliable financial resource base only for large scale multicountry integrated industrial developments. Sub-regional groups like ECOW AS should be able to benefit from the Fund.

(4) Considering the fact that APPA member states are not all geographically contiguous, APPA should encourage cooperation with contiguous non-members in order to eliminate gaps in planning and facilitate the spread of Large-Scale industrial projects.

(5) APPA should be in a position to render assistance to all African states engaged or intending to engage in petroleum exploration especially in areas of legal drafting of exploration concessions and mining lease agreements. There are some African countries whose authorities, lured by the possibility of earning a few thousand dollars or other hard currencies as exploration fees in the face of their declining economic fortunes, hastily approve poorly prepared agreements only to learn later how better off they could have been if the whole thing was properly done. Their insistence on having amendments made to the agreements more to their advantage becomes the source of conflict with the companies; in some cases the companies just close operations and pull out.

(6) African countries, non-producers of petroleum should be offered financial facilities by APPA with which they could procure their petroleum needs *from APPA members only*. Ruling out concessions or reduced prices forbidden by OPEC rules, medium-term loans should be made available to them at reasonable interest rates, taking a cue from the San Jose Agreement in Latin America referred to earlier. This will prove to be the surest way of developing and expanding the whole of the African continental market for petroleum and petroleum products thereby ensuring a ready market for APPA members in the long run. Then Africa would become self-sufficient in hydrocarbons and there would be no need to import them.

(7) APPA should set up a Manpower Development Institute to be funded by the APPA Fund referred to in (3) above which will serve to ensure that adequate reservoir of technical manpower is always on tap for future growth and expansion of the hydrocarbon and other large-scale industries in the continent.

(8) Within the past decade, most African States, producers and non-producers of oil, have gone through traumatic experiences in their international economic relations as well as in the process of their internal economic growth. All hopes are now directed toward that ultimate target - that stage of self sustaining economic growth. It would be the greatest self inflicted disaster if there are inadequate petroleum resources to nourish Africa's industrial engines when that time comes. As such APPA should make Energy Conservation one of its principal objectives.

(9) When it becomes necessary to set up a permanent secretariat, it would be most ideal to have it located

in a non-member country as is the case with OPEC but such nonmember should be in the African continent, since charity begins at home.

(10) APPA's main preoccupation should be to concentrate on making the best possible investments of Africa's petrodollar earnings in infrastructural and industrial development of the continent as a whole. Its efficiency should be judged on the basis of its success in mobilising additional capital finance and necessary technology from the highly industrialised countries of Europe, America, Japan and China as well as other requirements from Asia and Latin America. The essential key to its overall success will be firm alignment with policies and decisions of OPEC. In this regard, it is gratifying to note that, as stated inter-alia in the Communiqué; "The Conference reviewed the world oil market and expressed its confidence in the actions so far adopted by OPEC to stabilise that market". One must hope that OPEC's decisions and actions will continue to inspire the confidence of APPA in both the near and distant future, even though the decisions may not be automatically binding on APPA.