

THE CURRENTLY HIGH OIL PRICES MAKE IMPERATIVE THE GEOGRAPHICAL DIVERSIFICATION OF OIL RESOURCES: THE CASE OF THE GULF OF BIAFRA

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There is a broad belief that the currently high oil prices make imperative the geographical diversification of oil resources. This is rather based on the lessons of the energy crisis in the 1970's. The costs of this crisis have been debated a lot and vary from country to country. In the early 1980's the costs of the oil shocks were estimated by the OECD at USD 1.2 trillion in lost economic growth for the seven largest industrial countries in the world. In the aftermath of the oil shocks, the industrial world experienced a halt in economic growth, after a booming period of 5% growth average annually in the 1960's.

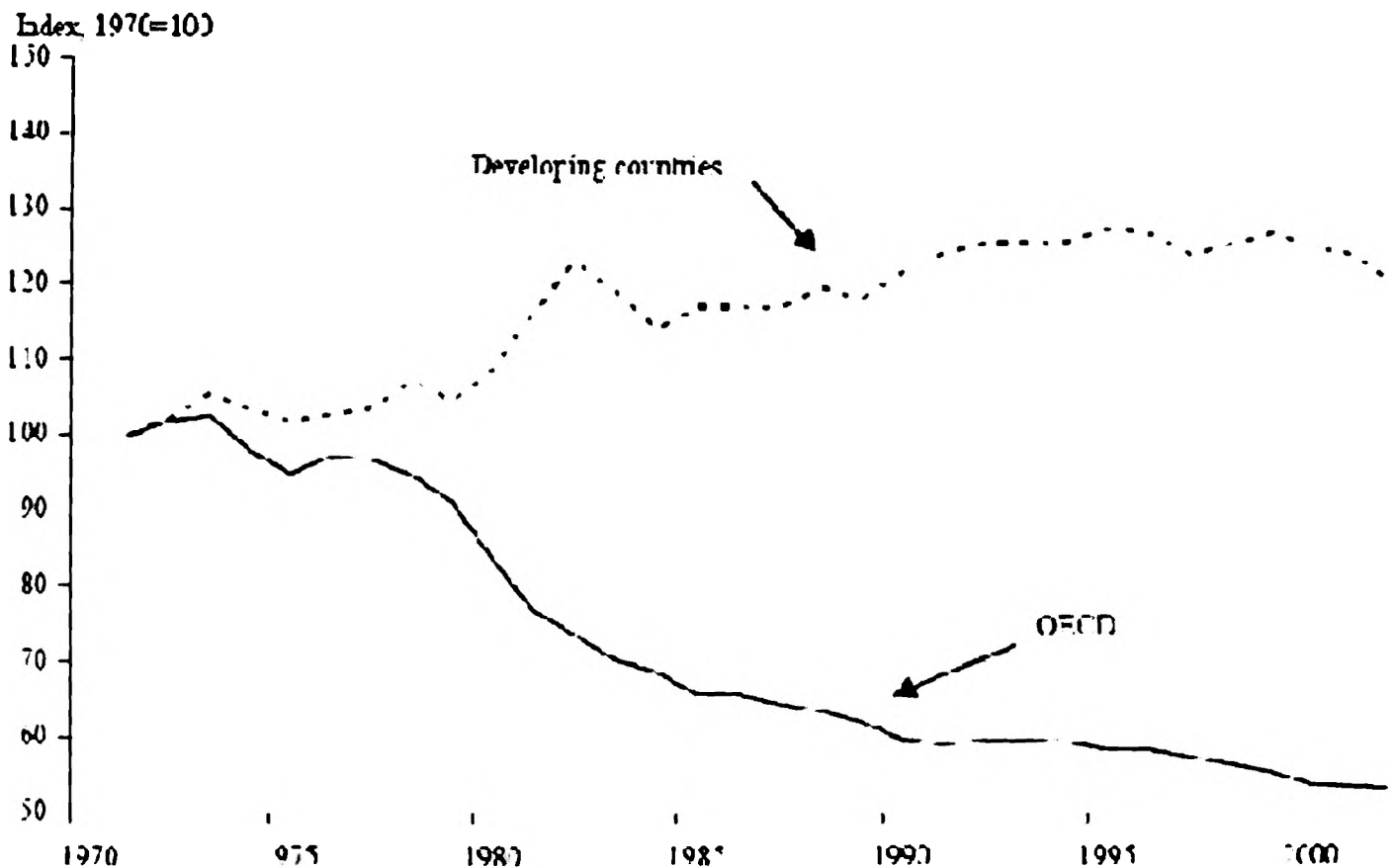
Geographic diversification of energy supplies has been one of the reactions seen in some industrialized countries. US constructed an oil pipeline from Alaska, and under Regan shifted emphasis on developing a military deterrent capability in the Arab Gulf, thereby increasing arms shipments and military support in the area over the last 20 years. Germany made a natural gas pipeline agreement with the Soviet Union, fully disregarding the possible political tensions in the US-German relations, resulting from such a decision.

Apart from macroeconomic measures, fiscal and monetary, undertaken at national level to counter the energy crisis impact on their economies, a number of industrialized countries turned to geographic diversification and a number of other measures, including the move away from bilateral energy supply agreements to multilateral ones. The impact of the International Energy Agency (IEA), emergency stocks programme has been successfully calming down the oil markets during the US military campaign to remove Iraq

from Kuwait in 1991. Established in 1977, IEA has been meant though predominantly as a deterrent to oil producer groups exercising monopsony pressure to monopoly power through OPEC, or impose politically-driven oil supply restrictions, especially as “No single Western nation can cope with the energy problem by pursuing an isolationist or nationalist strategy...”, as noted by Daniel Yergin.

The industrialised countries though, in the 30 years period after the first oil crisis, realized that the major problem lies in their dependency on oil. In the US different Presidents set up different programmes aiming at oil independence, ranging from Nixon’s “Project Independence”, to Ford’s “ten year plan” to G.W. Bush State of Union address in 2006 setting as a goal “to move beyond a petroleum-based economy”. The European Union made secure energy supplies as one of its prime objectives, and trying apart from geographical source diversification, to move to other energy resources, especially indigenous (water, coal, nuclear and more recently to sustainable ones including wind, solar and bio energy production) and optimal energy use (development of energy pan-European energy networks and promotion of rational energy

Figure IV.2. Oil intensity of production has fallen in the OECD area



Note: Oil intensity is defined as total primary oil use per unit of output (GDP)

Source: OECD Economic Outlook 16 database and International Energy Agency.

consumption. This strategy has been intensified in the last years coupled by environmental concerns on global warming.

The measures have been successful, and according to OECD, world oil demand has decelerated significantly over the past thirty years, largely reflecting a decline in the oil intensity of production — total oil consumption per unit of output — in OECD countries (Figure IV.2). By contrast, in non-OECD countries oil intensities have generally increased slightly up to the mid 1990s — partly reflecting a change in production structure towards manufacturing and increasing vehicle ownership — before falling marginally.

Despite the success of such measures to decelerate oil demand in OECD countries, the World globalised economy appeared helpless to stop the rallying of oil prices early 2008. World oil prices have increased rapidly over the last three years, from an already high of USD 60 per barrel after Hurricane Katrina hit the US in late August 2005 to over USD 100 per barrel mid 2008. The rise in international oil prices over the past two years was driven by a limited oil supply and growing demand from emerging economies such as China. Uncertainties related to politics (in the Middle East and more recently the Caucasus), as well as weather (hurricanes) also contributed to the rise.

In this context geographical diversification becomes even more important, both for energy pricing, as well as energy security, especially on the background of macroeconomic discipline dictated mainly in the eurozone. New areas of oil production will come into the picture, and new reserves will be tapped. Actual high oil prices will make cost-efficient previously less attractive investments, which although known and possibly strategically important have been remaining unexploited to date, due to high costs involved in oil extraction and production.

Africa has been known for its oil reserves, especially the Gulf of Biafra, for more than twenty years. Oil industry has been researching particularly areas off shore Nigeria, Equatorial Guinea, Cameroon and Angola. The so called “Golden Rectangle”, where recoverable oil reserves are estimated in excess of 5 bn bbl and oil production over 1 m b/d, is located near the offshore intersection of the maritime boundaries of Nigeria, Eq. Guinea and Cameroon. The geological and engineering expertise has provided a template for deepwater hydrocarbon exploration off Nigeria and Eq. Guinea. This expertise will be used also in the Nigeria-Sao Tome Joint Development Zone, where 6-12 bbl of oil are mooted.

The struggle of industrialised world’s companies to dominate and explore the area’s riches has been demonstrated in the past also in the form of very bloody and destructive unrests, including the War in Biafra which started when on May 30, 1966 Eastern Nigeria

proclaimed itself the independent state of Biafra and declared a state of emergency. European and American oil companies knew that 75% of Nigeria's oil was in the secessionist state. Some of them began to threaten the Nigerian government that they could get a better deal with Biafra. Nigeria was furious but also anxious about who would get the oil revenues. Against a complex diplomatic background in a cold-war setting, the posture of the oil companies was decisive in determining the winner. Biafra, which started with a population of 12 million, lost all its cities including the oil centre of Port Harcourt and the capital, Enugu. Soon 5 million people were squeezed into a tiny oval-shaped enclave of 2,000 sq km around the market town of Umuahia and millions starved to death.

Being the largest oil consumer in the world (average consumption of 20.6 million barrels p/d in 2006), the US has identified West Africa as a priority area for oil development since 1997. The 2001 US National Energy Policy Report, notes the importance of W. African producers as the oil production compares favourably to Arabian oil (it is "sweet" and not "heavy" hence extraction and refining are cost attractive), transport is cheaper, shorter and safer (avoiding the Horn Straights) than from Middle East, and most reserves are offshore, and thus easier to secure from political, domestic and terrorist tensions. Already at present state, Africa covers 18% of US oil imports compared to 17% covered by the Gulf. A discussion paper issued by the National Intelligence Council in 2004 predicts that this will rise to 25% by 2015. The European Union has also a profound interest in oil suppliers from the region, for the same reasons, especially as transport is even cheaper in this case, pipeline discussions are also on the table, and colonial ties exist with all the African countries concerned. Moreover the low USD compared to the EUR favours even further European investors in the area. At the same time Russia and China are making diplomatic inroads with countries of the area for stronger economic cooperation.

OECD expected in 2004 that global dependence on oil will continue notwithstanding more efficient use of oil in production, as oil is likely to retain its importance as a fuel in the longer term, increasingly for transport. In addition to expected strong demand in North America, strong oil demand growth from rapidly growing and energy-intensive non-OECD countries. It estimated however, that there will be a growing reliance on OPEC, as although global oil reserves are probably relatively ample, their distribution is likely to be increasingly concentrated on the Middle Eastern members of OPEC, which already account for around two thirds of global proved reserves. It estimates that outside the Middle East, newly discovered resources have tended to become smaller and more expensive to develop, being increasingly offshore. This has been based though on a

baseline scenario generating a trend rise in the real oil price from USD 27 per barrel in 2003 to USD 35 a barrel by 2030 (both prices expressed in year USD 2000).

As this price scenario has been largely exceeded by the recent oil price developments, West African oil becomes lucrative for exploration from an economics, but also security point of view, given the instability predominating in central Asia over the last years, especially in and around oil producing countries.

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