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Oil Prices and African Economies

Impact of the decline in revenue prompts austerity measures in high producing states

By Abayomi Azikiwe
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During 2014 many western-based financial publications declared that the Federal Republic of Nigeria had surpassed the Republic of South Africa as the largest economy on the continent.

Nigeria relies heavily on oil exports for the generation of its foreign exchange earnings.

Recently the Minister of Finance Dr. Ngozi Okonjo-Iweala delivered a major policy address indicating that the rapid decline in oil prices would necessitate the imposition of measures by the government of President Goodluck Jonathan designed to trim costs and spending. In a later interview with a leading Nigerian newspaper, the finance minister admitted that as a result of the price declines, the government was forced to cut its capital expenditures by 59 percent.

Okonjo-Iweala said "For a number of reasons, chief among which is oil pipeline vandalism and the resulting shut-ins, we faced a quantity shock in the sense that the quantity of oil produced averaged about 2.2 million bpd in the first three quarters of 2014, according to NBS data, falling short of the 2.38 million bpd projected in the budget. The effects of this quantity shock are further compounded by the more recent price shock, with prices crashing from a peak of about $114pb earlier in June, to around $58pb now, which is below the budget benchmark price of $77.5pb for this year." (Leadership, Jan. 5)

With the increased production of oil inside the United States, the country is no longer the largest importer of Nigerian crude. India, considered one of the emerging industrial and commercial states, has taken over as the number one purchaser of Nigerian oil.

Acting Indian High Commissioner in Nigeria, Kaisar Alam told Naija 247 that "India imported 14 billion-dollar worth of goods from Nigeria from April 2013 to March 2014, including 12 billion-dollar worth of crude oil,'' he said. Alam pointed out that with the reduction of U.S. importations of Nigeria's crude oil, India was now the West African state's largest trading partner.

Impact on Labor

During mid-December the two largest oil workers unions in Nigeria embarked upon a four-day strike. They were demanding the reduction of gasoline prices in light of the rapid slump in the global market.

Other demands included infrastructural improvements including the roads surrounding oil production facilities. The workers also sought to pressure the government on the need for a

new petroleum investment bill which had been stalled for years within the parliament.

Bloomberg noted the significance of Nigerian oil production when covering the strike it stated in an article that "The (strike) action involves both Pengassan, as the managerial union is known, and the Nigerian Union of Petroleum and Natural Gas Workers, or Nupeng, its affiliate for manual workers. Nigeria's crude oil output declined 3.2 percent when they last went on strike in September, data compiled by Bloomberg show. Nigeria pumped 2.3 million barrels of crude oil a day last year, 26 percent of Africa's total output, according to BP Plc estimates." (Dec. 15)

The strike was settled in less than a week despite the initial claim by union leaders that it would be indefinite. The government and industry officials took the strike seriously since its persistence could have not only shut down production but also crippled foreign exchange earnings across the country.

These industrial actions in Nigeria coincided with unrest around the entire region. In Ghana, a new oil-producing state, a public sector strike took place during mid-2014 over the demand for the government to take action against the declining value of the cedi, the national currency, and the need to protect pension funds.

By late Oct. oil workers were again demanding improvements in their conditions of employment. A statement issued by the Ghana Management and Petroleum Commission provides insights into the overall relations between management and labor.

The statement read in part that "As you would recall, following a similar strike on the Jack Ryan rig on Saturday, 9th August, 2014 over demands for upward adjustment of salary, the Petroleum Commission in concert with the General Transport, Petroleum and Chemical Workers Union (GTPCWU) quickly intervened to resolve the impasse and to continue the earlier initiatives to improve the workers compensation. Again, when Modec workers embarked on a strike action on 24th July, 2014, the Commission facilitated discussions between Modec and the Union (i.e. GTPCWU), which resulted in initial salary increase and training opportunities for the Ghanaian staff of Modec."

The Sudan Suffers From Partition and Oil Price Declines

Nearly four years ago the Republic of Sudan was partitioned after the conclusion of civil unrest and war that had existed for decades. Sudan, prior to the division of the country, was the largest geographic nation-state in Africa.

As a growing oil-producing state the Republic of Sudan was pumping 500,000 barrels-per-day prior to 2011. Since the partition both Khartoum and the Republic of South Sudan have both suffered growing economic difficulties.

In South Sudan, it has been reported that the newly-created state is receiving the lowest price internationally for its oil. This is in part the result of a negotiated deal with the Republic of Sudan where additional costs were placed on the export of each barrel of oil in order to compensate Khartoum for its ownership of the pipelines and the potential damage done to its economy resulting from the partition.

Production has also been hampered due to the conflict over the last year between the followers of President Salva Kiir and ousted Vice-President Reik Machar. Hundreds of

thousands of people have been dislocated and neighboring Uganda has deployed troops to the country in an effort to bolster the central government in Juba.

On Dec. 21 the Financial Times reported that "War-torn South Sudan is receiving what traders say is arguably the lowest oil price in the world, $20-$25 a barrel, because of falling prices and unfavorable pipeline contracts. South Sudanese revenues have now fallen to about $100m a month, equal to an oil price of about $20.5 per barrel based on output of 160,000 barrels a day.

'They are squeezed,' said an international official."

This same Financial Times article goes on to stress that "Oil executives believe South Sudan could become an example of how falling oil prices can exacerbate political risk as countries are forced to slash budgets. The US Department of Energy said: 'Geopolitical risk may also be elevated because of lower government spending'."

Prospects for Economic Growth Amid Declining Prices

These problems are reflective of the ongoing vulnerability of the oil-producing African states on the fluctuations of the international petroleum market. These problems are not just confined to oil since there has been a decline in other commodity prices as well.

The discovery of large-scale oil deposits in East Africa has fueled speculation centered upon phenomenal economic growth dependent on increased exports where prices would remain above $100 per barrel. With the decline in prices there may be some benefits for non-producing states but this fact poses serious problems for those who have planned to focus development plans on increased drilling and exports.

New Times reported that many "Economists expect, in the short run, tumbling prices to benefit East African consumers in form of reduced commodity prices. But two East African economies, Kenya and Uganda that have invested heavily in recently discovered oil, could suffer negative effects if the trend persists up to the time they are expected to start production." (Dec. 14)

An article in the Ugandan Observer opines "The macroeconomic malaise in both Russia and Nigeria as a result of the plunge in oil prices is a clear reminder to the East African economies that while oil and gas will open up new sources of government revenue and foreign exchange inflows, the other sectors of the economy should not be ignored. In any case, it would be prudent to direct the oil and gas revenues to facilitate the growth of manufacturing, services and agricultural sectors." (Dec. 30)

Nonetheless, efforts aimed at diversifying the economies of African states will face major impediments after substantial resources have already been invested in plans to increase oil production. These developments illustrate that until genuine economic growth based on the internal priorities of African states can be realized these post-colonial societies will remain subject to the problems of overproduction and declining prices.

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