THE ENERGY TRANSITION

An equitable and just energy transition should balance sustainability with social cost

Many African nations rely on oil and gas revenues, but a just transition will need a careful balance

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The global energy transition is underway, with policymakers seeking to decarbonise the energy mix to secure a sustainable future for the planet. This, of course, is in everyone's interest and it's a common goal that humanity should rightly focus on. However, the pace and shape of this energy transition is markedly different between the developed and developing world. There are diverse views on how an equitable and just global transition can be delivered to meet climate goals, while allowing developing nations to grow their economies to the benefit of their populations, as well as ensuring there is sufficient energy supply to meet growing global demand.

Despite trillions of dollars' worth of investment into renewables and associated infrastructure in recent years, mostly in developed countries, according to the IEA oil and gas comprise around 60% of the global energy mix. It is expected that, despite the contribution from renewables increasing, there will continue to be a significant demand for hydrocarbons, with consultancy Wood Mackenzie predicting an oil demand increase from current levels of c.103m b/d to c.108m b/d by 2030. This continued demand for hydrocarbons contrasts with decades of underinvestment in the oil and gas industry, which is likely to result in a significant supply gap of c.22m b/d in the coming years.

The need for an equitable and just transition

The need to tackle climate change and expedite a responsible transition are beyond debate. However, there is a growing argument that less developed nations, especially those whose economies are so reliant on hydrocarbon revenues, should be able to benefit from the exploitation of their resources in the same way that Western developed nations have. Not only is this critical for these developing economies, it is also needed to fund their transition to a cleaner energy mix. Africa has become the centre of this debate given its slower socioeconomic development, its vast untapped discovered resources and its relatively low contribution to global emissions relative to its population.

Many African nations with mature oil and gas industries rely heavily on the revenue they generate from hydrocarbons to fund social development. As such, the suggestion that African countries should cease to benefit from that vital income is rightly met with an argument that there is a need for a more equitable approach, whereby the importance of tackling climate change is balanced with the "social cost" of the energy transition. Those championing a just transition for Africa argue that the drivers for an accelerated transition cannot proceed at any social cost and we need to find the right balance between climate and social impact.

African energy transition

Within the African energy transition there is another industrial transition underway within the oil and gas industry. This transition involves mature oil and gas assets changing hands from IOCs to smaller independents capable of breathing fresh life into these assets through a focused approach. This is a similar transition to that which happened in mature basins like the North Sea in the 1990s, resulting in greater operating efficiency and performance of aged assets. This transition in Africa is gathering pace, although the industry backdrop is far less favourable than it was in the North Sea, with environmental headwinds making access to capital more challenging, especially for smaller independent players on which this fine balance relies.

Creating an attractive investment climate

African governments are responding accordingly as they seek to encourage foreign investment and welcome ambitious independents by improving fiscal terms and extending licences to create stable operating environments. Credibility is key, and divesting companies recognise that these divestments are not just about "price", it is equally about making sure these assets will be managed responsibly with a focus on optimising production and reducing environmental impacts through employing the latest techniques and technologies from other regions.

Afentra plc was established in 2021 with the purpose of supporting a responsible energy transition in Africa. The company has since entered Angola through the acquisition of assets from Sonangol, the national oil company, and Azule, the JV between BP and Eni. Angola's GDP has relied heavily on oil and gas revenues for decades, with its industry being dominated by IOCs. Afentra, as an early mover, has witnessed firsthand how the Angolan government has welcomed the company's entry and recognised the important role it will be able to play, bringing its technical knowledge and experience gained through previous industry transitions. Further demonstrating Angola's commitment to creating a stable investment climate, Afentra's core producing asset, Block 3/05, has recently been granted a licence extension out to 2040 with improved fiscal terms. This extension, coming well in advance of the licence lapsing, critically reduces investment risk, supporting better access to capital to fund the industry transition.

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Different lenses

This collaborative and forward-looking approach between government and industry is in stark contrast to the approach adopted in the UK's North Sea, where windfall taxes and negative political sentiment are reducing investment. This creates incentive for operators to look at more welcoming jurisdictions, even as the UK faces energy security and affordability challenges. It highlights the different lens through which developed nations and developing nations view the energy transition.

A successful global energy transition is essential. However, if it is to be achieved then all global stakeholders must adopt a pragmatic and agile approach. Developed nations have built their economies and wealth on the back of hydrocarbon revenues. As developed nations progress the roll-out of new energy solutions such as renewables, developing nations should be allowed to continue to exploit their hydrocarbon resources efficiently while utilising the latest techniques and technologies. This will allow their economies to grow and societies to develop so that they are ready to tackle the transition at a pace that is fair. ■