



## SANEA Energy Rendezvous

21 November 2017, Johannesburg

### “PwC Africa Oil & Gas Review: Learning to Leapfrog”

PwC's 7th review of activity and developments in the African oil and gas industry surveys and incorporates the views and experiences of oil and gas industry participants operating on the African continent. [The report](#) finds that Africa continues to offer opportunities to explore for hydrocarbons in the frontier market, with new hydrocarbon provinces popping up regularly. It also indicates that the African oil and gas industry continues to play catch-up with the rest of the world. However, PwC believes technology and other factors could help African oil and gas companies gain a competitive advantage.

#### Discussion leader

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#### Moderator

Brian Statham                          Chairman, SANEA

#### 1. Key Themes in the Report

- 1.1. Partnerships and mergers and acquisitions as a survival strategy, and how to position a company for growth in a partnership.
- 1.2. Technology adoption as key to survival – how it is implemented, how to grow, and the risks around cybersecurity.
- 1.3. Changing role of the national oil and gas company – from a nation builder to a national energy company.
- 1.4. Sustainability and alternative fuels remain challenges in the oil and gas industry in light of the low-carbon agenda.

## **2. Oil and Gas in Africa**

- 2.1. Africa's oil and gas production has decreased by approximately 8% in the last year.
- 2.2. Oil and gas remains a key industry in Africa despite the decline in exploration, production and exports.
- 2.3. Exploration activity: 2016 was one of the lowest for exploration finds in 60 years; Top oil and gas discoveries in 2016 were in Angola and Senegal. There is however an emergence of gas discoveries (Mauritania and Senegal). Large finds of previous years have not been repeated as of yet.
- 2.4. As more product is imported back to the continent, it creates an opportunity to benefit more.

## **3. Challenges and Impacts**

- 3.1. Respondents considered the top five challenges to be: uncertain regulatory frameworks (especially in South Africa and Tanzania), corruption, financing costs, foreign currency volatility, and taxation requirements.
- 3.2. Drivers of commodity prices that might impact oil and gas prices include declining demand, political uncertainty, and issues around supply disruption.
- 3.3. Changes in the competitive environment which might influence the sector include alternative fuels (e.g. entry of electric vehicles), cost reduction, the use of technology to improve efficiency and manage regulatory exposure, and new entrants to the market.
- 3.4. Alternative fuels and alternative mechanisms of transport are likely to become recurring themes for the industry in the future.

## **4. Areas of Strategic Focus**

- 4.1. Oil and gas companies' top strategic focus areas over the next three years are:
  - 4.1.1. Operational excellence
  - 4.1.2. Restructuring and new organisational design
  - 4.1.3. Capital expenditure expansion – new analyses already indicates an uptick
  - 4.1.4. Regulatory and environmental compliance (licence-to-operate conditions)
  - 4.1.5. Technology and infrastructure
  - 4.1.6. Entering new markets
  - 4.1.7. Cost management and cost reduction – mainly in operations and employees, while technology will see the least cuts as it is considered to be an enabler.
- 4.2. Key areas of expenditure include developing and enhancing existing capabilities, local content and skills development (a license-to-operate condition), and improving efficiency and compliance.

## **5. Partnering for Growth**

- 5.1. 50% of companies reported being a target of a merger and acquisition or a partnership opportunity.
- 5.2. Reasons for partnerships include enhanced service offering and product mix; to obtain efficiencies through a merged group; opportunistic investment in distressed assets; and to obtain access to technology and inorganic growth.

## **6. Innovative Technologies and Cybersecurity**

- 6.1. There is a general uptake of technology in the oil and gas industry to gain a competitive advantage: approximately two-thirds of the companies have implemented innovative technologies, 22% of which said they have implemented digital solutions.
- 6.2. Organisational boundaries are likely to disappear with the introduction of technology, and more activities are expected to be automated.
- 6.3. Technology implementations come with cybersecurity risks – cyber-attacks are already commonplace (happening on a daily basis).
- 6.4. Companies should embrace cybersecurity as a core part of their organisation, address the risks, and know how to respond when systems are compromised. This will require placing more confidence in staff, but also more confidence in the technology as it underpins an entire business operation.

## **7. Local Content**

- 7.1. Local content is a prominent theme across the continent, and the report finds that it influences companies' investment decisions:
  - 7.1.1. 26% of companies have delayed or postponed projects as a result of their inability to meet local content requirements, or report the requirements as being too onerous.
  - 7.1.2. 12% have changed their project scope, while others revised the specification of projects.
  - 7.1.3. 24% said it does not impact them – indicating that local content has been accepted and factored into business operations.
- 7.2. Challenges to meeting local content requirements include:
  - 7.2.1. Inadequate education systems to build necessary skills
  - 7.2.2. A restrictive or unrealistic regulatory framework
  - 7.2.3. Local content requirements that are not consistently applied, or do not meet the objectives it set out to achieve.
- 7.3. Criteria for selecting a local partner include adequate technical skill, financial aptness, shared culture and values, as well as compliance with industry regulations and an industry track record.

## **8. Changing Role of National Oil and Gas Companies**

- 8.1. National oil and gas companies are emerging as major players on the continent. These companies face significant disruption, but also opportunity.
- 8.2. African countries have long depended on national oil companies for revenue, and decreased revenues and disruption in the oil and gas sector might have potential social and political impacts.
- 8.3. The roles of national oil and gas companies are transforming: Companies need to diversify beyond the role of oil and gas to ensure their survival. The demand for domestic power and the alternative fuel market hold great potential for oil and gas companies that transform into national energy companies or form partnerships with national energy companies. There is also a potential market for them in refined products.

## 9. Parting Thought

It is no longer business as usual – oil and gas companies need to reconsider their business models and embrace technology to survive in the new energy future that is informed by customers, consumers, governments, driving supply and demand, and setting the low-carbon agenda.