

# Oil and gas are potential game-changers for economic growth

With the South Africa's Mineral and Petroleum Resources Development Act (MPRDA) and the Integrated Energy Resource Plan rumbling along, South Africa is set to leverage its largely unexplored and underdeveloped oil and gas sector to reignite economic growth



Khezi Tiya, head, oil and gas South Africa, for Standard Bank.

“Draft policy analysis, especially how government intends to structure hydro-carbons investment to support transformation, holds the potential to successfully unlock growth while deepening participation across the entire economy,” says Khezi Tiya, head: oil and gas, South Africa for Standard Bank.

## Frontier hydro-carbons market

The depth and cost of both offshore and onshore hydro-carbon exploration in South Africa means that it is expensive to undertake. Since, historically, few exploration wells have been dug in South Africa. The country, “remains relatively under-explored, exhibiting much more closely the characteristics of a frontier hydro-carbons market,” he says.

To date, potential investors have only commissioned more easily and cheaply produced seismic tests, avoiding investment in much more conclusive – and costly – drill data from exploration wells. That said, the seismic data that South Africa has assembled to date points to vast potential, especially in the Outeniqua Basin in the South East Cape and shale in the Karoo. Both the eastern and western seabords also present large hydro-carbons potential which is potentially relevant across the country. This has important implications for broad economic inclusion, especially among the historically disadvantaged, communities and regions currently excluded from meaningful economic participation.

“For investors to invest properly in more expensive drill exploration, however, they require policy certainty. Encouragingly, the impending finalisation of the MPRDA looks set to provide exactly this kind of certainty,” he says.

In anticipation of the passing of the amended act, and given the scale and complexity of the investment required, corporate activity is already seeing the ‘farming in’ of both local and global capital and resources in anticipation of what is likely to be a game-changing moment in the history of South African development.

## **Importance of policy**

While the MPRDA could not come at a better time for South Africa’s low growth economy, it also demonstrates just how important policy is in creating the conditions for the kind of growth that will also drive socio-economic transformation. “Although South Africa is still at least three years away from the start of even the initial build, global majors such as ExxonMobil, Statoil of Norway, ENI of Italy and Total for example have already entered into partnerships to explore and develop South Africa’s oil and gas potential.

“Since the historic exclusion of the majority of people from the formal economy has weakened the ability of many South Africans to benefit from growth, getting more people invested and employed in the country’s emerging hydro-carbons sector is a critical and non-negotiable element of growth,” says Tiya.

Making inclusive growth a key element of policy will allow the investment that the hydro-carbons industry is likely to attract, “to reverse the current low growth and investment cycle resulting from high concentration and no confidence - by including a broad swathe of the South African population in meaningful economic participation”.

## **The logic is unassailable**

South Africa’s refined petroleum needs are currently being met by a combination of limited domestic refining capacity complemented by imports. Policy makers are yet to decide whether to support the expansion of the domestic refining industry or look to longer-term supply and offtake agreements with global centres of refining excellence, in the Gulf, India and South East Asia for example.

Whether developing a domestic refining and distribution network, or enabling the global sales and export of bulk hydrocarbons and re-import and distribution of refined product, “the state is well-positioned to empower black industrialists to participate in partnership with international investors in whatever infrastructure build and facilities operation that the development of this industry will require”.

For the time being, “we are projecting more than \$4bn of investment in the development of storage facilities over the next four years, which are likely to be black-led projects with international partnerships,” says Tiya. In time, complemented by hydro-carbons extraction, refining or export and re-import, the state’s capacity to drive growth in a way that includes previously economically excluded South Africans in the country’s hydrocarbons industry is vast.

- Oil and gas drilling, production, storage, distribution and retail, for example, solve a number of growth and social development issues.
- More than just security of supply, investment in storage facilities provides banks and other supplier industries in South Africa a viable new destination for capital and investment, with the potential to put South Africa’s \$1.3trn corporate cash pile to work.
- Global-scale investment across downstream and upstream will bring new skills, require new capacities and technologies, will create new secondary and service industries and will bring new infrastructure investment into the value chain. This has a huge potential for mix of skilled – and especially unskilled – job creation across the country.

- The scale and diversity of the infrastructure, supplier and services demanded by hydro-carbons creates opportunity for a very broad range of investment. Beyond initial investment capital, “storage assets are popular with private equity investors, for example, as they generate income consistently over time. They are very long-lived assets”.
- The development of a hydro-carbons industry is so broad, costly and complex that it, inevitably, requires a lot of partnerships. This has huge implications for new combinations of capital, skills, investment and technology to increase, and revitalise, South Africa’s struggling industrial economy. Drilling platforms, port facilities, storage units – or refining capabilities, pipelines and retail, financing, supplier and support systems – draw in skills and create relevance and opportunity for almost all sectors and segments of the economy.

The convergence of growth and transformation represented in drafts of the MPRDA seen to date recognises the potential that South Africa’s hydro-carbons sector holds to develop a more sustainable economy.

“The act might just be the key for South Africa to begin unlocking growth in other sectors, driving economic transformation and inclusion through sustainable local and global investment that drives long-term job-creating growth across skills sets, includes multiple sectors, and is spread widely across the country,” says Tiya.

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