

AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

---

Addis Ababa, ETHIOPIA P. O. Box 3243 Telephone +251115- 517700 Fax : +251115- 517844  
Website : [www.africa-union.org](http://www.africa-union.org)

---

**EXECUTIVE COUNCIL**  
**Tenth Ordinary Session**  
**25 – 26 January 2007**  
**Addis Ababa, ETHIOPIA**

**EX.CL/311 (X)**  
**Original: French**

**REPORT ON THE FIRST AFRICAN UNION CONFERENCE  
OF MINISTERS RESPONSIBLE FOR HYDROCARBONS  
(OIL AND GAS)**

**REPORT ON THE FIRST AFRICAN UNION CONFERENCE OF MINISTERS  
RESPONSIBLE FOR HYDROCARBONS (OIL AND GAS):  
CAIRO, EGYPT, 11-14 DECEMBER 2006**

**I. INTRODUCTION**

1. At the Seventh Assembly of the African Union held in Banjul, The Gambia, in July 2006, the Heads of State and Government adopted Decision Assembly/AU/Dec.132(VII) on the proposal to establish, within the African Union, an African Petroleum Fund to alleviate the impact of oil price rise on poor African States and to coordinate African oil policies. This Decision also requested the African Union Commission to devise a comprehensive strategy for cooperation and solidarity between oil producing and non-oil producing African countries.

2. In pursuance of the above Decision, the Commission organized, in Cairo, Egypt, from 11 to 14 December 2006, the First Conference of African Union Ministers responsible for Hydrocarbons on the theme: "**Towards Sustainable African Oil Security through Cooperation and Solidarity.**" The Ministerial meeting was preceded by a preparatory experts' session held from 11 to 13 December 2006.

3. The Conference provided opportunity for the Ministers to analyse the results of the study jointly carried out by the African Union Commission and the African Development Bank on the impact of high oil and natural gas prices on African economies, and on the mechanisms and operational modalities of how the African Petroleum Fund would be established and how it would function.

4. The primary objective of the Conference was to adopt strategies to promote cooperation and solidarity between African oil and gas producing countries and African non-producers of these commodities, and put in place the mechanisms of the African Petroleum Fund designed to assist non-oil producing African countries in containing oil shocks and facilitate the financing of their oil imports.

**II. PROCEEDINGS OF THE CONFERENCE**

5. In attendance were thirty-three (33) Member States, namely: Algeria, Benin, Burundi, Cameroon, The Comoros, Congo, Democratic Republic of Congo, Egypt, Equatorial Guinea, Ethiopia, The Gambia, Ghana, Guinea, Kenya, Lesotho, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Namibia, Niger, Nigeria, Senegal, South Africa, The Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

6. The representatives of the following organizations also attended the meeting: the African Energy Commission (AFREC), the African Petroleum Producers' Association (APPA), the African Development Bank (ADB) and the Common Market for East and Southern Africa (COMESA).

7. The following Bureau was elected to conduct the affairs of the Conference:

Chairperson	:	Egypt (North Africa)
1 <sup>st</sup> Vice Chairperson:		Zimbabwe (Southern Africa)
2 <sup>nd</sup> Vice Chairperson:		Mauritius (East Africa)

3<sup>rd</sup> Vice Chairperson: Equatorial Guinea (Central Africa)  
Rapporteur : Senegal (West Africa)

### III. GENERAL OVERVIEW OF AFRICA'S HYDROCARBONS SECTOR

8. In light of the various analyses and evaluations carried out on the hydrocarbons sector in Africa and in the world, the status of the sector in the continent may be summarized as follows:

- Africa is rich in hydrocarbons and is strategically well positioned in relation to the major oil and gas consuming regions of the world;
- There is high competition for Africa's oil, a situation driven by the high demand on the part of Asian players who are also prepared to make enormous investment towards development of the huge oil and gas reserves in Africa, in furtherance of their geo-political balancing and supply diversification strategy;
- The per barrel price of oil rose from less than US\$ 40 in 2004 to US\$ 70.85 in August 2005. This price soared to a record high of US\$ 78.4 in July 2006. More recently, however, oil price fell by about 20% and was marketed at around US\$ 60 a barrel;
- Oil price is not expected to slide back to the pre-2004 level because the high price is being triggered mainly by the increasing demand of East Asian countries, particularly China and India;
- High oil price constitutes a major challenge for importing countries, especially poor African countries, because it can slow down or erode their economic progress and occasion tougher financial constraints. The impact of high oil price is, indeed, likely to be quite harmful to the countries which depend excessively on oil and gas and are, at the same time, highly indebted, a situation obtainable in many African economies;
- In contrast, high oil price represents an invaluable windfall for oil- producing countries;
- The poor state and inadequacy of regional and intra-regional energy infrastructure have led to increased cost of domestic supply, particularly for land-locked countries;
- In Africa, petroleum products are refined mainly by small, inefficient, poorly-maintained refineries with obsolete technology. Besides, the quality of such products does not conform to international standards;
- Oil and gas extraction has, however, been a major source of economic, social, political and ecological problems in some oil- exporting countries. As a matter of fact, key economic and social indicators seem to show that oil revenues have not been able to bolster economic growth and sustainable development in the countries concerned;

- For the oil and gas exporting countries, the challenge is to control their oil wealth in a sustainable manner. This challenge is intertwined with issues of governance as well as transparent and efficient management of the huge oil and gas revenues for growth and development.

9. The African Union and the African Development Bank have strategic complementary roles to play in making a success of the future of energy and of Africa's development. This can be achieved, *inter alia*, through a continental development policy for the energy sector in general and the hydrocarbon sector (oil and gas) in particular, so as to achieve medium and long-term rationalization and profitability of the resource, and ensure sustainable oil security as a component of an African energy security policy.

#### IV. STRATEGIC GUIDELINES TO ALLEVIATE THE IMPACT OF HIGH OIL PRICE, MAXIMIZE THE OIL REVENUE OF PRODUCING COUNTRIES, UPSCALE THE QUANTITY AND UPGRADE THE QUALITY OF PETROLEUM PRODUCTS

10. The Plan of Action adopted by the Conference spells out key guidelines in respect of the following four issues:

- **Measures to alleviate the effects of high oil price:** operationalize the African Petroleum Fund and promote large-scale integrating projects (gas/oil pipelines, regional refineries, exploration and exploitation of trans-border oil reserves);
- **Maximizing the oil revenue of producing countries:** build capacities for preparation and negotiation of contracts; monitor and control petroleum exploration and exploitation; strengthen cooperation among African countries and promote petroleum research and exploration;
- **Upscale the volume and upgrade the quality of petroleum products:** rehabilitate and expand existing refineries and construct new regional refineries; build joint depots and improve petroleum products distribution systems;
- **Formulate continent-wide policies and strategies for development of the hydrocarbon sector as well as the new and renewable energy sector, especially bio-fuel.**

11. In the Declaration called "Cairo Declaration on African Cooperation and Solidarity in the Area of Hydrocarbons, the Ministers, among other things:

- a) Called upon the Commission to:
  - Implement all the necessary measures to operationalize the African Petroleum Fund as soon as possible, including the completion of the ongoing study in collaboration with ADB, and to communicate the relevant documents to Member States;

- Work towards promotion of cooperation among the oil companies operating in the continent in both upstream and downstream activities with a view to exchanging experiences for better management of the sector;
- Define and implement strategies for development of clean and renewable energy, especially bio-fuels;
- Create an appropriate framework to study and resolve hydrocarbons-related ecological problems in Africa, particularly marine and other types of pollution.

b) Decided that the management of the resources of the African Petroleum Fund should be entrusted to the African Development Bank.

c) Urged the African Union Commission to define a strategy to strengthen the capacities of African countries in the preparation and negotiation of oil contracts as well as the monitoring of the activities of oil companies operating in Africa with a view to boosting the revenues of African oil-producing countries.

d) Committed themselves to:

- Establishing regional storage facilities to improve the storage and distribution of petroleum products in non-oil producing countries, particularly landlocked countries;
- Promoting integrating regional gas and oil pipelines and refinery projects, as well as joint exploration and exploitation of trans-border oil deposits and ensuring that priority is given to these projects by our respective governments;
- Collaborating with Conference of African Ministers of the Environment (AMCEN) with a view to promoting joint exploration and development of oil and natural gas resources while reducing their impact on the environment, and also with the Ministers of Trade on matters relating to the price of petroleum products.

e) Established the Conference of African Ministers in charge of Hydrocarbons as the central continental body for coordinating policies and strategies in the hydrocarbons sector under the aegis of the African Union Commission;

f) Welcomed the offer made by the Arab Republic of Egypt to establish in Cairo, in the Ministry in charge of Petroleum, a Liaison Office to assist the African Union Commission and Member States, without any financial implications, in activities relating to the hydrocarbons sector, including implementation of the Plan of Action adopted by the Conference.

## V. RECOMMENDATIONS

12. In view of the absolute need and urgency of organizing African cooperation and solidarity in the hydrocarbons sector especially by adopting the mechanisms and operational modalities of the African Petroleum Fund, the Assembly is invited to:

- Take note of the Report of the First Conference of Africa Ministers in charge of Hydrocarbons (oil and gas);
- Commend the African Ministers in charge of Hydrocarbons (oil and gas) for their pertinent assessment of the impact of oil price rise on African economies and for the adoption of the mechanisms and operational modalities of the African Petroleum Fund, as well as the Plan of Action;
- Adopt the Cairo Declaration of African Ministers in charge of Hydrocarbons (oil and gas);
- Request the African Union Commission to:
  - implement all the necessary measures to operationalize the African Petroleum Fund as soon as possible, including the completion of the ongoing study in collaboration with ADB, and to communicate the relevant documents to Member States;
  - Define and implement strategies for development of clean and renewable energy, especially bio-fuels as alternatives to hydrocarbons;
- Further request the Commission, in collaboration with the African Development Bank (ADB), the African Energy Commission (AFREC), the Regional Economic Communities (RECs) and the African Petroleum Producers' Association (APPA) to take all appropriate steps to implement the Plan of Action;
- Lastly, requests the Chairperson of the Commission to submit an activity report on implementation of the Plan of Action at the next meeting of the Assembly of the Union.

**EX.CL/311/(X)**  
**Annex 1**

**REPORT OF THE EXPERTS' MEETING**

AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

---

P. O. Box 3243, Addis Ababa, ETHIOPIA Tel.: (251-11) 5525849 Fax: (251-11)  
5525855

Website: [www.africa-union.org](http://www.africa-union.org)

---

**FIRST AFRICAN UNION CONFERENCE  
OF MINISTERS RESPONSIBLE FOR  
HYDROCARBONS (OIL AND GAS)  
11-15 DECEMBER 2006  
CAIRO, EGYPT**

**EX.CL/311(X)  
Annex 1  
Original: French**

**REPORT OF THE EXPERTS' MEETING**



## 1. INTRODUCTION

1. A meeting of experts was held in Cairo, Egypt, from 11 to 13 December 2006 as a preparatory session for the First Conference of the African Union Ministers Responsible for Hydrocarbons (Oil and Gas).

## II. PARTICIPATION

2. Delegates from the following thirty-three (33) African countries attended: Algeria, Bénin, Burundi, Cameroon, The Comoros, Congo, Democratic Republic of Congo, Egypt, Equatorial Guinea, Ethiopia, The Gambia, Ghana, Guinea, Kenya, Lesotho, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Namibia, Niger, Nigeria, Senegal, South Africa, The Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

3. Also taking part in the meeting were the representatives of the following continental organizations: the African Energy Commission (AFREC), the African Petroleum Producers' Association (APPA), the African Development Bank (ADB), the Common Market for East and Southern Africa (COMESA) and the NEPAD Secretariat.

## III. OPENING CEREMONY

4. After introductory remarks by the Director of the Department of Infrastructure and Energy of the African Union Commission on the theme of the Conference and the development of studies conducted jointly by the African Union and the African Development Bank, the opening ceremony was marked by statements by the Executive Secretary of the African Petroleum Producers' Association (APPA) the Under Secretary of the Ministry of Petroleum of the Arab Republic of Egypt and the Commissioner for Infrastructure and Energy at the African Union Commission addressed the meeting.

### **Statement by the Executive Secretary of the African Petroleum Producers' Association (APPA)**

5. In his statement, the Executive Secretary of the African Petroleum Producers' Association (APPA) thanked the Government and the people of Egypt for the tremendous efforts made in hosting this meeting and for the warm welcome extended to all participants in the Experts' Meeting and in preparation for this Conference.

6. It should be noted that Africa is facing the key challenge of improving the quality of life of its population through the eradication of poverty, improving governance, consolidating peace and combating the HIV/AIDS pandemic. In this regard, he pointed out that many African countries had deviated from the path and would most likely not achieve the Millennium Development Goals (MDGs). He added that this Conference provided an excellent opportunity to contribute to Africa's development process.

7. With regard to the soaring oil prices and its impact on the economies of the African countries, he emphasized that this situation should be seen as an opportunity as well as a challenge. He stressed the need for African countries to plan their strategic development programmes and chart the way forward rather than request for assistance.

8. He indicated that APPA is ready to support these organizations and institutions on an important number of issues linked to the oil sector. He once again commended the AU initiative to work closely with APPA and to mobilize the collective will to resolve the issue of the rise in oil prices.

**Speech by the Under Secretary in charge of Production of the Egyptian Petroleum Ministry**

9. In his speech the Egyptian Under Secretary in charge of Production of the Ministry of Petroleum welcomed the delegates from African Union Member States, and conveyed the greetings of the Egyptian Minister of Petroleum who was unable to attend. Furthermore, he underscored Africa's ability to overcome the difficulties arising from fluctuating oil prices through cooperation. In this regard, he stated that Egypt was ready to enter into such cooperation and provided its input. He commended the initiative taken by the African Union to choose Egypt as the host country for the First Conference of the African Ministers Responsible for Hydrocarbons.

**Speech by H.E. Dr. Bernard ZOBA, Commissioner for Infrastructure and Energy of the African Union Commission**

10. The Commissioner first underscored the importance of energy for the African continent, recalling the many meetings and conferences on energy held at the regional and continental level during this month of December 2006, and to which the African Union had been invited.

11. He briefly reviewed the priority activities in the energy sector selected by the African Union Commission within the framework of its Strategic Plan 2004-2007, namely:

- Elaboration of a policy and strategies for the development of electricity in Africa;
- Preparation of a continental oil and gas policy;
- Elaboration of a continental Master Plan for the integration of electricity infrastructures; and finally;
- Support for the implementation of major regional and continental projects in the "African Union-NEPAD" Flagship Programme such as the Nigeria – Algeria gas pipeline and the Great Inga Hydroelectric projects.

12. With regard to the issue of hydrocarbons, he emphasized the leading role of petroleum in supplying the African continent with energy and the present situation marked by the soaring prices of petroleum products, a source of major concern to African Authorities.

13. In this connection, he recalled the decision of the last Assembly of the African Union, held in Banjul, The Gambia, in July 2006, on the proposal to establish an African Petroleum Fund in the African Union to mitigate the effects of oil price hikes on African countries and to coordinate African oil and gas policies.

14. This Decision further called upon the African Union Commission to elaborate a detailed strategy for cooperation and solidarity between African petroleum producing and non producing countries with a view to:

- Reduce the impact of high oil prices on the economies of African non petroleum producing countries;
- Optimize oil revenues of African petroleum producing countries;
- Increase the quantity and improve the quality of petroleum products in Africa in order to achieve the Continent's development objectives.

15. Moreover, he stated that the African Union Commission had closely worked with the African Development Bank in the elaboration of this study on the African Petroleum Fund.

16. Finally, he expressed the hope that the Experts' Meeting would make concrete proposals and recommendations for consideration by the Ministerial Conference

#### **IV. ELECTION OF THE BUREAU**

17. After consultations and in accordance with African Union procedures, the following Bureau was elected:

Chairperson	:	Egypt
1 <sup>st</sup> Vice Chairperson:		Zimbabwe
2 <sup>nd</sup> Vice Chairperson:		Mauritius
3 <sup>rd</sup> Vice Chairperson:		Equatorial Guinea
Rapporteur	:	Senegal

#### **V. ADOPTION OF THE AGENDA AND WORK PROGRAMME**

18. The following agenda was adopted without amendments:

##### **Election of the Bureau**

##### ***Adoption of the Agenda and Work Programme***

**WORKING SESSION**

**SESSION 1 :**

1. *Guideline Document for a Continental Policy in the Field of Oil and Natural Gas* **AU/EXP/OG/2(I)**
2. *Impact of the Rise in Oil Prices on African Economies*
  - *State of the Hydrocarbons Sector (oil and gas) in Africa* **AU/EXP/OG/3(I)**
  - *Report on the Study on the Impact of the Rise in the Price of Oil on African Economics* **AU/EXP/OG/4(I)**

**SESSION 2 :**

*Prospects and Strategic Guidelines for Solidarity and Cooperation between Member States of the African Union in the Oil and Gas Sector* **AU/EXP/OG/5(I)**

**SESSION 3 :**

*Mechanisms for the African Oil Fund* **AU/EXP/OG/6(I)**

**SESSION 4 :**

*Draft Ministerial Declaration* **AU/EXP/OG/Decl.(I)**

**SESSION 5:**

*Draft Plan of Action* **AU/EXP/OG/Decl.(I)**  
*Draft Agenda and* **AU/MIN/OG/1(I)**  
*Work Programme for the Ministerial Session* **AU/MIN/OG/WP(I)**

*Adoption of the documents to be submitted to the Ministerial Session:*

- *Report of the Experts' Meeting*
- *Draft Ministerial Declaration*
- *Draft Plan of Action*
- *Draft Agenda and Work Programme of the Ministerial Session*

## **CLOSING SESSION**

### **VI. ORGANISATION OF WORK**

19. After an exchange of views, the meeting adopted the following working schedule:

**Morning: 9:00 – 13:00**  
**Afternoon: 14:00 – 18:30**

### **VII. DELIBERATIONS**

#### **SESSION 1:**

##### **Item 1: Guideline Document for a Continental Policy in the Field of Oil and Gas AU/EXP/OG/2(I)**

20. After briefly describing the mission, the objectives and the African Union strategy in the area of energy, on the one hand, and the commitments of African countries within the framework of the Abuja Treaty Establishing the African Economic Community, in its Article 54 on the joint development of the Continent's energy resources, on the other hand, the speaker reviewed the different effects of rising oil prices on the economies of oil importing and exporting countries as well as the challenges facing the latter category.

21. The speaker also mentioned the decisions of the Head of States of the African Union at the Assemblies in Sirte, Libya, in July 2005, Khartoum, The Sudan, in January 2006 and Banjul, The Gambia, in July 2006, concerning the need for solidarity and cooperation between African countries in the oil and gas sector.

22. The speaker highlighted the basic elements of the continental policy on hydrocarbons provided for in the Strategic Plan 2004-2007 would be developed. In this regard, the activities that would be carried out was part of the elaboration of this policy would focus, *inter alia*, on: (i) the status of the sector compared with other regions of the world, (ii) prospective reflection and the elaboration of scenarios on the future of the sector as well as Africa's probable future, (iii) strategies to promote intra-African exchanges in the energy sector, (iv) regional and sub-regional projects to be implemented, (v) the role that should be played by major oil companies operating in African, Regional Economic Communities, the African Development Bank, Regional Development Banks and other development partners.

23. He concluded his presentation by recalling the objectives and the expected outcome of the Conference, which focus mainly on the adoption of the mechanisms and operational modalities of the African Petroleum Fund, the practical strategies to optimize the revenues of producing countries and a Plan of Action for the implementation of strategies for concrete cooperation and solidarity in the short and medium term, between African countries in the area of hydrocarbons.

**Item 2: Impact of the Rise in Oil Prices on African Economies**

**I. Status of the hydrocarbons sector (oil and gas) in Africa - AU/EXP/0G/3(I)**

A. Overview of the status of hydrocarbons (oil and gas) in Africa

24. Having outlined the situation of the sector, problems in Africa and the general strategy to address them, the presenter concluded by making the following recommendations:

- Regional and continental integration of energy projects, which would also lead to the diversification of energy sources;
- Consideration of all the possible energy options so as to achieve energy security;
- Develop, in the medium and long term, the African energy market, including the regional integration of the oil and gas sectors, as well as electricity systems.

B. AFREC Biofuels Project

25. The main objective of this project is to support and broaden diversification of energy sources and forms with a view to reducing demand for fossil fuels (oil and gas) and consequently, the high bills for imported petroleum products.

26. In this regard, the presentation highlighted, among other things, the following:

- the need for a biofuel industry in Africa ;
- the specific objectives of the Project;
- the different types of biofuels;
- the Plan of Action;
- the conclusions and recommendations

27. The main recommendation was that with high oil prices, African countries should develop appropriate policies in the energy sector to reduce the negative impact on their economies. In this respect, the most appropriate policy would be the development of new and renewable energy sources, which are abundant and diversified in Africa. He emphasized that with regard to oil, biofuels seem to be the best choice.

C. African Refinery Sector: Policies and Strategies to Achieve Optimum Utilization

28. Having pointed out the prospects in the refinery sector in Africa, the related problems and the need to adopt a medium and long term policy and strategies, proposals were made for the emergence of an efficient African refinery industry focusing, *inter alia*, on the following activities:

- a. Encourage policies aiming at jointly establishing and exploiting refineries at regional and sub-regional levels;
- b. Prevail on major African oil companies to work towards the construction, ownership and management of these refineries;
- c. Support the newly established African Refiners Association (ARA) in carrying out activities to increase the production and output of refineries;
- d. Promote policies to harmonize the characteristics and standards of petroleum products in Africa as a whole;
- e. Support the opportunities for improvement of the modalities and conditions of supplying African landlocked countries with petroleum products.

D. The Need for a Unified Organizational Structure

29. The speaker proposed the establishment of a single continental organization bringing together African Petroleum Producing and Importing Countries. However due to limited time, participants were unable to exchange views on the AFREC proposal.

**II. Report on the Study on the Impact of the Rise in the Price of Oil on African Economies - AU/EXP/OG/4(1)**

30. The study is an in-depth analysis of the main budgetary and macroeconomic impacts of the spiraling oil prices on African economies.

31. According to the study, the price of crude oil rose from less than U\$40 a barrel in 2004 to US\$70.85 a barrel in August 2005. After a slight fall in December 2005, the oil price resumed its upward trend at the beginning of 2006 and even approached the \$80 mark when it rose to a record high of \$78.40 a barrel on 14 July 2006. According to experts in the sector, oil prices were not expected to return to pre-2004 levels.

32. The high oil prices provided a unique opportunity for petroleum producing countries to improve their high economic growth rates. Furthermore, if the high oil prices continue, these countries could considerably improve the living standards of their people.

33. On the other hand, the high oil price was a major challenge for petroleum importing countries, especially poor African countries, because it could slow down or undermine their economic progress and lead to even tighter financial constraints. Indeed, the impact of high oil prices could be very harmful for countries that are excessively dependent on oil and/or are highly indebted. This is the prevailing situation in many African economies.

34. The study revealed that the full impact of an oil price hike for low income petroleum importing countries with fixed exchange rates, meant a 6% loss in GDP during the first year and 23% over a 5-year period after the crisis. The corresponding figures are 5% and 22% for a low-income petroleum importing country with a controlled float exchange rate system.

35. As for low-income petroleum exporting countries with a controlled float, their revenues increased by 11% for the first year and 72% for a five-year period after the crisis.

36. Consequently, the gains for petroleum exporting countries were enormous while petroleum importing countries suffered a considerable loss due to the fact that oil prices had doubled.

37. In fact, loss in output in importing countries was approximately 6% during the first year, while accrued loss was 23.5% during the five years following the crisis. With regard to consumption, there was a 4.5% fall in the first year and approximately 19% during the five years following the crisis. Finally, the study revealed a dramatic deterioration of the budget deficit amounting to 30% in the first year and 45% five years after the crisis.

38. On the other hand, exporting countries recorded a 174% reduction in their budget deficit and another 73% reduction in their foreign debt during the first year.

39. The study attempted to answer the following two questions: Can foreign aid help African petroleum importing countries to deal with high oil prices? Were the amounts required prohibitive?

40. In conclusion, it appeared that the total debt was clearly not prohibitive, implying that there was more work to be done by the international community to assist heavily indebted African economies to lessen the negative impact of the rise in oil prices.

41. The study finally revealed that for the average income exporting country, the accrued five-year revenue increase linked to the oil price that doubled, exceeded 70%, regardless of the country's exchange rate system.

42. This "manna" however is accompanied by a marked appreciation of the real exchange rate, which could be an obstacle to the competitiveness of the country. It is therefore important that the revenues should be spent in a way that would promote growth and not on badly planned projects that have limited positive effects on the economy of the country.

## **SESSION 2: Prospects and Strategic Guidelines for Solidarity and Cooperation between African Union Member States in the Oil and Gas Sectors - AU/EXP/OG/5(I)**

43. Following observations on the status of the hydrocarbons (oil and gas) sectors in Africa, focusing on production, consumption, reserves, markets, infrastructure, investment, etc., the paper considered three major issues.

- Oil Supply and demand prospects in Africa;
- Problems and challenges to be addressed in order to achieve the dual objectives of access to energy for all and the sustainability of oil and gas wealth in Africa;
- Plan of Action for a sustainable future in oil and gas in Africa.



**A. Oil Supply and Demand Prospects**

44. Supply forecasts were less accurate than demand forecasts due to greater uncertainty with regard to geology than with regard to the human factor. However, if we are to make policy recommendations, we need to make forecasts that indicate essentially projections concerning the future.

45. Experts felt that there would be no drastic change in the conditions of the oil market compared with what occurred during the last decade. In other words, oil prices will be sufficiently high to attract investors to develop petroleum resources in Africa.

46. Supply forecasts show a twofold increase in production, reaching nearly 20 million barrels a day in 2025, compared with 9.8 million in 2005. Oil consumption will more than double the demand in 2005, rising from 2.8 million barrels a day to 6.3 million. From these forecasts, it is clear that the balance between supply and demand in 20 years time will remain positive.

**B. Political challenges and problems to be addressed for access to energy and sustainable oil and gas wealth in Africa**

47. The major challenges relate to: (i) the economic impact of the higher oil and gas prices resulting in decreased economic growth, macroeconomic imbalances, inflation and diminished well-being of households owing to decline in real income, etc, (ii) the development of upstream and downstream petroleum resources with a view, on the one hand, to increasing production and investment capacity, and on the other hand, refining, storage and distribution capacity, as well as quantity and quality, (iii) the development of gas resources, considering that its present infrastructure is virtually non-existent in most African countries, (iv) the production of electricity from gas which is one of the best energy sources of the future, (v) energy security, (vi) the gap between national and regional oil market prices, (vii) energy as the main element for economic and political integration at regional and continental levels, as well as (viii) transparent and efficient management of substantial oil income for growth and development.

**C. Plan of Action for the Sustainable Future of the Oil and Gas Sector in Africa**

48. Important elements of a Plan of Action based on short and medium term measures were outlined focusing mainly on the following:

- Establishment of appropriate institutional infrastructure;
- Establishment of a quick disbursement fund;
- Promotion of the use of financial market instruments through momentary and futures markets;
- Promotion of mechanisms to reduce the impact of prices;
- Reorganization of production policies and practices;

- Support for improved governance in the hydrocarbons sector.

49. In conclusion, Africa is faced with immense multifaceted challenges to be overcome in order for its population to have access to energy at affordable prices, and the sustainability of oil and gas wealth. Success or failure essentially depends on the political will of the leadership to overcome the economic and political marginalization which characterized Africa in the past. The African Union and the African Development Bank have complementary strategic roles to play to ensure that the future of energy and development in Africa is a success.

50. At the end of the presentation of the documents for Sessions 1 and 2, participants made their comments and voiced their concerns mainly about the following aspects:

- The integration of energy infrastructure;
- Lack of financial resources to implement major projects in the hydrocarbons sector;
- The assumption that petroleum producing countries in Africa were automatically rich, whereas they are facing major challenges;
- The feasibility of African cooperation and solidarity in the area of oil and gas, which are highly strategic products, in the present context of globalization, and where this initiative could be described as a violation of the regulations of the World Trade Organization (WTO);
- The importance that should be given to alternative energy sources, such as renewable energy which is abundant and diversified on the African continent;
- The promotion of biofuels taking into account the serious problem of food security in Africa;
- The low rate of intra-African trade in petroleum products;
- Actions to be taken immediately to reduce the impact of price hikes on poor economies;
- The plans of action proposed by the presenter, some elements of which were worth including.

51. After discussions on the above-mentioned issues, the following conclusions and recommendations were made:

**Concerning the integration of infrastructure and energy resources (investment):**

- Regional and sub-regional projects for group transport, storage, distribution and supply should be implemented in order to benefit from economies of scale and the establishment of an energy market;
- Financial and human resources should be pooled in order to implement projects in different segments of the sector, considering the high investment costs that an individual African country, although a petroleum producer, cannot implement (refineries, oil and gas pipelines, etc.);

- Inter-African (regional and sub-regional) trade should be increased in all possible areas.

**Concerning African cooperation in the area of oil and gas, with regard to WTO regulations:**

- Regional and sub-regional solutions should be envisaged following the example of other regions of the world, which is one of the best ways to take up the challenges of globalization;
- Countries with stronger economies should stimulate others in each Regional Economic Community in order to achieve effective integration.

**Concerning the development of alternative energy sources:**

- Priority should be given to renewable and pollution-free energies such as hydroelectricity, wind, solar and geothermal energy as well as biofuels;
- Diversification of sources and forms of energy to increase access to medium-term energy security by reducing the role of petroleum in the energy balance;
- Energy supply and demand should be better identified, quantified and planned.

**With regard to the Plan of Action proposed by the speaker:**

52. It was recommended that the proposed report be completed by indicating the institutions and stakeholders who should carry out the activities provided for in the report.

**SESSION 3: Mechanisms of the African Petroleum Fund - AU/EXP/OG/6(I)**

53. The Consultant presented the main points of the project, drawing their attention to particularly to (i) the provisions relating to the different modalities for the management of the Fund, (ii) the composition of the proposed structures, namely, the General Council, the Monitoring Council and the Technical Committee, (iii) areas of intervention, (iv) the structure of Fund's resources and the factors and, (v) the criteria for allocation of the resources of the Fund:

- **Modalities for the management of the Fund:** the speaker focused on 3 plausible scenarios for administration. He highlighted the advantages and possible disadvantages of each option. The option of a Fund operating as an independent unit would involve rather high structural costs. The option that of a Fund placed in a financial institution was also proposed. Finally, he indicated his preference for the third approach which consists in the administration and management of the Fund being entrusted to a third party, with recognized competence in the area as this would lead to considerable savings in operational costs.

- **Composition of the General Council:** This organ consists of the representatives of all potential contributors to the Fund namely: the ministers representing AU Member States, regional institutions, development partners, OPEC and oil companies operating in Africa. The General Council also includes a category of observers. The Consultant therefore invited the experts to consider the proposed composition of the Council, and point out any implications on the Fund resource base.
- **Areas of intervention:** The project differentiates between the main objective of the Fund and other possible areas for additional intervention. The Fund will mainly provide assistance to low-income net petroleum importing countries with a view to reducing the effects of price hikes on their balance of payments. The Fund could always provide other services such as support to regional initiatives, technical assistance for the negotiation of petroleum agreements, the management of petroleum revenues, the establishment of data on joint financing of petroleum projects at regional and sub-regional levels. With regard to this last point, the speaker pointed out that the intervention of the Fund in this area should be limited to high cost projects.
- **Fund resources:** these will consist of compulsory annual contributions from all the Member States of the African Union. While underscoring the relevance of the theory that in this regard priority should be given to petroleum exporting countries, he pointed out that the primary concern was for the sustainability of the Fund and the need for African countries to take ownership of the Fund, all of which would justify the fact that importing countries should also contribute to the Fund.

He then explained that the project proposed that the effective launching of the Fund would be subject to the mobilization of contributions to the tune of at least US\$100.000.000. He however speculated whether this amount was inadequate and whether it would not be appropriate to increase it slightly.

- **Financial instruments for assistance:** The Fund could give concessional grants or assistance, or could use these two instruments simultaneously. No grant should exceed the sum of 2 millions dollars.
- **Criteria for allocation:** As regards this point, the amount that can be allocated to each State will be determined based on three factors with different weightings: a factor that reflects the burden of the country owing to high oil prices and their effects on the balance of payments, a factor based on good governance, and a last factor that takes into consideration the geographical situation of a landlocked country.
- Finally, the project proposed that the initial duration of the Fund should be 20 years.

54. Following the presentation, participants expressed some concerns over:

- The structure of the organs of the Fund, particularly the poor representation of AU Member States and the criteria for eligibility for loans or grants;
- The need to choose efficient and pragmatic modalities of administration right from the beginning, including that consisting of hosting the Fund in a third institution such as the African Development Bank;
- The dynamism to be given to the Fund with a view to taking into account the event of a fall in oil revenues and its impact on petroleum producing countries;
- The need to limit grants and rather, encourage concessional loans;
- The search for solutions to make the Fund attractive to different categories of contributors;
- To need to make the Fund sustainable through strengthening the African energy system, improving the storage and distribution capacities of African countries, as well as developing other alternative energy sources;
- The need to plan for the post-oil era in Africa;
- The absence of some major African producers at this Cairo meeting, namely, Angola, Nigeria, etc;
- The need to define subsequent steps for the establishment of the Fund (assessment of needs, of the minimum amount needed to start up and the capacities to mobilize the resources of different creditors).

55. After exchanging views on these concerns, the following recommendations were made:

**Concerning the structure and management of the Fund:**

- Ensure good governance, limit grants and give priority to loans to be made under concessional conditions;
- Increase the representativeness of AU Member States, give priority to their participation in establishing the Fund and require that only Member States contributing to it be eligible for assistance;
- The issue of the presence of net oil importing countries in the General Council should be considered;
- Facilitate and accelerate the implementation and launching of the Fund's activities by entrusting its management to existing competent institutions in this area such as the ADB.

**Concerning the objectives of the Fund:**

- Consider the possibilities of the Fund's interventions with a view to assisting non-producing countries in the event of a rise in oil prices and producing countries to ease crisis due to a drastic drop in oil prices;
- Apart from the immediate assistance to curb the impact of price increase, the following should be studied and implemented in the medium and long terms: the revitalization and strengthening of the African energy system in order to make it sustainable (reorganization and strengthening of the storage and distribution system; increasing production capacities or the rehabilitation of refineries, and developing and popularizing other alternative energy sources as substitutes for oil and gas).

**Concerning the mobilization of resources by the Fund:**

- Initiate initial contacts with a view to increasing the awareness and interest of institutions that could contribute to the Fund;
- Consider the ways and means of making the Fund attractive to net or non-net importers from AU Members States, to oil producers and to non-producing countries that were not affected by the impact of the rise in oil prices;
- Sensitize African petroleum producing countries that did not attend the Cairo Conference about the initiative for the establishment of the Fund.

**Concerning the planning for the implementation of the Fund:**

- Identify short, medium and long term activities;
- Promote activities based on an objective but ambitious calendar defining all activities resulting from the Cairo resolutions;
- Set a date for an evaluation of these activities

56. The Arab Republic of Egypt proposed to assist the African Union Commission in activities in the area of hydrocarbons, including the implementation of the Plan of Action adopted by the Conference.

57. The experts welcomed this initiative and requested the two parties to consider and finalize and modalities for its implementation.

**SESSION 4: Draft Plan of Action – AU/EXP/OG/PI.Ac(I)**

58. The experts considered, amended and adopted the annexed Plan of Action.

**SESSION 5: Draft Ministerial Declaration, Agenda and Work Programme of the Ministerial Session**

59. The experts examined, amended and adopted the annexed draft Declaration.

60. They then adopted the Draft Agenda and Work programme proposed for the Ministerial Session.

**VII. CLOSING CEREMONY**

61. The closing ceremony was chaired by the Under Secretary of the Ministry of Petroleum of the Arab Republic of Egypt, who thanked the experts and the participants for the fruitful deliberations.

**EX.CL/311 (X)**  
**Annex 2**

**CAIRO DECLARATION ON AFRICAN COOPERATION  
AND SOLIDARITY IN THE AREA OF HYDROCARBONS**



AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

---

P. O. Box 3243, Addis Ababa, ETHIOPIA Tel.: (251-11) 5525849 Fax: (251-11) 5525855

Website: [www.africa-union.org](http://www.africa-union.org)

---

**FIRST AFRICAN UNION CONFERENCE  
OF MINISTERS RESPONSIBLE FOR  
HYDROCARBONS (OIL AND GAS)  
11-14 DECEMBER 2006  
CAIRO, EGYPT**

**EX.CL/311 (X)  
Annex 2  
Original: French**

**CAIRO DECLARATION ON AFRICAN COOPERATION  
AND SOLIDARITY IN THE AREA OF HYDROCARBONS**

**CAIRO DECLARATION ON AFRICAN COOPERATION AND SOLIDARITY IN THE  
FIELD OF HYDROCARBONS  
CAIRO, EGYPT, 14 DECEMBER 2006**

We, the African Ministers Responsible for Hydrocarbons (oil and gas) meeting in Cairo, Egypt on 14 December 2006, on the occasion of the First Conference organized by the African Union;

1. **Considering** the Constitutive Act of the African Union adopted in Lomé on 11 July 2000, particularly Articles 13, 14 and 15, which state that the Executive Council of the African Union shall coordinate policies in areas of common interest, particularly energy, industry and mineral resources, in view of their special importance for the development of Africa;
2. **Considering** the Decision of the Assembly of the African Union, held in Khartoum, The Sudan, in January 2006, which was backed by the Decision of the Assembly held in Banjul, The Gambia in July 2006, on the establishment in the African Union of an African Petroleum Fund to compensate for the effects of increased oil prices on the economies of African countries;
3. **Noting** the rise in the prices of oil and its by products on the international market, which reached unprecedented levels in duration and magnitude, and their negative impact on the economies of non-petroleum producing African countries;
4. **Taking into account** the different initiatives taken by African countries and the need to ensure sustainable development of the African continent;
5. **Having considered** the Report of the Meeting Experts of Member States of the African Union held in Cairo, Egypt, from 11 to 13 December 2006,
6. **Recognize** the need to strengthen African cooperation and solidarity in the petroleum sector;
7. **Further recognize** the need to maximize oil revenues, adopt and respect the principles of good governance in the management of these revenues with a view to ensuring the sustainable development of the Continent;
8. **Further recognize** the need to increase the quantity and improve the quality of petroleum products in Africa in order to achieve the development objectives of the Continent;
8. **Finally recognize** the need and urgency for African countries to develop and strengthen national, sub-regional and regional strategies for the development of a sustainable energy supply;
9. **Request** the African Union Commission to implement all the necessary measures for the operationalization of the African Petroleum Fund as soon as

possible, including the completion of the ongoing study and to communicate the relevant documents to Member States;

**10. Decide** that the management of the resources of the African Petroleum Fund should be entrusted to the African Development Bank;

**11. Request** the African Union Commission to endeavor to promote cooperation among the oil companies operating on the Continent in upstream and downstream activities with a view to exchanging experiences for better control of the sector;

**12. Urge** the African Union Commission to define a strategy to strengthen the capacities of African countries in the elaboration and negotiation of oil contracts as well as the monitoring of the activities of oil companies operating in Africa with a view to increasing the revenues of African oil producing countries;

**13. We commit ourselves to work towards:**

- Establishing regional group storage facilities to improve the storage and distribution of oil products in the non-oil producing countries, particularly landlocked countries;
- Promoting integrating regional gas and oil pipelines and refinery projects, as well as the joint exploration and utilization of cross-border oil deposits and ensure that priority is given to the projects by our respective governments;
- Collaborating with the Conference of Ministers responsible for Environment (AMCEN) with a view to promoting the joint exploration and development of oil and natural gas resources while endeavouring to reduce their impact on the environment, and also with the Ministers of Trade on aspects relating to taxes on petroleum products;

**14. Propose** to establish the Conference of African Ministers responsible for Hydrocarbons as the central continental body coordinating policies and strategies in the hydrocarbons sector under the aegis of the African Union Commission;

**15. Invite** the African Union Commission to elaborate a continental development policy for the hydrocarbon sector in order to rationalize the medium and long term utilization of resources for a lasting oil security as an element of an African energy security policy;

**16. Request** the African Union Commission to define and implement strategies for the development of clean and renewable energies, particularly hydrocarbons;

**17. Further request** the African Union Commission to establish an appropriate framework to study and resolve hydrocarbon related ecological problems in Africa, particularly marine pollution and other types of pollution.

**18. Encourage:**

- a. Each Regional Economic Community (REC) to formulate a common development policy for the hydrocarbon sector;
- b. The African Energy Commission (AFREC) to operationalize, as soon as possible, the data bank on the oil sector with a view to assisting in the formulation of policies and decision-making;

**19. Adopt** the Plan of Action annexed to this Declaration and invite the African Union Commission to take appropriate measures, with all concerned parties, to implement as soon as possible, the activities mentioned therein;

**19. Welcome** the offer made by the Arab Republic of Egypt to establish in Cairo, in the Ministry in charge of Petroleum, a Liaison Office in order to assist the African Union Commission and Member States, without any financial implications, in activities relating to the hydrocarbons sector, including the implementation of the Plan of Action that we recently adopted;

**20. Request,** to this end, the African Union Commission to work out, in collaboration with the Arab Republic of Egypt, the modalities for the effectuation of this offer.

**Done and adopted in Cairo, this 14<sup>th</sup> day of December 2006**

**EX.CL/311(X)**  
**Annex 3**

**PLAN OF ACTION**

AFRICAN UNION

الاتحاد الأفريقي



UNION AFRICAINE

UNIÃO AFRICANA

---

P. O. Box 3243, Addis Ababa, ETHIOPIA Tel.: (251-11) 5525849 Fax: (251-11)  
5525855

Website: [www.africa-union.org](http://www.africa-union.org)

---

**FIRST AFRICAN UNION CONFERENCE  
OF MINISTERS RESPONSIBLE FOR  
HYDROCARBONS (OIL AND GAS)  
11-14 DECEMBER 2006  
CAIRO, EGYPT**

**EX.CL/311(X)  
Annex 3  
Original: French**

**PLAN OF ACTION**



No	ACTION	Tasks	Sources of verification	Structures responsible and involved	Period
<b>A</b>	<b>MEASURES TO REDUCE THE EFFECTS OF HIGH OIL PRICES</b>				
	<ul style="list-style-type: none"> <li>• Construction of group storage facilities</li> <li>• Gas pipelines / Oil pipelines</li> <li>• Refineries (Rehabilitation / Upgrading of existing refineries and construction of new regional refineries)</li> <li>• Exploration and exploitation of cross-border oil deposits</li> </ul>	<ul style="list-style-type: none"> <li>establishing implementation priorities</li> <li>• Establishing implementation modalities</li> <li>• Accelerating the implementation of projects already identified</li> <li>• Mobilizing funds</li> <li>• Establishing cooperation strategies</li> </ul>	<ul style="list-style-type: none"> <li>studies</li> <li>• Source of funds identified</li> </ul>	<p>ECA, RECs States, APPA, AFREC</p>	



No	Action	Tasks	Sources of verification	Structures responsible and involved	Period
<b>B.</b>	<b>OPTIMIZATION OF OIL REVENUE OF PRODUCING COUNTRIES</b>				
B.1	Strengthening capacities to elaborate and negotiate contracts for the monitoring and control of oil exploration and exploitation	<ul style="list-style-type: none"> <li>• Training, seminar</li> <li>• Technical Assistance</li> <li>• Exchange of experiences</li> </ul>	Reports, Assessments, Workshops, Seminars organized	States RECs, AUC, ADB, AFREC, APPA	2007-2009
B.2	Strengthening cooperation between African Countries	<ul style="list-style-type: none"> <li>• Training, Seminar</li> <li>• Assistance</li> <li>• Exchange of experiences</li> </ul>	Reports, Assessments, Workshops, Seminars organized	APPA, States AUC	Permanent action
B.3	Promoting research and oil exploration	<ul style="list-style-type: none"> <li>• Organization of meetings with oil companies</li> <li>• Marketing and promotion of petroleum blocs</li> </ul>	<ul style="list-style-type: none"> <li>• Meetings held</li> <li>• New contracts signed</li> </ul>	States, APPA	2007 - 2009

No	Action	Tasks	Sources of verification	Structures responsible and involved	Period
<b>C.</b>	<b>INCREASING THE QUANTITY AND IMPROVING THE QUALITY OF OIL PRODUCTS</b>				
C.1	Drawing up a Continental Policy on Energy Security	<ul style="list-style-type: none"> <li>• Studies</li> <li>• Validation workshops</li> </ul>	<ul style="list-style-type: none"> <li>• Reports</li> </ul>	AUC RECs States	2007-2008
C.2	Rehabilitation and extension of existing refineries and construction of new regional refineries	<ul style="list-style-type: none"> <li>• Stock taking and assessment of financial needs</li> <li>• Carrying out extension studies</li> <li>• Mobilization of funds</li> <li>• Work carried out</li> </ul>	<ul style="list-style-type: none"> <li>• Reports</li> </ul>	States, APPA, ARA, RECs, AUC	2007-2009
C.3	Construction of group storage facilities and improvement of the oil products distribution system	<ul style="list-style-type: none"> <li>• Studies and stock taking</li> <li>• Search for funds</li> <li>• Work carried out</li> </ul>	<ul style="list-style-type: none"> <li>• Infrastructure built</li> <li>• Improved supply system</li> </ul>	RECs, AUC	2007-2010

No	ACTION	Tasks	Sources of verification	Structures responsible and involved	Period
<b>D.</b>	<b>OTHER ACTIVITIES</b>				
D.1	Establishment of the Conference of African Ministers responsible for Hydrocarbons	<ul style="list-style-type: none"> <li>• Operating structures</li> <li>• Rules of Procedure</li> </ul>	<ul style="list-style-type: none"> <li>• Structure and Rules of Procedure elaborated</li> </ul>	AUC, Bureau of the Conference	2007
D.2	Elaboration of Memoranda of Understanding with the African Ministerial Conference on the Environment (AMCEN) on the utilization and development of petroleum resources, while attempting to reduce their impact on the environment, as well as with the Ministers of Trade on aspects relating to the price of petroleum products	<ul style="list-style-type: none"> <li>• Meetings of Ministers responsible for Hydrocarbons and Ministers of Environment and of Trade</li> </ul>	<ul style="list-style-type: none"> <li>• Memoranda signed</li> <li>• Meetings organized</li> </ul>	AUC, Bureau of the Conference, AMCEN, Ministers of Trade	2007
D.3	Elaboration of a continental policy for the development of the hydrocarbons sector	<ul style="list-style-type: none"> <li>• Studies at regional and continental levels</li> <li>• Validation workshops</li> </ul>	<ul style="list-style-type: none"> <li>• Study report</li> <li>• Continental and regional policy and strategies validated</li> </ul>	AUC RECs ADB APPA	2007-2008
D.4	Assistance in the establishment of a data bank	<ul style="list-style-type: none"> <li>• Data collection</li> </ul>	<ul style="list-style-type: none"> <li>• Report</li> </ul>	AFREC AUC	2007-2008

No	ACTION	Tasks	Sources of verification	Structures responsible and involved	Period
	for the hydrocarbons sector	<ul style="list-style-type: none"> <li>• Establishment of a data management system</li> <li>• Dissemination</li> </ul>		APPA States	
D.5	Elaboration of a policy and strategies for the development of renewable energy, particularly bio-fuels	<ul style="list-style-type: none"> <li>• Studies</li> <li>• Dissemination Workshop</li> <li>• Cooperation</li> </ul>	<ul style="list-style-type: none"> <li>• Plan of Action elaborated and Strategy adopted</li> </ul>	AFREC AUC RECs States	2007-2010

**EX.CL/311 (X)**  
**Annex 4**

**REPORT OF THE CONFERENCE OF MINISTERS RESPONSIBLE FOR  
HYDROCARBONS (OIL AND GAS)  
(14 December 2006)**

AFRICAN UNION  
الاتحاد الأفريقي



UNION AFRICAINE  
UNIÃO AFRICANA

---

Addis Ababa, ETHIOPIA P. O. Box 3243 Telephone +251115- 517700 Fax : +251115- 517844  
Website : [www.africa-union.org](http://www.africa-union.org)

---

**FIRST AFRICAN UNION CONFERENCE  
OF MINISTERS RESPONSIBLE FOR  
HYDROCARBONS (OIL & GAS)  
11-14 December, 2006  
Cairo, Egypt**

**EX.CL/311 (X)  
Annex 4**

**REPORT OF THE CONFERENCE OF MINISTERS RESPONSIBLE FOR  
HYDROCARBONS (OIL AND GAS)  
(14 December 2006)**

**REPORT OF THE CONFERENCE OF MINISTERS RESPONSIBLE FOR  
HYDROCARBONS (OIL AND GAS)  
(14 December 2006)**

**1. INTRODUCTION**

1. The issue of soaring oil prices was a source of major concern at the Assemblies of the African Union held in Khartoum, The Sudan in January 2006, and Banjul, The Gambia in July 2006.

2. Indeed, at the Seventh Assembly in Banjul, The Gambia, in July 2006, the Heads of State and Government adopted the Decision (Doc.Assembly/AU/3(VII)) to establish, within the African Union, an African Petroleum Fund to alleviate the impact of the increase in oil prices on poor African States and ensure the coordination of African oil policies. This Decision also requested the African Union Commission to elaborate a detailed strategy for cooperation and solidarity between oil producing and non-oil producing African countries.

3. As part of the implementation of this decision, the First Conference of African Union Ministers Responsible for Hydrocarbons (oil and gas) was held in Cairo, Egypt, on 14 December 2006, preceded by a Meeting of Experts from Member States, from 11 to 13 December 2006.

4. This Conference provided an opportunity for the Ministers to consider and analyse the results of the studies on "The Impact of High Oil and Natural Gas Prices on African Economies" and "The Mechanism for the Establishment and Operationalization of the African Petroleum Fund", which the African Union Commission had carried out jointly with the African Development Bank.

**IV. ATTENDANCE**

5. Delegates from the following thirty-three (33) Member States attended: Algeria, Bénin, Burundi, Cameroon, The Comoros, Congo, Democratic Republic of Congo, Egypt, Equatorial Guinea, Ethiopia, The Gambia, Ghana, Guinea, Kenya, Lesotho, Libya, Madagascar, Malawi, Mali, Mauritania, Mauritius, Namibia, Niger, Nigeria, Senegal, South Africa, The Sudan, Tanzania, Togo, Tunisia, Uganda, Zambia and Zimbabwe.

6. Also taking part in the meeting were the representatives of the following continental organizations: the African Energy Commission (AFREC), the African Petroleum Producers' Association (APPA), the African Development Bank (ADB), the Common Market for East and Southern Africa (COMESA) and the NEPAD Secretariat.

**V. OPENING CEREMONY**

7. The opening ceremony was marked by the statement by and the Commissioner for Infrastructure and Energy at the African Union Commission and the opening address by the Petroleum Minister of the Arab Republic of Egypt.

**Statement by Dr. Bernard ZOBA, Commissioner for Infrastructure and Energy of the African Union Commission**

8. Having thanked the Egyptian Authorities for the arrangements made to ensure the smooth conduct of the Conference, the Commissioner reviewed the activities provided for by the 1980 Lagos Plan of Action with regard to energy in general and hydrocarbons in particular, namely, the need for: “a solution to be found quickly to the problem of the supply of hydrocarbons, so that the existence of the most disadvantaged African countries as sovereign States is not threatened”.

9. In this regard, he invited the Ministers responsible for Hydrocarbons to reflect and place common African interests above legitimate national interests, in order to take the necessary decisions for promoting cooperation and solidarity between petroleum producing and non-producing countries.

10. He recalled the Decision of the last Assembly of the Union held in Banjul, The Gambia in July 2006, on the establishment, within the African Union, of an African Petroleum Fund, to alleviate the harmful effects of the increase in oil prices on African States, and the coordination of African oil and gas policies.

11. He concluded by reassuring the Conference that the African Union Commission would spare no effort to implement the Plan of Action to be adopted by the Cairo Conference, the conclusions of which would be submitted to the 8<sup>th</sup> Assembly of the Union scheduled to hold in Addis Ababa, in January 2007.

**Opening Address by the Minister of Petroleum of the Arab Republic of Egypt**

12. After a few remarks welcoming participants and extending warm greetings, the Minister underscored the importance of the Cairo Conference, which was being held at a time when the prices of oil and some raw materials prices were at an all time high, and their impact on the development plans of African countries, hence the need for African cooperation and solidarity.

13. He then outlined the framework of this Conference, which should analyse the challenges facing Africa with regard to high oil prices, lack of infrastructure and capacity for the production, refining, transportation, storage and distribution of petroleum products, as well as the rationalization of energy resources in the African continent.

14. In conclusion, he proposed the establishment of a “Coordination Committee” to channel efforts in the energy sector and for a “Common Vision” with a view to achieving energy security in the African continent similar to what obtains in other regions of the world.

**VI. PROCEDURAL MATTERS**



15. After consultations and in accordance with African Union procedures and practices, the following Bureau was elected:

Chairperson	:	Egypt
1 <sup>st</sup> Vice Chairperson:		Zimbabwe
2 <sup>nd</sup> Vice Chairperson:		Mauritius
3 <sup>rd</sup> Vice Chairperson:		Equatorial Guinea
Rapporteur	:	Senegal

16. The following draft Agenda and Work Programme were considered and adopted:

**i. Procedural Matters**

- Election of the Bureau
- Adoption of the Agenda and Work Programme

**ii. Working Session**

- Consideration of the Report of the Experts Meeting
- Consideration and adoption of the Ministerial Declaration
- Consideration and adoption of the Plan of Action
- Any Other Business

**iii. Closing Ceremony**

**V. ORGANIZATION OF WORK**

17. Following an exchange of views, the meeting adopted the following working schedule:

**Morning: 9:00 – 13:30**  
**Afternoon: 15:30 – 19:00**

**VI. CONSIDERATION OF THE REPORT OF THE EXPERTS' MEETING**

18. Following the presentation of the Report of the Experts' Meeting by the General Rapporteur of the Bureau of the Conference, the Ministers expressed their satisfaction at the quality of work accomplished by the experts.

19. They considered all the points in the Report of the Experts' Meeting. At the end of the discussions, the Ministers expressed their concerns and made contributions to improve some points of the report.

20. The comments and main conclusions resulting from the discussions of the Ministers could be summarized as follows:

**A. Study of the Impact of the Rise in Oil Prices on African Economies**

21. The study provided an in-depth analysis of the main budgetary and macroeconomic impacts of the staggering increase in oil prices on African economies.

22. According to the study, the price of crude oil rose from less than US\$40 a barrel in 2004 to US\$70.85 a barrel in August 2005. After a slight fall in December 2005, the oil price resumed its upward trend at the beginning of 2006 and even approached the \$80 mark when it rose to a record high of \$78.40 a barrel on 14 July 2006. According to experts in the sector, oil prices were not expected to return to pre-2004 levels.

23. The increase in oil prices provided a unique opportunity for petroleum producing countries to improve their high economic growth rates. Furthermore, if the high oil prices continue, these countries could improve the living standards of their people considerably.

24. On the other hand, the high oil prices were a major challenge for petroleum importing countries, particularly poor African countries, because it could slow down or undermine their economic progress and lead to even tighter financial constraints. Indeed, the impact of high oil prices could be very harmful for countries that are excessively dependent on oil and/or are highly indebted. This is the prevailing situation in many African economies.

25. The study showed that the full impact of an oil price hike for low income petroleum importing countries with fixed exchange rates, meant a 6% loss in GDP during the first year and 23% over a 5-year period after the crisis. The corresponding figures are 5% and 22% for a low-income petroleum importing country with a controlled float exchange rate system.

26. As for low-income petroleum exporting countries with a controlled float, their revenues increased by 11% for the first year and 72% for a five-year period following the crisis.

27. Consequently, the gains for petroleum exporting countries were enormous while petroleum importing countries suffered a considerable loss due to the fact that oil prices had doubled.

28. In fact, loss in output in importing countries was approximately 6% during the first year, while accrued loss was 23.5% during the five years following the crisis. With regard to consumption, there was a 4.5% fall in the first year and approximately 19% during the five years following the crisis. Finally, the study revealed a dramatic deterioration of the budget deficit amounting to 30% in the first year and 45% five years after the crisis.

29. However, exporting countries recorded a 174% reduction in their budget deficit and another 73% reduction in their foreign debt during the first year.

30. The study attempted to answer the following two questions: Can foreign aid help African petroleum importing countries to cope with high oil prices? Were the amounts required prohibitive?

31. In conclusion, it emerged that the total debt was clearly not prohibitive, implying that there was more work to be done by the international community to assist heavily indebted African economies to ease the negative impact of the increase in oil prices.

32. The study finally showed that for the average income exporting country, the accrued five-year revenue increase linked to the oil price that doubled, exceeded 70%, regardless of the country's exchange rate system.

33. This "manna" however is accompanied by a marked appreciation of the real exchange rate, which could be an obstacle to the competitiveness of the country. It is therefore important that the revenues should be spent in a way that would promote growth and not on badly planned projects that have limited positive effects on the economy of the country.

#### **B. Prospects and Strategic Guidelines for Cooperation and Solidarity between African Union Member States in the Oil and Gas Sectors**

34. Following observations on the status of the hydrocarbons (oil and gas) sector in Africa, focusing on production, consumption, reserves, markets, infrastructure, investment, etc., the paper considered three major issues:

- Oil Supply and demand prospects in Africa;
- Problems and challenges to be addressed in order to achieve the dual objectives of access to energy for all and the sustainability of oil and gas wealth in Africa;
- Plan of Action for a sustainable future in the oil and gas sector in Africa.

#### **Oil Supply and Demand Prospects**

35. Supply forecasts were less accurate than demand forecasts due to greater uncertainty with regard to geology than with regard to the human factor. However, if we are to make policy recommendations, we need to make forecasts that indicate essentially projections concerning the future.

36. It is believed that there will be no drastic change in the conditions of the oil market compared with what occurred during the last decade. In other words, oil prices will be sufficiently high to attract investors to develop petroleum resources in Africa.

37. Supply forecasts show a twofold increase in production, reaching nearly 20 million barrels a day in 2025, compared with 9.8 million in 2005. Oil consumption will be more than double the demand in 2005, increasing from 2.8 million barrels a day to 6.3 million. From these forecasts, it is clear that the balance between supply and demand in 20 years time will remain positive for Africa.

#### **Problems and challenges to be addressed for access to energy and sustainable oil and gas wealth in Africa**

38. The major challenges relate to: (i) the economic impact of the higher oil and gas prices resulting in decreased economic growth, macroeconomic imbalances, inflation and diminished well-being of households owing to decline in real income, etc, (ii) the development of upstream and downstream petroleum resources with a view, on the one hand, to increasing production and investment capacity, and on the other hand, refining, storage and distribution capacity, as well as quantity and quality, (iii) the development of gas resources, considering that its present infrastructure is virtually non-existent in most African countries,(iv) the production of electricity from gas which is one of the best energy sources of the future, (v) energy security, (vi) the disparity between national and regional oil market prices, (vii) energy as the main element for economic and political integration at regional and continental levels, as well as (viii) transparent and efficient management of substantial oil revenue for growth and development.

### **Need for the Emergence of an Efficient African Refining Industry**

39. The Conference made proposals for the development of an efficient African refining industry, which, *inter alia*, focused on the following activities:

- Encourage policies aimed at jointly establishing and exploiting refineries at regional and sub-regional levels;
- Prevail on major African oil companies to work towards the construction, ownership and management of these refineries;
- Support the newly established African Refiners Association (ARA) in carrying out activities to increase the production and output of refineries;
- Promote policies aimed at harmonizing the characteristics and standards of petroleum products in Africa as a whole;
- Support the opportunities for improvement of the modalities and conditions of supplying African landlocked countries with petroleum products.

### **Need to Develop the Biofuels Industry in Africa**

40. Considering the high oil prices, African countries should develop appropriate policies in the energy sector to alleviate the negative impact on their economies. In this respect, the most effective policy is the diversification of energy, and for oil, biofuels seem to be the best option for these countries. Indeed, biofuels could provide the greatest economic opportunity in terms of growth, poverty eradication and the achievement of the Millennium Development Goals (MDGs). In this regard, biofuels should be given priority in the hydrocarbons policy with a view to stimulating economic growth, creating a great number of new jobs and reducing poverty by 2015. African governments should invest heavily in the development of biofuels and elaborate national biofuel strategies as soon as possible. Such strategies could impose compulsory biofuels blending systems for existing oil companies, and allow the development of 100% of the biofuels supply and distribution systems. Flexible policies and regulations should also be adopted to help independent biofuel producers to implement various projects for the production of ethanol and biodiesel with a view to supporting the increasing demand of the market for clean, better priced liquid fuel. Biofuels such as ethanol and biodiesel were heralded as the future of energy. Being cleaner, developed in countries and potentially better priced than oil,

countries such as Brazil and Great Britain have already integrated biofuels in their energy consumption, like many others who will eventually follow suit.

41. Biofuels are an additional and alternative source of energy to fossil fuels, which could contribute to:

- Supporting the diversification of energy and the effective replacement of fossil fuel products;
- Strengthening national accounts by reducing the high imported petroleum products bills;
- Increasing agricultural efficiency;
- Creating new employment opportunities in agriculture, industry, infrastructure and science;
- Reducing greenhouse gas emissions and improving environmental conditions for all the populations in the world; and
- Ensuring the economic independence and prosperity of African countries and their citizens.

#### **Plan of Action for the Sustainable Future of the Oil and Gas Sector in Africa**

42. Important elements of a Plan of Action based on short and medium term measures were outlined focusing mainly on the following:

- Establishment of appropriate institutional infrastructure;
- Establishment of a quick disbursement fund;
- Promotion of the use of financial market instruments through momentary and futures markets;
- Promotion of mechanisms to alleviate the impact of high oil prices;
- Reorganization of production policies and practices;
- Support for improved governance in the hydrocarbons sector.

43. In conclusion, Africa is faced with immense multidimensional challenges to be overcome to ensure access for its population to energy at affordable prices, and the sustainability of oil and gas wealth. Success or failure essentially depends on the political will of the leadership to overcome the economic and political marginalization which characterized Africa in the past. The African Union and the African Development Bank have complementary strategic roles to play to ensure that the future of energy and development in Africa is a success.

44. The Conference made comments and voiced concerns mainly about the following aspects:

- Integration of energy infrastructure;
- Lack of financial resources to implement major projects in the hydrocarbons sector;
- The assumption that petroleum producing countries in Africa were automatically rich, whereas they are also confronted with major challenges;
- The feasibility of African cooperation and solidarity in the area of oil and gas, which are highly strategic products, in the present context of globalization, and

where this initiative might be described as a violation of the regulations of the World Trade Organization (WTO);

- The importance that should be given to alternative energy sources, such as renewable energy which is abundant and diversified on the African continent;
- The promotion of biofuels taking into account the serious problem of food security in Africa;
- The low level of intra-African trade in petroleum products;
- Activities to be carried out immediately to mitigate the impact of price hikes on weak economies;
- The plans of action proposed by the presenter, some elements of which were worth including.

45. After discussions on the above-mentioned issues, the following conclusions and recommendations were made:

Concerning the integration of infrastructure and energy resources (investment):

- Regional and sub-regional projects for group transport, storage, distribution and supply should be implemented in order to benefit from economies of scale and the establishment of an energy market;
- Financial and human resources should be pooled in order to implement projects in different segments of the sector, considering the high investment costs, that an individual African State, although a petroleum producer, cannot implement (refineries, oil and gas pipelines, etc.);
- Inter-African (regional and sub-regional) trade should be increased in all possible areas.

Concerning African cooperation in the area of oil and gas, with regard to WTO regulations:

- Regional and sub-regional solutions should be envisaged following the example of other regions of the world, which is one of the best approaches for taking up the challenges of globalization;
- Countries with stronger economies should stimulate others in each Regional Economic Community in order to achieve effective integration.

Concerning the development of alternative energy sources:

- Priority should be given to renewable and pollution-free energies such as hydroelectricity, wind, solar and geothermal energy as well as biofuels;
- Diversification of energy sources and forms to increase access to medium-term energy security by reducing the role of oil in the energy balance;
- Energy supply and demand should be better identified, quantified and planned.

46. In conclusion, the African Union and the African Development Bank have complementary strategic roles to play to ensure that the future of energy and development in Africa is a success.

### **C. Mechanisms of the African Petroleum Fund**

47. The operating mechanisms establish the rules and procedures intended to govern the operation of the Fund right from the launching of its activities. They may be revised based on lessons learnt from practice. Any revision should be approved by the organs of the Fund.

#### **Modalities for the Management of the Fund**

48. Three plausible scenarios for the administration of the Fund were proposed, highlighting the advantages and possible disadvantages of each option, namely: (i) a Fund operating as an independent unit, which would involve rather high structural costs; (ii) a Fund placed in a financial institution; (iii) a Fund whose management would be entrusted to another institution with recognized competence in the area.

49. The Ministers opted for the third scenario, which would allow considerably savings in operational resources.

#### **Management Structure of the Fund**

50. The following composition of structures was proposed:

- **The General Council:** This organ shall comprise sixteen (16) members and include the representatives of all potential contributors to the Fund namely: four (4) representatives of AU Member States; regional institutions, development partners, OPEC and oil companies operating in Africa. The General Council shall also include a category of observers;
- **The Monitoring Council:** This organ shall comprise five (5) members appointed from among members of the General Council for a renewable three (3) year term of office. Representatives of the African Union Commission (AUC) and the African Development Bank (ADB) shall be permanent members of the Monitoring Council. The representative of the AUC shall in addition be the permanent Chair of the Council;
- **The Executive Director:** shall be responsible for the day-to-day management of the Fund, and shall be appointed by the General Council for a three (3) year term of office, renewable once;
- **The Technical Committee:** is an advisory organ of the Fund whose mandate shall be to assist all the other organs of the Fund, on an ad hoc basis, on technical issues, including issues relating to project analysis and evaluation. This organ shall comprise three (3) to seven (7) persons appointed by the Monitoring Council; for a three (3) year period.

### **Objectives and Areas of Intervention of the Fund:**

51. The main objective of the Fund is to use the resources mobilized from donors to provide assistance to low-income net petroleum importing countries with a view to alleviating the harmful effects of price increases on their balance of payments.

52. The Fund could eventually provide other services in other possible related areas of intervention such as: support to regional initiatives, technical assistance for the negotiation of petroleum agreements, the management of oil revenues, the establishment of data on joint financing of petroleum projects at regional and sub-regional levels, as well as support to studies and programmes on alternative energy sources, etc.

### **Resources of the Fund:**

53. The project provided for compulsory annual contributions from all Member States of the African Union. However, it would be more appropriate to mobilize resources to cover the needs of countries for a period of three (3) to five (5) years. On the other hand, to ensure the sustainability of the Fund and due to the need for its appropriation by African States, importing countries should also contribute to the Fund. The project proposed that the effective launching of the Fund should be subject to the mobilization of contributions to the tune of at least US\$100.000.000.

### **Financial Instruments for Assistance:**

54. The Fund could give concessional grants or assistance, or could use these two instruments simultaneously. No grant should exceed the sum of 2 millions dollars.

### **Criteria for Allocation:**

55. As regards this point, the amount that can be allocated to each State will be determined based on three factors with different weightings: a factor that reflects the burden of the country owing to high oil prices and their effects on the balance of payments, a factor based on good governance, and a last factor that takes into consideration the geographical situation of a landlocked country.

56. The project proposed that the initial duration of the Fund should be 20 years.

57. Following the presentation, participants expressed some concerns relating to:

- The structure of the organs of the Fund, particularly the poor representation of AU Member States and the criteria for eligibility for grants or loans;
- The need to choose efficient and pragmatic modalities of administration right from the beginning, including that consisting of the Fund being established in the African Development Bank;



- The dynamism to be instilled into the Fund with a view to taking into account the event of a fall in oil revenues and its impact on petroleum producing countries;
- The need to limit grants and rather, encourage concessional loans;
- The search for solutions to make the Fund attractive to different categories of contributors;
- The need to make the Fund sustainable by strengthening the African energy system, improving the storage and distribution capacities of African States, as well as developing other alternative energy sources;
- The need to anticipate and prepare for the post-oil era in Africa like in other countries and regions of the world;
- The identification of subsequent steps for the establishment of the Fund (assessment of needs, of the minimum amount needed to start up and the capacities to mobilize resources from different creditors).

58. In concluding the consideration of this item, the Ministers provided guidelines for the implementation of the recommendations made by the experts, namely:

- Ensure good governance, limit grants and give priority to loans to be made under concessional conditions;
- Increase the representativeness of AU Member States in the Fund's General Council, require their participation in establishing the Fund and that only Member States contributing to it be eligible for assistance;
- Facilitate and accelerate the implementation and launching of the Fund's activities by entrusting its management to the African Development Bank;
- Consider the possibilities of the Fund's intervention with a view to also assisting producing countries to alleviate the shocks of a drastic fall in oil prices;
- Apart from the immediate assistance to curb the impact of price increase, the following should be studied and implemented in the medium and long terms: the revitalization and strengthening of the African energy system in order to make it sustainable (reorganization and strengthening of the storage and distribution system; increasing production capacities or the rehabilitation of refineries, and developing and popularizing other alternative energy sources as substitutes for oil and gas);
- Initiate initial contacts with a view to increasing the awareness and interest of institutions that could contribute to the Fund;
- Consider the ways and means of making the Fund attractive to net or non-net importers from AU Members States, to oil producers and to non -

producing countries that were not affected by the impact of the increase in oil prices.

59. The study estimated that at least \$100 million would be required to launch the Fund. In this regard, the Ministers requested that the level of the Fund's reserves required for the next three (3) to five (5) years should be assessed based on the needs of countries in order to ensure the equilibrium of their balance of payments in the aftermath of current and projected oil price increases.

60. The different observations on the Report of the Experts Meeting were taken into consideration and reflected in the final version.

61. After in-depth consideration, the Conference of Ministers adopted the Report of the Experts Meeting with the amendments.

## **VII. PROPOSAL BY THE ARAB REPUBLIC OF EGYPT**

62. The Arab Republic of Egypt proposed to the Conference, the establishment in Cairo, in the Ministry in charge of Petroleum, of a Liaison Office in order to assist the African Union Commission and Member States, without financial implications, in activities linked to the hydrocarbons sector, including the implementation of the Plan of Action adopted by the Conference. In this regard, the Ministers commended the Arab Republic of Egypt for this initiative and requested the African Union Commission to study, in concert with the Arab Republic of Egypt, the modalities for the implementation of this proposal.

## **VIII. CONSIDERATION AND ADOPTION OF THE DECLARATION OF THE CONFERENCE**

63. After consideration of the Draft Declaration submitted for analysis by the Ministers, the latter made useful contributions improving the form and substance of the document.

64. They decided, *inter alia*, that the management of the resources and activities of the African Petroleum Fund should be entrusted to the African Development Bank, and proposed the establishment, under the auspices of the African Union Commission, of the Conference of African Ministers responsible for Hydrocarbons as a continental Central Organ for the coordination of policies and strategies in the hydrocarbons sector.

65. Furthermore, the Ministers committed to work towards the establishment, on the one hand, of group regional depots to improve the storage and distribution of petroleum products to non-producing countries, particularly landlocked countries, and on the other hand, to promote regional integrating projects for gas and oil pipelines, and regional refineries, as well as the joint exploration and exploitation of transborder oil deposits, and give priority to these projects at the level of our respective governments.

66. The different amendments made facilitated the finalization of the document, which was adopted by acclamation. The Declaration adopted is attached as an annexe.

#### **IX. CONSIDERATION AND ADOPTION OF THE DRAFT PLAN OF ACTION**

67. The draft Plan of Action considered by the Ministers focused on the following four (4) major axes:

- a) Measures to alleviate the effects of high oil prices;
- b) Measures to maximize the oil revenues of producing countries;
- c) Measures to increase the quantity and improve the quality of petroleum products;
- d) Other activities.

68. The draft Plan of Action considered and amended by the Ministers was adopted and is attached as an annexe. The Ministers invited the African Union Commission to take appropriate measures with all stakeholders to implement the activities included in the Plan of Action as soon as possible.

#### **X. CLOSING CEREMONY**

69. The Vote of Thanks was presented, on behalf of all the delegations, by the Minister of Mines and Energy of Equatorial Guinea.

70. The deliberations of the Ministerial Session were officially closed by the Chairperson of the Conference, the Petroleum Minister of the Arab Republic of Egypt.

2007

# Report on the first African Union conference of ministers responsible for hydrocarbons (oil and gas)

African Union

African Union

---

<http://archives.au.int/handle/123456789/4212>

*Downloaded from African Union Common Repository*