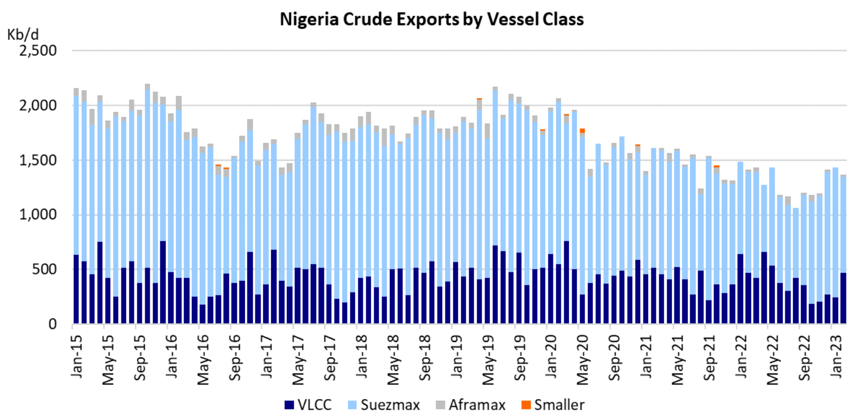
Going, Going … Down

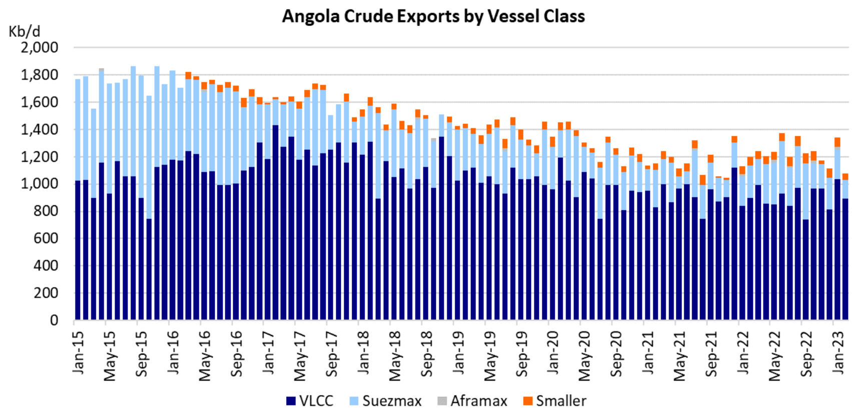
West African crude oil exports have been gradually declining

West Africa is home to two significant crude oil producers and a large number of smaller players. The two largest producers are Nigeria and Angola, and they dominate the West African export market. There are many smaller producers, like Cameroon, Gabon, Ghana, Equatorial Guinea and Togo, but their exports don't play a significant role in the seaborne export market. Nigeria has been the top producer over the last 20 years, but its output has been volatile. Angola's output grew quickly in the early 2000s, coinciding with the rapid expansion of Chinese crude oil imports. However, over the last 10 years, production in both Nigeria and Angola has been trending down. Peak oil production in Nigeria was in 2010 when it averaged 2.53 Mb/d. Angola reached its highest annual average crude oil production in 2008 at 1.88 Mb/d. The latest (2022) numbers for these countries are 1.15 Mb/d (Nigeria) and 1.14 Mb/d (Angola) respectively. This slowdown in West African output has had a significant impact on oil flows and tanker employment. The current geopolitical situation and significant future developments are reinforcing these downward trends. To determine the short-term and long-term impact on the tanker market of the developments in West Africa, we will take a detailed look at each of the two key countries.

Nigeria has been the largest African oil producer since it surpassed Libya in the late 1970s. Since 2018, Nigerian exports have generally declined, fluctuating between 1.95 Mb/d (2019) and 1.29 Mb/d (2022). The early months of 2023 show a small recovery. Over the last 5 years, Europe has been the biggest customer of Nigerian crude oil. Exports to Europe increased dramatically in 2022 after the invasion of Ukraine caused EU countries to reduce (and ultimately eliminate) the seaborne importation of Russian crude oil. This upward trend seems to continue so far in 2023. India, which also was an import client of Nigeria is going in the opposite direction. It has reduced its intake of Nigerian crude and boosted purchases of cheap Russian Urals instead. China was never a significant buyer of Nigerian crude, but in 2022 it reduced its purchases to a trickle. Like India, China also increased its purchases from Russia.

Suezmaxes have always been the key export tankers for Nigeria, with 70% market share over the last 5 years. VLCCs move about 27%, with the remainder transported on smaller vessels. The future outlook for Nigerian crude oil exports is rather dim. The country, which is a member of OPEC, produced at a 40-year low in 2022, well below its quota. Frequent sabotage and chronic underinvestment make a quick and sustainable recovery unlikely. The expected startup of the Dangote refinery later this year will have an even bigger impact. Fully operational, this refinery will process 600,000 b/d of crude, most of it expected to come from domestic sources. This will dramatically reduce the availability of barrels for export in 2024 and beyond.





Source: Lloyd's List Intelligence

The situation in Angola is different, although some of the challenges it faces are the same as in Nigeria. Angola's production and exports have also declined, with a lack of investment the main culprit here as well. However, 2022 showed a slight improvement relative to 2021. Unlike Nigeria, Angola is highly dependent on China for their exports. During the period 2018 to 2021, more than 60% of Angola's crude was sold to China, with the remainder distributed between India, the rest of Asia, Europe and the Americas. The Russian invasion of Ukraine impacted Angola's trade flows as well. China's cut its purchases, while Europe doubled its intake of Angolan crude.

In contrast to Nigeria, VLCCs dominate the Angolan export trades: 72% of Angolan barrels are moved on VLCCs, with most of the remainder going on Suezmaxes. Given the dominance of the long-haul trades to China, it is not a surprise that VLCCs are the vessels of choice since they provide maximum economies of scale.

Future developments will drive the relative strength of the VLCCs versus the Suezmaxes. Nigeria's exports will decline when the Dangote refinery starts up. Normally, this would hurt the Suezmax segment, but given that the Russian invasion of Ukraine has significantly boosted Suezmax demand worldwide, its impact may be muted. The recovery of China's oil demand may ultimately boost its imports from Angola again, providing a boost to VLCC demand.