West African Inland Fuel Oil Demand Seen Rising in Future Years

The inland demand for fuel oil in West Africa will continue to grow owing to rising electricity demand as well as mining and industrial projects. Resid projects in Senegal and Guinea are expected to come into operation by the end of 2015. Mining projects in Guinea (iron ore), the Ivory Coast (gold), and Ghana (gold) will positively impact future fuel oil demand in the region, according to a presentation by Charles Thiemele of AOT Trading at World Fuel Oil Summit VIII in Athens on May 22, 2015. The gold mining project in Ghana might begin operations in roughly three and a half years. Due to their preliminary stages, the timelines for these resid-burning projects are subject to change.

As the result of many macroeconomic factors at play, West Africa's overall demand for petroleum products will rise rapidly in future years. The region is experiencing strong overall GDP growth rate of 4-5 percent a year, which is expected to continue in upcoming years. In line with the rapidly growing economies in West Africa, the region's population is increasing at an exponential rate. An upsurge of the middle class brings with it an increase in purchasing power, and hence higher demand for petroleum products.

There is, however, a widening gap between demand and the necessary infrastructure to support this demand. The ports with the highest cargo capacity only have a cargo capacity of around 30,000 mt, while the smallest ports have cargo capacity as low as 10,000 mt. The region exports LSSR and imports HS cracked fuel oil. A lack of additional refining can be expected to drive large additional fuel oil imports. The ground transportation network is in need of a complete overhaul. Upgrading to safer and reliable roads as well as trucks is required to avoid rising transport costs and to, in turn, attract more investment in the region.

Investments for upgrades in ports, refining, and ground transportation will not come easily. There is debate as to the role of government versus private companies in achieving these investment aims. Private companies and traders tend to believe that long term investments run the risk of not yielding sustainable profits within an optimal time frame. This lack of confidence partly stems from the fact that long term demand cannot be guaranteed. On the other hand, governments do not have the necessary liquidity to make these sizable infrastructural investments. This problem has stunted the full economic potential of the region and will continue to do so unless remedied. ■