

Covid-19 Pandemic Deranging Energy Transition in Uganda: Challenges and Prospects

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Abstract:

The coronavirus (Covid-19) global pandemic of 2020 is alarming for economic growth and development. Several sectors in the world have experienced shocks, and the energy industry has intensely suffered as characterised by the massive drop in petroleum prices. Only a pick-up in global oil demand would overcome the oil crisis after the lifting of comprehensive lockdown measures and the economic revamp. During this period, environmental advocates are pressing for the transition from traditional fuel sources like

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coal and oil to renewable energy sources. Moreover, clean energy projects are more likely to be impacted by the pandemic because of the effect on foreign exchange and the global economy. The energy transition has also faced other major setbacks by the Covid-19 crisis. Globally, many policies related to climate and energy, such as the carbon trading scheme of the European Union (EU) have been shelved or postponed. This article thus explores the Covid-19 impact on the global economies with a focus on Uganda which is yet to start actual petroleum production and how they face challenges in adapting to the energy transition movement. The governments are encouraged to realign policies and also extend Covid-19 fiscal recovery packages to cover clean energy investments.

Keywords: Covid-19; Global Economy; Oil and Gas Crisis; Clean Energy; Energy Transition.

1. INTRODUCTION

The coronavirus (Covid-19) global pandemic is unsettling for economic growth and development,¹ with effects not only felt on the health front but across all sectors from tourism, education, transport, manufacturing and innovation, agriculture and food business with the energy industry not being spared. In general, the pandemic has disrupted global supply chains, factories shut down, and business operations delayed. The pandemic has also led to a decrease in the international financial flows due to the complexities caused by shocks to human and financial domestic resources. For the transport and tourism sectors, there has been a deterioration leading to substantial losses in revenue due to existing travel restrictions.

As a result, Uganda's economic growth is predicted to slow to 3.5 per cent in 2020 from 4.9 per cent in 2019. Moreover, its public debt will rise to 46.3 per cent of its GDP.² Besides, the country relies heavily on non-concessional financing from China for investments in infrastructure ahead of the oil production. With the countries under economic mayhem, coronavirus-related borrowing is likely to bring the public debt to more than 50 per cent of the total GDP by 2021.³

This chapter thus examines the impact of the Covid-19 economic crisis on petroleum frontier states like Uganda amidst the growing global energy transition away from fossil fuels. Furthermore, it analyses the implications of

1. Fernandes Nuno, 'Economic effects of coronavirus outbreak (COVID-19) on the world economy.' 2020, Available at SSRN 3557504.
2. International Monetary Fund, 'Regional economic outlook. Sub-Saharan Africa: COVID-19: an unprecedented threat.' (April 2020), World Economic and Financial Surveys, IMF Publishers to development.
3. Paul Bagabo, 'Uganda: Initial Assessment of Impact of the Coronavirus Pandemic on the Extractive Sector and Resource Governance.' 29 May 2020, Natural Resource Governance Institute. <https://resourcegovernance.org/sites/default/files/documents/uganda-assessment-of-the-impact-of-coronavirus-pandemic-on-the-extractive-sector-and-resource-governance.pdf>.

Covid-19 on the energy transition in developing countries with Uganda as the case study. With the country's oil future thrown into uncertainty, the chapter argues for the management of expectations from the sector and an extension of resources and realignment of policies to aid the transition to cleaner energy sources.

2. THE GLOBAL OIL CRISIS

With countries pausing economic expansion and placing much focus on deterring the spread of the disease and treatment of the afflicted, the energy industry has suffered a significant blow. This is due to the social distancing measures in place such as the strict lockdowns by states with the movement of people, vehicles, and aircrafts curtailed save for a few cargo transport vessels, leading to drop in the global demand for fuel. Reports indicate that with more than half of the world's population under lockdown, the global energy demand fell by 3.8 per cent during the first quarter of 2020 compared to the preceding year.⁴ Only a pick-up in the global oil demand after the lifting of the lockdown measures and the revamp of economies will solve the oil crisis.⁵

This global oil crisis is bound to hit the new producers like Uganda hard considering the hardships posed on the major International Oil Companies (IOCs) in the region. Total, for instance, plans to launch its 230,000 barrels per day project in Uganda following its commitment to acquire all of Tullow Oil's stake in the country. A total revenue deficit of approximately \$ 12 billion is anticipated due to the crisis, leading to a 20% reduction in investment.⁶ Further, there are fears that low petroleum prices might cause delays in Uganda's upstream oil industry, making a \$3.5 billion final investment decision for the crude oil pipeline to Tanzania.⁷ The country thus faces the risk of having stranded assets, and it is even more challenging for such states yet to start actual commercial petroleum extraction. Studies show that Uganda risks facing significant delays in reaching its 'first oil' leaving the country more vulnerable to external shocks; with the oil future thrown into uncertainty as to the global energy transition away from fossil fuels gains momentum.⁸

4. IEA, 'Global Energy Review 2020,' 2020, International Energy Agency, Paris <https://www.iea.org/reports/global-energy-review-2020>.

5. Simon Tagliapietra, 'COVID-19 is causing the collapse of oil markets: when will they recover?' April 23, 2020, Bruegel Blog Post (<https://www.bruegel.org/2020/04/covid-19-is-causing-the-collapse-of-oil-markets-when-will-they-recover/>).

6. Bate Felix, 'Total needs to cover \$12 billion shortfall due to crisis: CEO,' May 29, 2020, Reuters (<https://www.reuters.com/article/us-total-agm-ceo-idUSKBN23515L>).

7. Aaron Gad Orena, 'Low Global Crude Prices Might Hurt Investment in Uganda Oil Industry.' (April 29, 2020), The Observer <<https://observer.ug/businessnews/64543-low-global-crude-prices-might-hurt-investment-in-uganda-oil-industry>> (21/06/2020).

8. Paul Bagabo, 'Uganda: Initial Assessment of Impact of the Coronavirus Pandemic on the Extractive Sector and Resource Governance.' 29 May 2020, Natural Resource Governance

3. COVID-19 AND THE ENERGY TRANSITION

Moreover, climate activists are pushing more for the transition to cleaner energy sources from the conventional fuel sources such as coal and oil – the energy transition⁹, at this time when the demand for fossil fuels is low.¹⁰ Notably, it has been argued that the pandemic presents Africa with an opportunity to shift away from dependence on fossil fuels by capitalising on its abundant renewable resources for energy should the oil prices remain low.¹¹ It is probably time that the nations considered intensifying their share of clean energy like renewables. With many people currently working remotely from their homes, they must have reliable power access to ensure the continuity of business. In sub-Saharan Africa, however, roughly 600 million people accounting for over 50 per cent of the population lacks access to electricity.¹² Clean energy presents multiple benefits for both the achievement of goals 7 and 13 of the Sustainable Development Goals, which call for concerted efforts on clean and affordable energy for all as well as climate action, respectively.¹³

The investments in renewable energy will be affected by the pandemic setback in foreign exchange and the global economy.¹⁴ The coronavirus thus poses a serious threat to long-term climate change action because it compromises global investments in clean energy as well as weakening industry environmental goals on the reduction of emissions.¹⁵ In the wake of depreciating currencies and increased capital costs, companies may find it challenging to commission new plants either delaying or halting the

Institute. <<https://resourcegovernance.org/sites/default/files/documents/uganda-assessment-of-the-impact-of-coronavirus-pandemic-on-the-extractive-sector-and-resource-governance.pdf>>.

9. Darren McCauley and Raphael Heffron, 'Just transition: Integrating climate, energy and environmental justice.' (2018), *Energy Policy*, vol.119, pp.1–7.
10. Tina Balquez-Lopez, 'COVID-19 and an Oil Price Collapse: Impact on Energy Security in Africa – Challenges and Opportunities,' (April 22 2020), Bryan Cave Leighton Paisner LLP <<https://www.lexology.com/library/detail.aspx?g=8312702a-7bd1-4075-ad8b-38dee5771140>> (21/06/2020).
11. *Ibid.*
12. IEA, 'World Energy Outlook 2018.' 2018a, International Energy Agency, Paris.
13. See 'transforming our world: the 2030 Agenda for Sustainable Development, 2015' <http://www.un.org/ga/search/view_doc.asp?symbol=A/RES/70/1&Lang=E>; see also Article 2 of the Paris Agreement, 2015, United Nations on climate change mitigation <https://unfccc.int/files/essential_background/convention/application/pdf/english_paris_agreement.pdf>.
14. Balquez-Lopez, 2020, *supra*.
15. Emma Newburger, 'Coronavirus could weaken climate change action and hit clean energy investment, researchers warn.' (March 13, 2020), CNBC, Environment <https://www.cnbccom/2020/03/13/coronavirus-could-weaken-climate-change-action-hit-clean-energy.html> (21/06/2020).

investments in projects such as solar and wind.¹⁶ Further, China the second-largest economy in the world and the biggest supplier of clean energy technologies like solar panels, batteries, wind turbines was the first victim of Covid-19. This slow down the entire nation's economy and is bound to affect global clean energy growth and development.¹⁷

The energy transition has also faced other major setbacks by the Covid-19 pandemic. Globally, many climate and energy-related policies such as the European Union's (EU) emissions trading system (ETS), "European Green Deal" in the EU which were positioned to take root in 2020 have been shelved or delayed. However, the policies may need to be adapted to the circumstances.¹⁸

4. ENERGY TRANSITION PROGRESS, PROSPECTS AND CONCLUSION

The Covid-19 Pandemic has affected and continues to impact negatively on many aspects of the global economy. The oil and gas sector has immensely suffered due to the lockdown and travel restrictions, thus causing a significant drop in demand and prices. For Uganda, which is yet to start petroleum production, this is bound to generate substantial economic growth and development slowdown. However, Covid-19 provides an opportunity for the world and Africa mainly to move away from reliance on fossil fuels to investments in cleaner forms of energy. This resonates well with the energy transition movement but would also help the countries meet their goals and obligations under the SDGs and the Paris Agreement on clean energy and climate action.

Worldwide, the Covid-19 pandemic has significantly affected the energy systems. It has curbed investment and threatens to delay the development and expansion of critical clean energy technologies. Before the crisis, there was progress on clean energy technologies albeit uneven. According to the International Energy Agency's annual Tracking Clean Energy Progress report, only 6 out of 46 technologies and sectors were "on track" to achieve long-term sustainability objectives in 2019.¹⁹ These included electric cars, rail transportation, and lighting, while 24 showed some slight progress, with the remaining 16 being "off track."²⁰

16. Balzquez-Lopez, 2020, *supra*.

17. Stephen Khan, (ed), 'COVID-19 will slow the global shift to renewable energy, but can't stop it.' March 31, 2020, The Conversation <https://theconversation.com/covid-19-will-slow-the-global-shift-to-renewable-energy-but-cant-stop-it-133499> (21/06/2020).

18. Steffen Bjarne, Florian Egli, Michael Pahle, and Tobias S. Schmidt, 'Navigating the Clean Energy Transition in the COVID-19 Crisis.' (2020) *Joule*.

19. IEA, 'Tracking Clean Energy Progress: Assessing critical energy technologies for global clean energy transitions.' 2020 <https://www.iea.org/topics/tracking-clean-energy-progress>.

While the pandemic has affected the foreign exchange and investments as a whole, investments in clean and renewable energy are more likely to be impacted. However, the governments can apply the same zeal as that used to mitigate the social and economic impacts by expanding the Covid-19 fiscal rehabilitation programmes to cover investments in the clean energy. This will serve to counter the oil and gas revenue shortfalls for countries like Uganda while mitigating the effect of stranded assets, improving energy security and access for the masses as well as helping meet the climate change commitments. The crisis can, therefore, be proactive in steering the transition from fossil fuels to clean energy.

It will take the proactiveness of the governments in the economic front just as it has been with ensuring public safety for it will be challenging to revamp the economy without state intervention. There are currently some measures aimed at mitigating the social and economic impacts of Covid-19 in Uganda. They include increased spending in sectors like health and food distribution campaigns. There is also deferring of payment of tax arrears by the private sector, providing affordable credit facilities for diversion of businesses to cater to the Covid-19 response related items.²¹

Governments should also extend the same Covid-19 fiscal recovery packages to cover clean energy investments.²² These packages will be a go-between for the oil and gas crisis and the impact of stranded assets in the sector. Besides, although the immediate issue at hand is to solve the health and economic emergencies, the situation can steer the energy transition from fossil fuels to renewables. Nevertheless, there is bound to be a high demand for fossil fuels in the immediate aftermath of the pandemic as transport systems pick up which may dampen the efforts of the climate activists and proponents of clean energy. But it also creates space for policymakers to establish sustainable energy systems to boost the transition if the countries are to meet their mitigation targets under the global climate change regime. Governments will therefore need to take the lead in implementing structural emission reductions through smart, sustainable and aggressive policies to accelerate the production and implementation of clean energy solutions to foster robust economic recovery.

20. *Ibid.*

21. Adebisi Adewole and Agnes Gitau, 'COVID-19: Counting the Costs of the Pandemic on African Economies.' (May 15 2020), Addleshaw Goddard LLP (<https://www.lexology.com/library/detail.aspx?g=26a6436a-fb74-4870-8845-dd475d2b3cdc>).

22. Cameron Hepburn, Brian O'Callaghan, Nicholas Stern, Joseph Stiglitz, and Dimitri Zenghelis, 'Will COVID-19 fiscal recovery packages accelerate or retard progress on climate change?.' (2020) *Oxford Review of Economic Policy* 36.

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