

International assignment perspectives — *special alert*

Africa's geopolitics and natural resources — Old world, new horizons

In this Special Alert, author Felix Mwamba Kasanganayi reflects on his recent article, "Africa: Challenge or opportunity," by providing a closer look at the oil and gas industry across the continent.

The year 2009 marks one decade since Sudan's major oil pipeline came to life, bringing to the embattled country an unprecedented oil export boom. Hydrocarbon exports now eclipse all others for Sudan, with a 70 percent share of the country's export market.¹

In many ways, the centrally situated African nation can be seen as a microcosm of the continent that surrounds it—rich in natural resources; bearing distinct differences between north and south; a complex land of ancient cultures moving at varying speeds toward modernity. Like the island country of Mauritius, which sits atop a volcanic foundation off the continent's south east coast, the region harbors natural wonders both beautiful and bountiful, with a hint of the underlying potential for turbulence.

Mauritius, which is more than 10 times the size of Washington, DC, has made its way to the global top ten in ease of business start-up. South Africa holds a similarly lofty vista for its strength of investor protections. The continent's high quality natural resources, notably oil, are key contributors to its evolution.²

So are global geopolitical and economic circumstances. As China emerges as a world economic force, it has become a dominant user of Africa's oil; in fact, Africa—specifically and exclusively Angola—is China's top source of oil. With no let-up in sight for oil demand, Africa's emerging oil exporting countries, such as Chad, Nigeria, and Gabon, may also present significant opportunities, especially given OPEC's propensity for cutting production, and the reality that Egypt remains Africa's only major oil producer that is not an official OPEC member.³

Already boasting the highest rate of return on investment anywhere on Earth today,⁴ Africa is a tempting place to do business. But it can also present challenges that a well prepared enterprise can plan for and manage to realize significant opportunities. Smart businesses need to be poised to manage a mélange of regulatory, tax, compliance, and human resources issues.

Such major US-based companies as Chevron, ExxonMobil, and Marathon Oil have been drawn to Africa, thanks in part to fundamentals such as ease of shipping.⁵ The quality of Africa's oil is also alluring to western companies. The "light" or "sweet" crude is cheaper and easier to refine. With world oil reliance showing no bounds, OPEC cutting production, and the recent upheavals in world financial markets, businesses look increasingly to new horizons for growth and profit. Many have Africa in their sights.

Africa's complexity and diversity

For all of Africa's allure, expatriate executives and managers should get to know the ins and outs of doing business on the continent, which comprises 50-plus countries that differ greatly in everything from topography to language. Cultures, rules, and laws can vary significantly from country to country and region to region, affecting many operational, compliance, and human resources matters. Recognized up front and managed wisely on an ongoing basis, these challenges need not preclude your company from exploring Africa's potential.

Tax laws for individuals and enterprises alike can be complex and vary widely throughout the continent: Botswana ranks 4th globally for ease of paying taxes and the Middle East; North Africa boast the world's lowest tax rates; and other African countries have either eliminated or cut taxes. Mauritius for one is slashing its standard profit tax from 25% to 15%. But one should not assume these trends are universal across the region. Several African nations, in fact, are among the most challenging places in which to pay taxes.⁶

1 Energy Information Administration (EIA), Official Energy Statistics from the US Government.

2 International assignment opportunities, Volume 2, Africa, challenge or opportunity, PricewaterhouseCoopers (PwC).

3 Egypt participates in OPEC meetings as an observer.

4 United Nations Economic Commission for Africa (UNECA).

5 The Heritage Foundation.

6 Paying Taxes 2008—The Global Picture, PricewaterhouseCoopers.

Employment agreements for expat workers typically house tax equalization and settlement provisions to clarify what can be complicated tax issues, with the degree of development and sophistication varying from country to country. Communication between management and staff is key to transparency and understanding.

Cultural nuances can be equally mystifying to the uninitiated, particularly as they can deviate substantially from Western ways. Employers need to understand and manage a wide array of related workplace distinctions and perceptions about what constitutes a typical business environment. More so than in the West, value tends to reside with collective versus individual work; businesses may close for month-long holidays; and language, race, and tribal differences proliferate.

While the majority of technically proficient workers tend to be expats, local workers can also be tapped, often with attendant discrepancies in business skills and salaries. The cost of living in Africa varies, but can be high, and expat salaries generally reflect that. In addition, volatility in African currency means that many expats prefer to be paid in their home currencies or the US dollar. Drawing from and developing African managers will likely be a key workforce issue going forward.

Employers also need to walk workers through such fundamental considerations as maintaining their health and safety abroad, while also managing a wide array of immigration and related global mobility issues, which vary depending upon the country in which a business seeks to operate.

Businesses that have their operations in order and their sights on the bounties of this evolving region can take advantage of an opportunity to fuel a key emerging market while expanding their own horizons. For an in-depth perspective on this timely topic, please refer to Felix Mwamba Kasanganayi's "Africa: Challenge or opportunity?" which can be downloaded at www.pwc.com/iaperspectives2

Compared to our competitors, PricewaterhouseCoopers has the largest presence in Africa and our footprint spans the entire continent. We have a tremendous breadth and depth of experience in assisting organizations contend with the intricate challenges and navigate the framework of existing laws across the various African nations. For more information, visit www.pwc.com/us/ias, or www.pwc.com/energy.